

Case Study B Notes

I've got to be honest and say that I don't think this case study fits squarely in any of the 4 levels.

Fixable with Minor Expense Cutting.

Jerry and Janice are clearly overextended and far beyond the ability to correct with minor expense cutting. Their rate of spend is almost double the monthly guideline plan for a married family with 2 kids.

They need to make aggressive cuts in housing, food, debts, entertainment/recreation, and miscellaneous.

They need to reduce spending by \$754.00 just to break even with their income.

Minor expense cutting will not work for them.

Fixable with increased income and expense cutting.

I don't think this model fits either. We know that Jerry has built overtime into his spending plan, so in any given week he expects to work more than 40 hours. This would make it difficult for him to obtain additional part time work.

Janice might have some opportunity. Her \$1500.00 per month, \$375.00 (avg) per week looks like a part time position. We don't know if her hours are fixed or staggered. If she has availability she might be able to get part time employment. A good paying part time job could be in the \$12/hour range so at 20 hours she might pick up \$240.00. The potential problem could be childcare or baby sitting cost.

Their original spending plan allocated \$100.00 per month for babysitting and nothing for childcare. If additional babysitting or childcare expense becomes necessary, the incremental dollars Janice would earn could be significantly impacted. Although this might be a good life lesson for Janice from an accountability perspective, intuitively, I don't think this is the most viable solution.

Not Immediately Fixable

From my point of view, this is probably the best fit but it's kind of a hybrid. They are at present spending more than they earn. We can make some immediate changes to their household budget that would fix that and create a small spending gap.

The big picture is a little more complicated and there are two possible approaches.

The first one deals with the rental property. Currently, the amount of rent received matches the mortgage (\$3300). So barring any repairs or upgrades, the best Jerry and Janice can hope for on any given month is a break even. So that doesn't improve their financial situation.

Bigger picture, the rental house has a real estate value of \$400,000.00 with a mortgage of \$250,000.00.

That equates to \$150,000.00 in equity. If the rental property was sold, even after fees and taxes, the amount of available cash would still be at least huge. That could potentially pay off all of their debt except for the mortgage on their primary residence. All the credit cards auto loans, personal debt to relatives, educational loans and past due medical bills would be gone. That reduces their monthly expenses by \$4895.00 per month.

Under this scenario, their increased savings could go directly to savings. This cash infusion would take care of the emergency savings (step 1) and allow them to move into step 2 (1 month's living expenses) rather quickly.

I'm not saying that this path shouldn't be explored but I see a bit of a problem that I'll come back to later.

The second option totally excludes the rental property. We've already established that Jerry and Janice are spending more than they are earning. When we compare their finances against the model, we see numerous opportunities.

My spending plan analysis sees opportunities in the following areas:

Under Tithe: Increased from \$25 to \$1447.

Under Housing: Reduce electricity from \$300.00 to \$250 utilizing good energy management

Telephone/Cell phone from \$300.00 to \$100. Need to find a less expensive alternative like Trac phone

Cable TV is eliminated at a savings of \$115. They have internet and can stream.

Yard Service from \$250.00 service to \$50 DIY mode

Under Food: Grocery reduced to \$1000.00 from \$1450. Shop smarter and look for value alternatives

Under Insurance: Jerry is underinsured. I doubled his current term insurance spend from \$67 to \$134. In the long term we need to get him a good whole life plan

Under Entertainment and Recreation: Reduced from \$1478 to \$600. Reductions include Eating out \$400 to \$200; Lunches \$200-\$50; Movies/events \$200 to \$100; Kids Activities \$300-\$150; Baby sitters from \$100-\$50; Health Club \$50 to \$0; Vacation \$100 to \$0; Amazon Prime, Audible, Sirius, Apple \$78 to \$0

Under Clothing: Increased from \$50 to \$100. It looks like both parents have uniforms so I added money primarily for the kids

Under Miscellaneous: Reduced the entire category by \$900.00. There is one category alone that allocated \$500 to Other (whatever that is). I also reduced cash amounts from \$400 to \$200 per month per person

Under Investment: Eliminated College fund \$200

Under Debt: I estimated a \$224.00 reduction in credit card fees but it would just be reallocated back to snowball that debt . That's why I don't show any savings there.

When you add it all up, the new spending plan is \$12294.00. That is \$2926.00 under their current spend and more importantly \$2152.00 under their current income.

This plan would allow us to create an emergency fund right out of the gate, with future savings allocated to paying off consumer debt as well as increasing emergency savings to a 3 month level.

The reason I like this plan it that it requires real buy in and active participation on Jerry and Janice's behalf. This plan only works with a heart change. I think that the option of the rental home can give an added dimension but if that's all we did, I believe that there would be no long term gain. The easier it is for them to accomplish their goals, the less sustainable the lifestyle changes and attitudes will be.

Not Humanly Fixable

Kind of seems like a trick question. Left to our own devices we can't do anything but with God all things are possible.

In conclusion Jerry and Janice can reach their goals. They've got to work as a team (and die to self a little).

They need to be in total agreement, especially with discretionary spending. This is likely to be a big challenge for Janice.

They need to clearly define and agree on wants and needs. Watch out for greed.

As they make these lifestyle changes, they must be careful not to covet what their friends and neighbors possess.

Study the Bible and seek contentment.

Pray.