DUE 2/11/2013

Project 1 – Facing your financial future

Your task for this project is to determine your financial future. Are you going to be overextended or will you prosper? This project is to be completed in groups. Your group is to function as a unit. The group will turn in one project with all of the appropriate calculations to demonstrate if your future is stable or if you are over extended. All work should be completed as a team with all team members sharing the workload. Include a narrative for each portion of the project addressing the specific questions in each part while including the final values of the calculations. All work for the calculations must be shown to earn full credit. Include the formula used prior to plugging in values, use the appropriate rounding guidelines as discussed in class, and show all your work.

Part 1- Scenario

You are a recent college graduate at the ripe old age of 25 earning $41,635 annually after taxes, and your employer currently pays your health insurance. You rent a home, are still driving the car you had in college, and want to make some wise financial choices as you join the "real world". You currently have $3,250 in credit card debt. Your household expenses including rent, utilities/water, gas, food, phone, and a miscellaneous fund total $1,890 per month. The appliances in the home are yours and were given to you by family friends when they purchased newer models. So far they are all in working order. Determine your monthly income overall, monthly income less expenses, and how much money you have each month left over to spend/invest. Show a detailed budget to begin the project.

Part 2 – Cleaning up your debt

You stopped using your credit card in January to reduce your debt of $3,250. The minimum payment for your card is $47 per month, but you choose to pay $147 instead. The billing cycle for your card runs from the 10th of the month through the 9th of the following month. You always make your payment on the 21st of the month. Assume your billing cycle begins January 10th. You use the card on the 14th to by new shoes for $117.40 and again on the 25th to go out for dinner for $45.85. Then you stop using the card altogether. For the month of January, find the average daily balance on your credit card, the interest charged, and the new balance for this billing cycle if your interest rate is 14.2%. Then create a table to show these three calculations and the **first year** of monthly payments. How long do you think it will take you to resolve the debt? Explain why. **Estimate** how much interest you are going to pay in an attempt to resolve your debt. Update your budget to include this monthly payment.

Part 3 – Retire at 55? Start planning now!

With your new job, you feel that you can now begin saving for your retirement. If you want to try to retire at 60 with $500,000 in a TDA, find the monthly payment you need to make if the best rate you can find is 7.3%. (Remember rates often vary year-to-year, so this will be an estimate of what you will actually earn.) You decide to go with a TDA which requires you to make your payment at the **beginning** of each month. When you retire, what is your contribution and how much is interest? When the annuity comes due, where will you put the money to continue to earn interest but still maintain the ability to use the money? Do you think this will be enough to live on for the rest of your life or should you think about starting another annuity now or in the near future? Update your budget to include this monthly payment.

Part 4 – So you want to drive a new car…

Now that you have a "real job" you are also interested in buying a new car. Based on your household expenses, your credit card debt, and the retirement fund you started, you want to determine if you can afford to purchase a new car as well. You decide to buy a new car for $22,673.41. You are going to put 8% down and then obtain a simple interest amortized loan for the remainder at 11.45% interest for five years. What is the down payment, and how will you pay it? Determine your monthly payment, the total interest, and create an amortization schedule for the first 6 months of the loan. Update your budget assuming you choose to include this monthly payment. Can you really afford the new car? Explain your reasoning.

Part 5 – What's next?

You know that you don't want to rent forever, but buying a home takes planning. A down payment, monthly income, and other assets all make being a homeowner possible. How will you plan to save for a down payment?

If you invest, work toward paying off your debt, and buy the new car…will you have anything left? What will you do if you have to replace the refrigerator or the washer and dryer?

Does a new car seem like the best plan or would a newer used car suffice? Should you wait to buy a car? Why or why not? Do you need to choose between the car and saving for a house? Explain why or why not.

Justify your reasoning with written and numerical details and relate these details back to your initial budget.