



Money Matters Case Study: Paddle Your Own Canoe D.I. Wallace, K. Rheinlander



A Goal Worth Pursuing

Tyrone and Cynthia have been married for four years. Since they graduated from college 5 years ago, both have held steady jobs, Tyrone as a software developer and Cynthia in advertising. Together they make a reasonable salary in Massachusetts, with combined gross pay of \$8500 per month, bringing home \$6,458 per month between them after taxes. Their rent, which includes utilities, is \$2300 per month. They are responsible managers of their money, and have put \$50,000 into their retirement funds so far. Currently they put \$1200 per month into their retirement accounts, resulting in a reduced combined take-home paycheck of \$5258. Living near Cynthia's work, they only need one car, for which they have a loan. They put \$500 aside every month for emergency and unexpected expenses, so they now have a \$10,000 savings account (and there have been a few emergencies). Their credit card use is moderate, but they pay it off in full every month. They don't really track where their money goes because they are living well within their means.

Tyrone and Cynthia have talked about having children, buying a house, and generally moving into middle class adulthood. But they have reached a decision. Before taking on these responsibilities and obligations, they want to give something back. Cynthia fondly remembers a week spent building a house for a family in Nicaragua through the Bridges to Community Project. She never worked so hard, and she never was so happy to make a useful contribution to the family who got a new house. Ever since then she has wanted to go back, for longer, and make a real impact in the lives of the people there, teaching English in the local school and helping the teams that arrive to construct houses. Tyrone thinks this is a good idea in general, and there is no time like the present to take action. He loves being a software engineer but he could use a little adventure.

The couple wants to go away for two entire years. After that, they expect it will take another six months for both of them to find new jobs. So, for the next year, they want to increase their 401k contribution by \$500 to compensate for the lack of contribution while in Nicaragua, and they want to double the contribution to their savings account. Then they feel that they will have lost little economic ground by being away for two years. While away, the Bridges project will provide food and housing, and Cynthia's parents have offered to cover medical insurance for the couple during this period.

They have come to you for advice on what changes they can make in their budget that will allow this to happen. You advise them to track their expenses in detail for three months to see where the money is going at present. You know from experience that budgets can be very revealing. Cynthia is an avid sailor and collector of vintage science fiction novels now out of print. Tyrone has two main

hobbies, playing his piano and running. But he loves opera, and always has tickets to at least one performance per month, sometimes traveling to Santa Fe in the summer or New York in winter to catch a major show. They both like to eat well and both appreciate good wine. They consider these luxuries to be things they would gladly do without in order to go to Nicaragua. However they hope to be able to enjoy their current lifestyle in a reduced fashion during the year before they leave.

You can explore their budget using a spreadsheet. You can experiment with different 401k contributions using www.paycheckcity.com. You can even check out various options for sailing club membership at sailing clubs near Boston, and track prices of opera tickets in the Boston area. They are willing to consider any adjustments, except for moving to a new location, which they feel would be very disruptive.

They have provided you with a budget breakdown. They will need to reduce their expenses by almost \$850 to meet their goal. How will you advise them to do this so that neither Tyrone nor Cynthia feels they are sacrificing too much?

You should provide several different options for a new budget, and allow them to choose.