

PROBLEMS

- 1) If your goal was to follow the 90-10 rule and you were bringing home \$2,000/month, how much money would you spend and save over the course of a year? Ignore taxes, for the purposes of this exercise. (LO 1-1)
 - a) $\$2,000 * 12 = \$24,000$; $10\% = \$2,400$ savings; $90\% = \$21,600$ spending
- 2) Over the past year, you made \$58,000. If you were following the 80-10-10 rule, what dollar amount would be spent, saved, and donated over the course of the year? Ignore taxes, for the purposes of this exercise. (LO 1-1)
 - a) $\$5,800$ savings; $\$5,800$ giving; $\$46,400$ spending
- 3) You are a lucky college graduate with the generous new salary of \$4,700 a month. You estimate you will be paying about 20% towards taxes. Given this, if you wanted to save according to the 90-10 rule, how much should you be putting into savings each month? (LO 1-1)
 - a) $\$4,7000 * .80 = \$3,760$ take home; $\$3,760 * 10\% = 376$ /month into savings
- 4) You are starting a brand new job with an annual salary of \$70,000. One third (33%) will go toward taxes (state, local, federal and Social Security). Following the 90-10 rule, what is the most you should budget for monthly living expenses? (LO 1-1)
 - a) $\$70,000 * .67 = \$46,900$; $\$46,900 * 10\% = \$4,690$ savings; $\$46,900 * 90\% = \$42,210$ spending
- 5) You currently follow the 90-10 rule. You decide you want to gradually shift to the 80-10-10 rule over the next 20 years, at a steady rate. What percentage of your income will you moving from spending to giving each year?
 - a) $10\% \div 20 \text{ years} = 0.5\% \text{ per year}$
- 6) If you are able to save \$1,000 a month, following the 90-10 rule, what is your annual take-home income? Assume that taxes are not a factor. (LO 1-1)
 - a) $\$1,000/.1 = \$10,000$ /month * 12 = $\$120,000$ take home annually
- 7) You are closing in on retirement, and you are concerned that you will not have enough in your savings to live comfortably. You currently give \$6,000 a year, or 10 percent of your take-home income, to charity. If you change your giving to 2%, how much will you be giving each year? (LO 1-1)
 - a) $\$6,000/.10 = \$60,000$ take home pay. $\$60,000 * .02 = \$1,200$ to charity.

You're the Expert

- 1) Abby is a recent graduate who landed a great engineering job. Given the economic downturn and the pressure to run a lean shop, a number of more experienced veteran staff members have been downsized. As a result, a significant amount of responsibility and hours have fallen to her. She has been successful, but it has involved working 12 hours a day for 6 or 7 days each week over the past three months, with no end in sight. She is fast approaching burnout, but she believes it would be risky to move to another job so soon after graduation. (LO 1-1, LO 1-2)
- What steps should you recommend to Abby to take to sort out her dilemma?
 - List two options for Abby and three pros and three cons for each option.
 - What would you suggest she do and why?

1a) a-She should evaluate value, vision and mission to determine what she wants; b- Look at the occupation handbook to see what related fields are for engineers; c- Talk to her boss; d-Look for another job e-consider going back to graduate school

1b) PROS: a-Having clear values will help her determine if she made the right career choice; b-The OC might provide other occupations she might be interested in; c-Talking to her boss to reduce hours and trying to find a work/life balance; d-Finding another job may be the perfect fit, e-graduate school may open other doors for career choices and/or make her more valuable to the company; CONS: a-Her boss may see her as whiner; b-Another job may require moving, c-graduate school could be expensive

1c) Answer will vary from student to student. This question is to encourage critical thinking and evaluation skills.

- 2) Eric's uncle left him a trust fund that will provide him \$50,000 per year for the next 20 years. He is a 28-year-old bachelor making a salary of \$4,200 per month, with condo payment, fees, and utilities totaling \$1,750 per month. He also has a car payment, gas costs, and maintenance expenses averaging \$600 per month. Clothing, eating out, and other expenses vary greatly depending on how active his social life is that month. He has managed to steer clear of any credit card debt, but he has not started putting away money toward any long-term goals and he is living paycheck to paycheck. (LO 1-2)
- With his current windfall, how close is Eric to reaching financial independence (passive income equaling expenses)?

- b. What are two of options Eric has for achieving financial independence?
- c. Does Eric have the option of quitting his current job?
- d. If Eric were to quit his job, what would he have to do to maintain this temporary financial independence over the long-run?
- e. What would you recommend Eric do and why?

2a) $\$4,200 - \$4,166.67 = \$33.33/\text{month}$ (The \$4,200 a month is his salary and he is living paycheck to paycheck. The trust of \$50,000 a year, divided by 12 months is \$4,166.67 a month. Therefore he is currently \$33.33/month away from financial independence.)

2b) a) Cut back on spending where his spending is equal to or less than \$4,166.67 remembering that financial independence is when passive income exceeds spending. In this case we are assuming that his monthly spending is \$4,200 a month.

b) save all or part of the \$50,000 to build a retirement nest egg where he grows his passive income to exceed his spending.

2c) Yes, if he cuts back on spending

2d) Cut back on spending and save and invest some money

2e) Student answers may vary, but should include reasoning related to covering monthly expenses, achieving long-term goals, and achieving longer-term financial independence.

- 3) Issie is a new high school graduate. She is excited about the field of nursing, loves international travel, and enjoys meeting people. She thinks the Peace Corps would be a great adventure while she is still single and young, and she desperately wants to join up and make a difference. Research the Peace Corps (www.peacecorps.gov). Step through the process of creating short-term, intermediate, and long-term goals that will carry Issie through five or so years, and get her ready to move into the next Personal Finance Life Stage. (LO 1-3)

Short-Term Goals (< 1 year) :

- Select a college that offers a nursing program
- Attend that college and receive good grades, being focused on her long-term goals

Intermediate Goals (1-5 years):

- Study hard and receive good grades in all of her classes
- Look for international internships in developing countries focused on healthcare and nursing
- Network with other nursing and healthcare professionals who have done similar career paths
- Pass her boards

- Start applying for the Peace Corps

Running Case Scenario

In the chapters of the text, the lessons will be visited through the eyes of housemates of 906 East College Street. All residents are either current students or recent graduates. Leigh, Blake and Nicole are siblings. Their parents bought the home, which is close to campus, as an investment when Leigh started at the university her freshman year. The following profiles describe of each of the housemates and their intermediate-term goals. For each housemate identify a SMART short-term goal that supports their success in achieving their intermediate goals.

Possible answers:

Leigh: Start saving 100/month to accumulate over \$6,000 for the trip

Blake: Train one hour per day, six days a week

Nicole: Get a 3.75 GPA freshman year

Karri: Get an internship as a reporter at the local television station within 6 months

Peter: Write a business plan to be completed in three months

Brett: Earn a 4.0 GPA each semester while in medical school

Jen: Meet with career service this month to help figure out a major

Jack: Find a full-time job with benefits within 4 months