D.I. Wallace, K. Rheinlander

Downeast Ladies Seek Victorian Cottage

Three fabulous single women you know, *belles dames* of a certain age, have been discussing their imminent retirement. They have been friends for years and are considering sharing an old Victorian house on the main street of a cute town in Maine for their golden years. They are all turning 65, about to collect social security and make their big move. They must all relocate more or less at the same time, because it will take all three of them to pay for and maintain the house they have chosen. Gloria and Penny are selling their houses and will split the purchase price of the new one, becoming its owners. Faith, Gloria and Penny will split the monthly expenses of the new house three ways, each paying a third of the taxes, insurance, repairs and utilities. It's a good deal for everybody, coming to about $300 per month each for all of these items.

Before the purchase, however, the three ladies got into a bit of an argument, which resulted from the decision to disclose their financial situations to each other, which they did over tea. These are their circumstances after Gloria and Penny split the cost of the new house in half.

Gloria will be getting a monthly social security check of $1400 and will have $300,000 invested in her retirement and other available investment accounts.

Penny has only $100,000 in her accounts, but she will receive $2100 in monthly social security benefits.

Faith never owned a house, but she managed to save $150,000 in investments over the years and will get a monthly social security check of $800. To supplement her $800, Faith plans to take a part time job monitoring water quality at an oyster farm, which she expects to continue for as long as she can row the boat. She plans to sink $21,000 into a new car immediately upon retirement, as her old one is almost dead.

Gloria (who has lower monthly income) and Penny (who has less money in investments) each think the other one is in better financial shape. They are wondering if splitting the cost of the house is really fair. Both of them think Faith is wrong to be buying a car at this point. All three, but especially Faith, are worried about end-of-life circumstances. They are putting the house in trust so that, if any one of them dies, the other two will own it. This reassures Faith quite a bit, but she still doesn't think she could ever afford it without the other two.

These lovely ladies have brought their concerns to you. They are all quite healthy and could well live to be 95 or beyond. How do their budgets play out?

This case study is part of the Dartmouth Money Matters Curriculum.
For more information contact Audrey Brown, Administrative Director, MQED and Financial Literacy Center at Dartmouth College.
Audrey.Brown@dartmouth.edu

1. How much per month will each of these women have at their disposal, given current growth rates for conservative investments and the assumption that they will live until 95? Who is actually richer, Gloria or Penny?

2. What is the long-term impact of Faith's decision to spend $21,000 immediately on a car, taking the money out of her retirement savings?

3. What happens if Gloria and Penny die? How long can Faith stay in the house if she has to shoulder the full $900 monthly expense and needs an additional $800 in order to make ends meet?

4. How big are the "error bars" on all of your estimates?

Make recommendations to these three fabulous friends regarding:

1. how to divide the cost of the new house between Gloria and Penny,

2. whether Faith should purchase a car and, if so, what should be her budget,

3. what, if anything, should be done to protect Faith in the event she is left alone to pay for the household expenses.