John and Marcia's Monthly Spending Plan

John and Marcia are a young married couple. They have a two-year-old child named Ashley and a goldfish named Shark. John manages a local shoe store. Marcia recently graduated from college and is a manager-trainee at a local bank. Their combined monthly income is $9,000. They want to have a successful marriage, and they want to be financially successful.

John and Marcia have enough income to provide an adequate lifestyle. Their apartment is comfortable but not lavish. They take care of themselves, Ashley, and Shark with sensible diets, exercise, and medical care. They view maintaining health, life, and renter's insurance as essential. They pay for child care at Terrific Tots Day Care so that both of them can work. They keep up with all their financial commitments, such as making payments on Marcia's college loan. They regard saving for retirement as important. Like other individuals, they are locked into their fixed expenses, but they have more flexibility with the variable expenses.

Marcia and John know that they want a second car. It is difficult to manage their complex schedules—work, day care, grocery shopping, and trips to the doctor—with only one car. They recently set a goal to save up enough money in one year for the down payment on a second car.

John and Marcia are regular savers. They practice the idea of "paying yourself first." They currently have $175 withheld each month from their paychecks to provide a fund for emergencies, which they have decided to increase to $500 each month for the next year to enable them to make a $6,000 down payment on the second car.

Listed below are the expenses "Before" and "After" they increase their monthly savings. Look at John and Marcia's variable expenses and figure out where they can draw the additional money for savings from their variable expenses. Also, answer the questions at the end of this exercise.

Monthly Budget	Before	After
Total Income (both spouses work)	**$9,000**	**$9,000**
Fixed Expenses		
Housing	1,950	1,950
Life and health insurance	525	525
Renter's insurance	35	35
Automobile insurance	200	200
Student loan	470	470
Savings withheld	175	500
Federal and State taxes	1,800	1,800
Social Security/FICA	770	770
401(k) withheld	100	100
Total Fixed Expenses	**$6,025**	**$6,350**

Variable Expenses	Before	After
Meals (at home)	300	
Meals (away from home)	250	
Utilities	315	
Automobile fuel, maintenance	290	
Medical care	230	
Child care	515	
Clothing	195	
Gifts and contributions	60	
Cell phone expenses	80	
Internet and cable	200	
Personal Care	50	
Entertainment	260	
Vacation	120	
Pet supplies	50	
Miscellaneous/personal	60	
Total variable expenses	**$2,975**	
Total expenses	**$9,000**	**$9,000**

Questions:

1. What are some examples of John and Marcia's fixed expenses?

2. What are some examples of John and Marcia's variable expenses?

3. John and Marcia have decided to practice the "pay yourself first" approach to saving for a second car. How do they pay themselves first?

4. Examine John and Marcia's monthly spending plan above. What sacrifices do you think John and Marcia should make in their variable expenses to meet their goal? Note: At-home food expenses can't be reduced below $220.

5. What are the benefits and costs of your recommended decisions for John and Marcia?

Does It Pay to Have a 401(k)?

In John and Marcia's monthly budget they have chosen to contribute $100 each month to their 401(k), an investment tool that allows individuals to save money toward retirement on a tax-deferred basis. What might their investment look like by the time they retire?

1. If they start saving $100/month starting at age 20 (with an 8% rate of return):
    a. When they turn 65 their 401(k) will be worth $ _____
    b. The amount of money they will have contributed will be $ _____

2. If they start saving $100/month starting at age 30 (with an 8% rate of return):
    a. When they turn 65 their 401(k) will be worth $ _____
    b. The amount of money they will have contributed will be $ _____

3. How much more did their investment grow by starting at age 20? $ _____

4. How much more money did they contribute by starting at 20 instead of 30? $ _____

5. How much would the monthly contribution to their 401(k) be if their employer matched their contribution 100% up to $100/month? _____

6. How much would their "matched" 401(k) be worth at age 65? _____