



## Money Matters Case Study: Investing In Savings And Bonds D.I. Wallace, K. Rheinlander



### **In George We Trust?**

Cheryl is a senior citizen trying to get by on very little. A single woman with no children, she never made much to start with, and lost her savings in a bad investment she made just before retirement, which reduced her assets to almost zero. She supplements her \$876 per month income from Social Security with a part-time job at the local Wal-Mart that pays \$1100 per month. She owns a nice mobile home in a very nice retirement park, which she purchased with the remains of her bad investment. Most of her money goes to her rent for the space in the park and basic necessities, although she has a little nest egg she has put away for emergencies or possibly a short vacation. She only has about \$500 in her nest egg, which she has given to her brother George to hold for her, as she has no bank account of her own. She has been adding about \$50 per month to her “savings” and plans to continue doing so.

When her checks come, she just cashes them (for a fee) at Wal-Mart. She pays for everything in cash, including her rent. She lives in a very low crime area and doesn't worry about anyone robbing her or breaking into her home. She gives George the \$50 off the top. She gardens, cooks, plays the piano and socializes with her friends, finding a lot of fun within her limited means.

George says she should get a bank account, keep her money in it, and pay for stuff with checks or a debit card. He points out that the bank pays interest and he does not. What if he is out of town and she needs the money? He can't get it to her easily, as a bank could. He is suspicious of the fees that Wal-Mart charges and thinks the bank is definitely a better deal in that regard. It bothers him that Cheryl is “unbanked” and he wishes she would join the 21<sup>st</sup> century. He plans to buy her a computer and modem for her birthday. Then she could bank online. He knows, however, that he is more excited about the computer thing than she is. She might not ever use it.

Cheryl does not see the point of a bank account. She argues that the interest paid is almost nothing, that the banks are only open when she is at work, that the banks have fees also which will probably cost just as much in the end as just cashing the check at her workplace (which is very convenient). Right now she works, banks, and purchases most of her groceries and other necessities right in the same location. What about the gas and driving around? Cheryl has a cheap car, which she only uses to get back and forth to work and for short jaunts nearby. She wants to wear it out as slowly as possible.

Cheryl and George both have good intentions and good ideas, but neither one has done the math. Cheryl wants your opinion on the situation, and you want to give her more than just an opinion. You want to figure out for Cheryl what the actual

This case study is part of the Dartmouth Money Matters Curriculum.

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costs and benefits are of both possibilities. This depends on which banks are available in her area, what their fees and interest rates are, what Wal-Mart charges, and the issues of gas, time and driving. So it is important to know that Cheryl lives in Port Charlotte, FL. Also, because Cheryl is saving for the medium-long term, she could also consider short-term bonds as a way to save her nest egg.

Your job is to sort out the options and figure out the best deal for Cheryl. You will show her the spreadsheet you have created that compares several different options, and give her a written summary of your advice (that she can show to George).