

Topic: money management

Case Study: The Diaz Family

How much should parents sacrifice to give their children a better education and a chance at college?

Background

Maria and Ignacio Diaz immigrated to the United States in 1990 from El Salvador. They were 24 and 23 years old. They had planned to stay in El Salvador, despite the challenges of the civil war, but decided to flee with their niece Lucy when Maria's sister, Consuelo, was killed in an outbreak of violence. Consuelo's husband had been killed before Lucy was born, so her death left the 2-year-old an orphan and Maria and Ignacio as her guardians.

The transition to the United States was difficult, but Maria and Ignacio worked hard to re-establish themselves. They had not been wealthy in El Salvador, but relatively speaking, they had been middle class. Maria had worked in the small bodega her mother owned, and Ignacio, who had training as an electrician, helped his father run the family's farm. Although they succeeded in becoming U.S. citizens, becoming middle class always seemed just out of reach. They moved to Long Island, New York, near two of Maria's brothers, who helped Ignacio find work in construction. Maria put together a variety of day jobs for what would become her career, both long-term and full-time.

Maria's two brothers had young children, and collectively the couples shared in the care of the children. Within a few years, Maria and Ignacio had two sons of their own—along with their niece, whom they had adopted—but by then, Maria's widowed mother had come to live with them and the care arrangements were eased; however,

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not much else got better. In 2008, Ignacio lost his job in construction (and the family's health insurance) during a wave of layoffs. He is now back at construction (after a series of odd jobs, including at a car wash) and, though not licensed (the family could not afford trade school and didn't have the connections to set up an apprenticeship), does electrical jobs on the side.

By working over 60 hours a week for an average of seven employers at any one time, Maria earns \$40,000 a year. She is paid off the books, so she gets no Social Security or benefits. Ignacio earns up to \$20,000 a year working variable hours, part time for a construction company (no benefits); \$29,000 a year as a full-time, night-shift custodian; and he picks up handyman electrician jobs that pay him about \$5,000 a year.

Maria and Ignacio gave up some dreams of their own professional fulfillment and endured their difficult and exhausting lives with fortitude because they became entirely dedicated to the future of their three children. Neither Ignacio nor Maria had made time for English classes because it would have meant giving up a second or third job. They were eager to learn the language, but felt they would have to pick it up on the job, from watching television, and from their kids. Ignacio would clearly have made more money as a licensed electrician, but trade school was expensive, and the loss of his income for 2 years was unimaginable. They wanted all three children to graduate from college so they could live an entirely different life than their parents had lived. And they knew this different, middle-class life began in school—long before college.

Maria and Ignacio faced multiple decision points once the children reached school age. Because they did not have health insurance, they had already differentiated between how they handled illness for themselves versus their children. Maria and Ignacio *never* went to the doctor or took time off to be sick. However, if the children seemed ill, they took time off to take them to the clinic and, when Lucy was thought to have pneumonia, took her to a private, fee-based pediatrician.

They live in a small city on Long Island. Although they are close to their work, the schools have a very bad reputation and the state has threatened to take the schools over multiple times. The two older children seem to be progressing at grade level, but the youngest is in the third grade and still not reading well. Lucy is in ninth grade. Although she is taking the highest track classes available and getting good grades, Ignacio and Maria can see that she is not being challenged.

Dilemma

Maria and Ignacio have come to your community-based clinic for advice. Your clinic offers a 3-session consultation. The first is introductory. In the second clients are given a preliminary list of possible approaches to their problem and interviewed in more depth. In the 3rd session, clients are given the clinics best recommendation and support for implementation.

You have met with the couple once. In that first session, the couple made it clear that they are not there to plan for their own retirement, or even financial stability. Their horizon is the day the youngest child graduates from college. With their goal of providing every opportunity for their children, it is not a matter of whether they will spend every penny they have on their children; rather, it is *how* they should spend it and where they might turn to earn or borrow more.

Develop a plan for your second meeting at which you will (1) give them a preliminary set of *possible* options, including the rationales for each, and (2) learn more about their values, resources, and skills.

Keep in mind that, at the first session, you learned that your clients think that, cost aside, all they have are the following options:

- Sending the children to a local parochial school, or
- Finding a job as live-in caretakers on an estate that is in a better school district, or
- Paying private tutors to help their youngest now and, eventually, prepare the older children for the SATs and college-level work

At that session, you also learned they assume that, whatever else they do, they also face:

- Buying additional computers for the home to supplement/replace the outdated one they have
- Getting higher speed Internet access to support the multiple computers (and devices) the children will be using to do their schoolwork
- Buying the stuff that goes with hanging out with a middle-class group of kids—the right smartphone, clothes, and (above all, for their sons) sneakers
- Finding counselors for two of the children who are experiencing very serious anxiety and depression from the combination of high expectations, so little time with their parents, and shuttling between two languages and two cultures

Terms

- Costs and risks of credit
- Investment strategies
- Trade-offs
- Emergency fund
- Long-term financial planning
- Upward mobility
- Financial goals
- Risk
- Variable expense
- Insurance

Resources

Moving “Up” Isn’t as Easy as You Might Think

The Zip code you live in can have a big impact on your economic destiny. That notion is at the heart of a number of local and federal antipoverty initiatives, called “residential mobility” programs.

<http://www.marketplace.org/topics/wealth-poverty/moving-isnt-easy-you-might-think>

Middle-Class Parents Weigh the Costs of Getting Their Kids Ahead

What people buy is often dictated by what everyone around them is spending. And for many parents, keeping up with the Joneses is all about helping their kids stand out—whether it’s spending on tutoring, sports, or experiences.

<http://www.marketplace.org/topics/sustainability/consumed/middle-class-parents-weigh-costs-getting-their-kids-ahead>

Calculating the Cost of Getting Kids to College

Parents spend a lot on their kids to give them a leg up. So when do those additional investments in a child make sense, and when do they not?

<http://www.marketplace.org/topics/your-money/calculating-cost-getting-kids-college>

Tough Choices: How the Poor Spend Money

“It’s stress,” Halima Tinson says as she paces back and forth in front of a San Diego preschool. “But I want my husband to go to school. Because I know when he finishes, I won’t have to worry anymore.” Tinson is trying to get her 3-year-old twins signed up for the Head Start program to free up time for her husband. If her twins get into the program, Rickey Ricardo won’t have to stay home to watch the kids during the day. They’re too poor to afford good childcare. Any job that Ricardo could get wouldn’t pay enough to cover the

costs of daycare. But free preschool means free time. Perhaps time enough to get some training and a well-paying job.

<http://www.marketplace.org/topics/wealth-poverty/tough-choices-how-poor-spend-money>

The Psychology of Poverty

“When faced with financial scarcity, people’s minds keep coming back to concerns such as—how will I pay rent this month,” [Sendhil] Mullainathan [professor of Economics at Harvard University] said.

...

However, some poor families do spend their money on things they don’t especially need sometimes, like televisions. Mullainathan said a big part of this is happiness, which he claims is a scarcity for a poor household. And the things people look for to provide that happiness are individualistic.

<http://www.marketplace.org/topics/wealth-poverty/psychology-poverty>

Is a College Cap and Gown a Financial Ball and Chain?

The cost of a 4-year college education has risen roughly 150 percent since 1980.

For this and other reasons, more and more students must take out student loans to finance their education. Upon graduation, many find they have accrued a sizable debt. Given the significant expense, some question the value of earning a college degree. However, along with the rising cost, the lifetime earnings difference between college and high school graduates has widened. The increased earnings potential of a bachelor’s degree allows a college graduate to recover the cost of college over time and eventually surpass the earnings of those with only a high school diploma.

http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2011/Cost_of_Higher_Education_0811_Liber8_Newsletter.pdf

Working, but Still Poor

Why not simply get a better job? The best way out of low-paying work is to get a good higher education. But most of the working poor come from struggling communities where schools are not well financed, and kids who attend bad elementary and high schools are far less likely to attend college. Even today, only 30 percent of Americans get college degrees. And for those with only a high school diploma, job prospects are more limited than ever;

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the average high school graduate today makes \$12,000 less than the average high school graduate did in 1980. Men who are unemployed or in low-wage jobs tend not to marry, or if they do, are likely to get divorced, creating a vicious cycle.

<http://theweek.com/article/index/239499/working-but-still-poor>

Budget Tracker

Budget Tracker is an online tool for building a budget. The project has established an identity that you may use.

Login Name: Maureen.grolnick@icloud.com

Password: cowinsummer2013

<https://secure.budgettracker.com/homepage.php?newuser=1&login=1>

Budget Pulse

Budget Pulse offers somewhat the same tools.

Login Name: Maureen.grolnick@icloud.com

Password: cowinsummer2013

<https://www.budgetpulse.com/dashboard>