NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

HOW TO SURVIVE FINANCIALLY WITH ONLY ONE PARENT WORKING

Smart Financial Planning Can Help Families Maintain a Single Income

ENGLEWOOD, COLORADO—From choosing your child's name to selecting the color of his or her nursery, decision-making is a major task for two people about to start a family. For some expectant couples and new parents, one of the hardest choices can be between a dual- or single-income lifestyle. Often, it is the financial considerations that make this decision so difficult.

"Some families believe that a single-income home is best for them, but they think this lifestyle is out of their reach," says Ted Beck, president and CEO of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is an independent, nonprofit foundation committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach their financial goals.

Beck says making the transition to a single-income family is possible—with careful financial planning. "While it may mean making significant changes and sacrifices, many families can afford to live on one income if they wish to do so. It usually requires that the couple develop a detailed financial plan, control their expenses and, if needed, consider alternative sources of income," he says.

Beck offers the following suggestions for families planning to make the transition from two incomes to one.

Formulate a Financial Plan

Many families automatically assume they'll have more money in their pockets if both parents work. However, this isn't always the case. To find out how much money you actually will be giving up each month if one partner stays home full time, you need to create not one, but two detailed spending plans. The first should consider your family's income and expenses assuming that both parents work. The second should address your family's budget if only one parent remains in the workforce. In both instances, write down all of your potential expenses and sources of income.

While your income certainly will be higher if both partners work, your expenses also probably will increase. Most notably, you'll have to pay for child care. You also may have to budget more money for professional clothes, dry cleaning bills, meals out during the day and higher-cost convenience foods at night. There are transportation costs to consider as well, such as fuel and parking for your car if you are commuting.

After you have analyzed both of your financial plans, you may find that relinquishing one individual's income won't make much difference in your overall budget. On the other hand, you might have learned that if one spouse leaves his or her job, your expenses will outweigh your income. Don't worry. According to Beck, there are numerous ways to make a one-income family feasible. Here's how.

Minimize Expenses

"The first step to trimming down expenses is to cut out any items you buy that are not necessary. For example, with one parent staying home, you might find that you no longer need two cell phones and can get by with only one," Beck says.

You also may want to consider taking a break from cable television, trimming your grocery bill by using coupons, limiting the frequency of dining out, renting movies instead of going to the theater and taking advantage of the library. Also, examine your budget for spending leaks. Examples include purchasing expensive coffee drinks, cigarettes and sodas from vending machines. Beck says, "If you currently are buying three coffee drinks a week that cost four dollars each, you are spending $624 a year on coffee. Imagine if you could use this money to supplement your income instead." Try and identify your own unnecessary leaks and minimize them.

As another money-saving option, perhaps one person can rely on alternative forms of transportation. Or, families with two or more cars could consider selling one of them, with the working parent taking public transportation to and from his or her job each day. "The minor inconvenience of sharing a car can save you thousands of dollars each year in car payments, gas, maintenance and insurance costs," Beck says.

Finally, as you consider ways to cut your family's costs, remember to incorporate inexpensive, or even free, family activities into your daily life. Spending time together without spending money will help your budget now and also will reinforce positive money-management habits for your child to emulate in the future.

Consider Alternative Sources of Income

If you have trimmed down your expenses and still are coming up short, you may need to consider how the non-working parent could generate some income without returning to full-time work. Perhaps that partner could work from home on a contract or freelance basis. This way, he or she would have the flexibility to work when the child is napping or after the working parent has returned home. Another option would be to work part time or job share.

"If you want to be a stay-at-home parent, but are looking for some flexible work, you may want to start job hunting with a past employer," Beck suggests. "If you were a valuable employee, a former supervisor may be more willing to work with your family's needs than a new one would be."

No matter how you choose to supplement your earnings, you can usually find a way to support both your financial needs and your child’s best interests.

Additional Financial Considerations

As you learn to cope with a single-income situation, return to your financial plan periodically to see how your overall numbers are changing. Also, review your plan to make sure you have included retirement planning as an expense for both the working and the non-working parent. The working partner should be contributing to a retirement saving vehicle, such as a 401(k) plan, through his or her place of employment. If there is no access to this type of plan, he or she should open an Individual Retirement Account (IRA) or Roth IRA, both classified as tax-advantaged retirement savings accounts. IRAs allow you to save pre-tax dollars toward your retirement. Money you put into a Roth IRA is taxed now, but you can withdraw it tax-free when you retire.

In addition, a married couple may be able to contribute to a spousal IRA if one parent is not working or making very little income. If you meet the income qualifications and file your taxes jointly, the stay-at-home parent can contribute up to $4,000 a year to an IRA, provided the working spouse can cover the contribution. Couples may want to seek the advice of a qualified financial professional as they begin retirement planning.

Beck also recommends that families pay close attention to insurance as they are finalizing their financial plans. “Be sure you realize what insurance coverage you will lose if one parent leaves his or her job. Make arrangements to find coverage either through the working parent’s plan or an individual plan,” he says. “With a child on the way, you don’t want to find yourself without health, disability and life insurance. Although this may increase your monthly expenses, it will be well worth it should you encounter an emergency.”

Communicate and Stay Involved

Hopefully, by cutting expenses and maximizing your potential income, you will be able to transition from a dual-income to a single-income family. However, your financial tasks are far from complete. The non-working parent should stay involved in all of the family finances regardless of the fact that he or she no longer works outside of the home. While one partner may take responsibility for the daily financial tasks, both people should know where and how their money is spent.

Beck also suggests that stay-at-home parents keep their career skills up to date. "There may be a time, perhaps when your child begins school or leaves home, when you want to return to work. To facilitate this transition, think about taking classes, perhaps online, that will keep your career skills fresh while you are a stay-at-home parent.” You also may want to consider volunteering in your chosen field so that you not only will keep your job skills current, but also retain career connections that could prove invaluable when you begin looking for a job.

Above all, Beck suggests that parents talk to each other about their finances on a regular basis. “Find out how each parent feels regarding the new financial situation. Be open about your own emotions and also consider your partner’s. If either person is unhappy, consider modifying the situation,” Beck says. “If you communicate openly about your feelings, you and your partner are less likely to grow resentful and more likely to enjoy the decision to be a single-income family.”