

Parenting On Your Own: Be In Control of Your Finances

Laura Connerly
Instructor - Family
Resource Management

Many people find themselves short of money, short of time and short of help. Single parents certainly do.

As a single parent, it's important for you to master the basics of money management. But take it slowly. Don't make any hasty decisions. They could turn out to be costly.

Stay flexible in your plans at first. Don't tie up money in long-term investments. Learn step-by-step about planning your spending, getting more for your money, obtaining different kinds of insurance, handling taxes and wills and making long-term financial arrangements. Be wary of well-intentioned friends and relatives who give you financial advice. Check all the facts before you act. By learning more about money management, you will be in control. Here are several steps to take.

Develop a Spending Plan

The first step is to create a spending plan. Why take the time to make a plan or budget? One reason is that budgeting will help you reach your financial goals. Your income probably dropped once you became single. You may feel differently about how you spend your money. A spending plan will help you get more of

the things you and your family want and will keep you from overspending.

Begin by listing all of your income. All families are different, so the following is just a list of possible sources: your wages or salary, earnings of other family members, alimony, child support, life insurance benefits, pension benefits, Social Security and Veterans Administration benefits, interest, dividends, rent from property, food stamps and any public welfare payments. Add it all up. No matter what our incomes, we always want more. Begin by seeing if you can manage with your present income.



Now list your expenses. You probably have an idea of some of these. Look at your checkbook and other records to begin.

Keep track of expenses for a month or two so that you know where your money is going. It's likely to be different now that you're on your own. Knowing what comes in and what goes out helps you set upper limits on spending so that you don't go into debt beyond your means.

Look at what you spend in various categories – for example,

*Arkansas Is
Our Campus*

Visit our web site at:
<http://www.uaex.edu>

Your Budget

Monthly Income

Take-home pay	\$ _____	
Alimony and child support	_____	
Interest and dividends	_____	
Other	_____	
Total	_____	

Monthly Expenses

Food (at home and away from home)	\$ _____	
Mortgage payment or rent	_____	
Household upkeep and minor repairs	_____	
Utilities		
Oil, gas, electricity	_____	
Telephone	_____	
Water, sewer, garbage	_____	
Transportation		
Gas, oil	_____	
Routine maintenance and minor repairs ...	_____	
Bus, train, parking	_____	
Clothing	_____	
Personal care	_____	
Childcare	_____	
Medical and dental (including health and dental insurance premiums)	_____	
Recreation	_____	
Contributions and gifts	_____	
Savings	_____	
Installment payments (payments you're committed to – for example, car or furniture payments)	_____	
Miscellaneous (for example, child's allowance)	_____	
Total	_____	

Periodic Expenses (if these are annual payments, divide by 12 to get your monthly expenses)

Insurance premiums (life, auto, homeowners or renters)	_____	
Taxes	_____	
Auto registration	_____	
Major repairs and maintenance	_____	
Miscellaneous	_____	
Total	_____	
Total of monthly and periodic expenses	\$ _____	

transportation. Is this where you want your money to go? If so, fine. You're off to a good start. If not, study what you can do to reduce this expense. Try to distribute your family's income in a way that it will do your family the most good.

Not all expenses will be due each week or once a month. You will need to plan for periodic expenses such as auto insurance and car

registration. You will spend more in some months than in others – for example, during holidays and before school begins in the fall.

The sample budget (at left) has some categories for income and expenses to help you get started. Don't give up if your plan doesn't work the first time. Review and revise your plan as necessary. Don't worry about keeping track of every penny. It's probably not worth the time and effort. Remember: you should be the one in control, not your budget.

Look ahead for a year. What major expenses will you have? Will you need to replace the tires on your car or buy a new refrigerator? Will you or your children have extra expenses coming soon? Estimate the cost of those expenses. Next, record how soon you will need the money. This method will help you plan for the more frequent shorter-term expenses.



Begin a Savings Plan

Financial emergencies will happen. So, it is best to plan for them. No matter what your income, start an emergency fund. It will be small at first, but as you regularly add to it, you will be surprised at how fast it grows. You can set up your emergency fund in a savings account or an interest-paying checking account. If having your emergency money in a checking account tempts you to spend it, keep the funds in a separate account.

When you have \$500 or more in your emergency fund, look into other accounts that will pay a higher interest rate and still allow you to withdraw money on short notice. A money market fund with the bank or an investment company is one example.

If it's hard for you to save, have your employer put some of your paycheck into a savings plan. If you are not employed, remember to save for yourself before you spend money on extras. If your income is from an insurance policy or from Social Security, arrange to have part of the money available for emergency needs.

Stretch the Dollar

A drop in income forces you to think about your spending priorities. You know that some

goods and services are more important than others to your family.

Managing with what you have will help your income go farther. What you have includes more than your possessions and money; it also includes your time, energy, skills, knowledge, community resources and, yes, even your attitude.

By combining your time, energy and talents, you can provide things, such as clothing or car repairs, for less money than you would have to pay for them if obtained from someone else. You may also choose to sell some of the products you make and the services you perform. Use community resources for entertainment, for learning new skills and for improving what you already have. Your attitude is important. A positive attitude gives you the desire to stretch your dollars and also provides you with satisfaction as you follow good management practices. And remember to invest in yourself to get a good or better job or to reach your long-range goals.

Below are some ideas for making substitutions, conserving resources and taking advantage of what you have. Choose those ways to stretch dollars that you think you could try. Then remember to follow through with your plan.

- Substitute less costly transportation whenever possible. Walk or ride a bike whenever you can.
- Learn to do simple maintenance on your car. Check out a “how to” book at the library or try to attend an adult education car repair class.
- Coordinate errands.
- Use a car pool and share rides.
- Don’t overeat.
- Substitute lower-cost ingredients to meet both nutritional goals and family preferences.
- Buy produce in season.
- Plan the use of leftovers.
- Store foods promptly and carefully.
- “Brown bag it” at work or on short trips with your children.
- Entertain at home; have a potluck.
- Refinish furniture. Learn and perform simple home repairs.
- Rent out a room, garden or parking space for income.
- Hold a neighborhood garage sale to raise money and get rid of unneeded items.



- Watch for store sales and garage sales.
- Rent seldom-used equipment.
- Check to see if you qualify for subsidized housing if you’re having problems making ends meet.
- Use the Food Stamp and Women, Infant, and Children’s (WIC) nutrition programs if you qualify.
- Keep clothes clean and in good repair. Remove stains promptly.
- Follow care instructions.
- Protect shoes from water stains and clean promptly.
- Swap outgrown children’s clothing, maternity clothes, baby accessories and sports equipment with neighbors.
- Shop at thrift stores.
- Take dry cleaning to a coin-operated dry cleaner.
- Learn to sew at home. Remodel an outfit you already own.
- Join or form a baby-sitting co-op or a food co-op. Barter for goods and services.
- Visit community parks, museums and libraries. Use entertainment provided by the community.
- Check on free or low-cost health, dental or counseling services.



Phone or write to the Cooperative Extension Service for information and programs on energy use, food preservation, gardening, nutrition, money management, health care, child development and family relations.

Investigate Insurance

Some emergencies are large. Insurance can provide you with protection when emergencies happen. Often, the cheapest way to obtain life, health and disability insurance is through an employee-group plan. Many employers provide group insurance plans at a reduced cost for you and your dependents.

If you do not work, compare the benefits and costs of insurance protection among several companies. Check to see what kind of coverage you can buy through an organization you belong to, such as a teachers’ association.

Practice the “Rule of 3” and look at three different plans before you buy. By investigating three different alternatives, you will have a good chance of knowing what benefits are available to you and the range of premiums.

Health Insurance. If you carried health insurance through your spouse’s employment

and you are now single due to your spouse's death, divorce or legal separation, you are often eligible to continue coverage. You must act quickly. Notify the employee benefits office immediately to learn your options. You have 60 days to decide if you will continue your former spouse's health insurance. Keep in mind, premiums will probably increase.

If you work and had health insurance through your former spouse, you can probably sign up for your employer's insurance to cover both yourself and your children. Again, you must act quickly. The special enrollment period is only 30 days after a divorce or legal separation.

Your former spouse may be able to add the children to his or her plan as part of the divorce or separation agreement or may pay the premiums to cover the children as dependents on your policy. Another option is to apply for ARKids First Health Insurance through the county DHS office to cover your children.

If you need more protection, many plans allow you to buy additional coverage that is usually cheaper than buying the same insurance through an individual policy. You may be required to make the changes during the special enrollment period.

Health insurance not provided by an employer is expensive. Do all you can to qualify for a group policy.

Medicare. Most likely you will be eligible for Medicare when you reach age 65. If you don't qualify on your own work record, you can receive Medicare benefits at age 65 on your spouse's record if he or she has died or your former spouse is also 65. If you are on general public assistance, find out what kind of medical coverage you are entitled to receive.

Disability Insurance. Disability insurance pays part of your lost earnings while you are disabled. You may be eligible to sign up for your employer's plan. Group disability insurance is less common than other types of employer-provided insurance, and some policies begin only after you have been on the job a couple of years. Disability payments will only partly make up for lost earnings. The difference is partially made up by workers' compensation and Social Security benefits.

Workers covered by Social Security can qualify for disability payments if their condition prevents them from working for at least

12 months or could result in death. Payments are made to the disabled employee and her or his dependents.

Life Insurance. You may need life insurance to protect your children in the event of the loss of your income. Before you buy, determine what benefits would be available to your children in the event of your death or disability. These may include Social Security, Veterans' benefits, pension benefits, proceeds from a beneficiary IRA or life insurance policies or even investments.

There are only two general types of life insurance: cash value and term. Cash value, often called whole life, is the more common type sold. It builds up a sum of money while providing protection. The premiums usually remain the same each year. When you die, your beneficiary receives the total value of the policy, less any amount that you may have borrowed.

Term insurance does not build up a cash value. It is pure protection. The premium on term insurance goes up each year as the risk of death increases. Term is less expensive than whole life. For example, a woman age 35 with \$500 a year to spend can buy \$200,000 of term insurance compared with \$40,000 of whole life insurance (a cash-value policy).

Life insurance on your children's lives is usually not a wise investment. The expenses associated with a child's death are usually only funeral and burial expenses. What you need to protect is a loss of income and services performed for your children. So investing the money in extra protection on your own life would be a more sensible choice.

Social Security. As a widow, you may qualify if your spouse contributed to Social Security. You must be taking care of your unmarried children under age 16 or your disabled child of any age. As a widow, your unmarried children are entitled to Social Security benefits until age 18, or age 19 if they are attending high school full time. You do not qualify for survivor's benefits until at least age 60 if your children are over 18.

For a divorced person, if your former spouse dies and the marriage lasted at least ten years, then you may qualify for Social Security benefits similar to those for a widow. You and your children may also receive other benefits based on your ex-spouse's record. For example, your unmarried children may qualify if your

ex-spouse retires or becomes totally disabled. You, too, may qualify for benefits at age 62 if your ex-spouse becomes totally disabled.

You will be entitled to retirement benefits on your working record if you have been covered for the specified time. Check with your local Social Security office about any of these benefits.

Widows and widowers need to check out eligibility for their spouse's retirement. Eligibility will depend on the plan's rules, if the spouse was vested in the plan and whether the spouse listed the widow or widower as the primary beneficiary. If divorced after 1984, a divorced spouse's eligibility for pension benefits often hinges on whether a Qualified Domestic Relations Order (QDRO) is part of the divorce decree. Check into Veterans Administration and fraternal organization benefits, too.

Obtain Tax Benefits

The child and dependent care credit allows you to deduct childcare expenses you pay while you are at work from the total taxes that you owe. The amount of your child tax credit depends on your income and number of qualifying children. The credit will reduce the taxes you owe. In certain situations, the additional child tax credit may mean you get a refund even when you owe no taxes.

If you have children living with you and your earned income is under \$33,178 (2002 figure), you may qualify for the Earned Income Credit (EIC). Earned income includes wages, tips, earnings from self-employment and money, goods or services you received from your employer. Earned income does not include interest, dividends, Social Security and Veterans Administration benefits or welfare benefits.

If you qualify for the earned income credit, you subtract the amount of the credit from the tax you owe or get a refund even if you had no tax taken out of your pay. The credit can be as high as \$4,140. (The figures given here are for the 2002 tax year.) Eligible families must do two things to receive the EIC. First, they must file a federal income tax return. Second, they must file "Schedule EIC" with their return.

You can also save tax preparation fees by scheduling an appointment at a VITA (Volunteer Income Tax Assistance) site in February.

Trained volunteers will complete your tax return for no charge. VITA volunteers often file tax returns electronically so you will receive any refund due you in two to three weeks. You can learn about VITA site locations by calling the toll-free number to the Internal Revenue Service found in most telephone directories.

Alimony you receive is taxable income and alimony paid is tax deductible. Child support is not taxable.

Write a Will



One of the most important reasons for having a will is to be able to name a guardian for your child (or children). Who do you want to take care of your children if you die or are no longer able to care for them? If you don't name a person in a will, the state will appoint a guardian. Of course, your former spouse has some legal rights in choosing a guardian. If you choose someone other than your former spouse, consider the person's age and child-rearing practices. While you may want your parents to raise your children, they may not be the best choice. It can be quite a burden on them. Be sure to ask the person you want to designate as guardian if he or she is willing to be one.

Another reason for having a will is so that you can pass on money and other assets (things you own) to your child through the guardian to be used for the child's welfare. An attorney may suggest setting up a trust for the child. To hold down the cost of writing a will, be prepared to furnish important papers, name of the guardian for your child (or children) and names of those people you want to receive your possessions at your first appointment.

Important Financial Tasks for Now and Later

Check the ones you are interested in doing.

- Investigating ways to reduce the cost of housing, food and other necessities.
- Involving your children in some financial matters as a way of developing their skills.

- _____ Making adjustments to cope with increasing child-rearing costs.
- _____ Reviewing insurance policies, retirement and pension plans and fringe benefits to make sure that all your needs are met.
- _____ Setting long-term goals (for example, education, career training) to improve your economic situation.
- _____ Increasing savings and investments for long-range security.
- _____ Making financial arrangements, including picking an adult to handle financial affairs for your children in case of your death or disability.
- _____ Finding reliable assistance in managing your personal and economic affairs.

Keep Good Records

Keeping good records is vital. If your records were organized, it's likely that the adjustment to your new marital status was easier because your personal and financial records were available to you when you needed them. If you didn't know where your important papers were kept, you probably now realize the importance of this task. Why not take some time now to organize your important records and set some goals for the future?

Planning Is the Key

Once you begin mastering the basics of financial management, you will feel better about yourself because you will be in control. You will see the value in planning. The more you can plan for, the better your financial situation is likely to be and the more goals you are likely to reach. More information on managing your finances is available from your county Cooperative Extension Service.

The information in this fact sheet is adapted with permission from *Be In Control of Your Finances* by Sheila F. Krein, former lecturer of family economics extension, Cooperative Extension Service, University of Illinois at Urbana-Champaign.

Printed by University of Arkansas Cooperative Extension Service Printing Services.

LAURA CONNERLY is an instructor - family resource management with the University of Arkansas Division of Agriculture, Little Rock.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Director, Cooperative Extension Service, University of Arkansas. The Arkansas Cooperative Extension Service offers its programs to all eligible persons regardless of race, color, national origin, religion, gender, age, disability, marital or veteran status, or any other legally protected status, and is an Affirmative Action/Equal Opportunity Employer.