Wealth and the Single Parent

Six tips on making smart financial decisions while raising kids on your own

Raising children as a single parent can be challenging. With all the responsibility but potentially half the income and support of dual-parent families, the burden can fall solely on you to build the future you want for your child and yourself – with little room for error. Here are six tips to help you determine your top priorities and make the best financial choices for you and your family.

1. CREATE AN ESTATE PLAN

With dual-parent families, if one parent dies or becomes incapacitated, care for the child automatically falls to the other parent – an option single parents may not have nor want. That's why one of your most important responsibilities is establishing the legal transfer of care for your child if something were to happen to you. In addition to drawing powers of attorney and identifying how your wealth is to be distributed, an estate plan offers benefits that single parents might find especially beneficial:

- Through a trust, you can establish parameters of care and how your wealth is to be transferred to your child, including what the resources can be used for. You can also require the trustee to ensure the surviving parent pays their fair share of the child's expenses and that no expenditures are to be made to that parent's benefit.
- If your child's other parent is not able to provide care (due to, for example, incarceration, institutionalization or death), the court will likely take under advisement your instructions as to the guardian of the child, though it won't necessarily be bound by them. ▶

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• If your child's other parent can care for the child, the court will still consider your instructions, but typically full custody will be awarded to the other parent without limitations.

"Let's say you're a single or divorced parent with a young child and you haven't yet created a will. If something were to happen to you, your state would determine who manages the resources for your child – and their first choice is usually the surviving parent. An estate plan can help you avoid that issue." – Will Hobson, Baird Senior Estate Planner

2. PURCHASE INSURANCE

Many single-parent families rely on only one income – and anything impinging on the parent's ability to make money could quickly become a catastrophe. Insurance can ensure you have funds to draw on should an emergency disrupt your career.

• *Health and medical insurance.* Medical expenses can be crippling, especially if you have to pay out-of-pocket. With roughly two-thirds of bankruptcies stemming from medical issues, a healthcare plan is a must – especially for single parents who lost their medical insurance after a divorce or the death of a spouse.

• *Life insurance.* Life insurance, especially as part of an estate plan, can ensure your child is cared for financially should something happen to you. If you are divorced, don't rely on the other parent's life insurance policy, as you wouldn't know if they continue to maintain their coverage.

• *Disability insurance.* If you are the sole provider for your family, your ability to earn an income is your most important asset. Disability insurance can provide income in the event you become disabled or too sick to work. Consider purchasing own-occupation or regular-occupation disability insurance, which allows you to claim disability insurance benefits even if you can earn an income doing something else.

• *Long term care insurance.* Long term care covers the expenses of care for those who cannot tend to themselves. While most people associate long term care with the elderly, since 2000, adults ages 31 to 64 have been the fastest-growing population in nursing homes, according to the U.S. Centers for Medicare and Medicaid Services.

"For single parents, one of the most important benefits to insurance is security. An adequately funded insurance plan can eliminate much of the stress that comes with raising a child on your own, making it one of your most important financial priorities." – Erica Kroll, CLU®, Senior Insurance Specialist

3. ORGANIZE YOUR FINANCES

Many single-parent families rely on only one income, which often means there's little room for error or frivolous expenses. Having a firm grasp on your budget can help you prioritize your spending and stay out of debt.

• *Keep track of your monthly spending and income.* It's difficult to prioritize your spending without knowing how much money you're bringing in and what your essential expenses (food, housing, etc.) are. Understanding your budget is the first step to living within your means.

• *Set appropriate expectations for your child.* Spending thoughtfully and weighing the pros and cons of your purchases is a good way to model good financial behavior.

• *Actively pursue your goals.* Don't let your role as a single parent define who you are. What pursuits make you happy? What can you do to increase your earning potential? See if you can include your own personal development within your budget.

"Budgeting ensures that you will always have enough money for the things you need and the things that are important to you. Keeping a record of what you spend your money on keeps your finances on track and helps you meet the financial goals you have set." – Brian Ellenbecker, CFP®, CPWA®, CIMA®, Senior Financial Planner

4. PLAN FOR EMERGENCIES

A key component to organizing your finances is planning for emergencies, which is especially important when there is no partner income. Planning ahead can give you more options and often save you money.

• *Understand that bad things will happen, often unexpectedly.* While the exact timing might be unknown, you should expect the unexpected – your roof will need to be replaced, your car will break down, your child will need to go to urgent care for a broken arm. Think about how you can address these things proactively, such as through regular maintenance or insurance, instead of reactively.

• *Create a safety net.* The idea of putting money aside in an emergency fund might seem daunting if your family is living off of one income, but it could be essential to avoiding the

trap of credit card debt.

• *Anticipate your child's present and future needs.* Be sure to account for regular child expenses, like school lunch and transportation, school supplies and activity fees.

"In terms of how much you should have in your emergency fund, a good goal to save up for is three to six months' worth of your salary. The account should also be easily accessible, which in most cases means it should be held in cash and not invested." – Brian Ellenbecker, CFP®, CPWA®, CIMA®, Senior Financial Planner

5. SAVE FOR RETIREMENT

Retirement might seem a long time away, especially when you have more pressing financial needs in front of you. Yet the sooner you start saving, the more options you'll have when you're older.

• *Contribute what you can, even if it's not much.* Not only does it get you in the habit of saving, but you take advantage of compounding. Let's say you were able to invest $100 per month in the stock market. With an 8% annual return over 30 years, your $100 monthly contribution could turn into more than $150,000. The longer you put it off, the harder it is to accumulate savings.

• *Take advantage of employer contributions.* Many employers offer a retirement savings plan as part of their benefits package. By participating in an employer plan, you can have your contributions withdrawn automatically. Be sure to also take advantage of any employer match program, which is free money for retirement.

• *No savings are too small.* It's not uncommon for single parents to have to start and stop working to care for children or other family members. While entering and exiting the workforce can limit how much you earn in your employer's retirement plan, don't spend those savings simply because you feel it's too little to matter. Not only could that nest egg grow tax-deferred, but by not rolling it over, you're going to incur taxes and penalties.

"While it can sometimes be difficult to save for retirement when you have other goals that come up first, it's critical you don't ignore this important savings goal. Start saving as soon as possible, even if it's a relatively small amount – that can allow for significant compounding over a long period of time and you could see your account grow to a sizable value." – Brian Ellenbecker, CFP®, CPWA®, CIMA®, Senior Financial Planner

6. SAVE FOR COLLEGE

While a college degree does not guarantee a satisfying career, if your child's dream job requires a college education, you'll both wish you had the funds available.

• *Consider a 529 savings plan.* All investments in the plan grow tax-free, and the money you withdraw from the account is also tax-free, assuming it's spent on qualified higher education expenses.

• *Ask loved ones to contribute.* 529 plans make it easy for friends and family to contribute, and many relatives would rather contribute to a brighter future for your child than spend money on a toy or gift card.

• *Balance your priorities.* Although saving for college is important, it shouldn't come at the expense of retirement if money is tight. Students have options (such as grants, aid and loans plus their own savings) that are not available to would-be retirees.

"Single parents typically aren't saving only for college – they're also putting money away for other financial priorities, like retirement. While a 529 plan that friends and family can contribute to might be a good option, the best place to start is with a Financial Advisor who can serve as a sounding board and help you map out a plan." –Susie Bauer, Baird 529/UIT Manager

Regardless of whether you're in a single- or dual-parent family – or if you have kids at all – the smartest plan for getting ahead will always be to take stock of where you are and where you want to be, and creating a realistic, workable plan to get there. Getting in touch with a Baird Financial Advisor is a great place to start.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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