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Parenting on Your Own : Be In Control of Your Finances

Cooperative Extension, South Dakota State University

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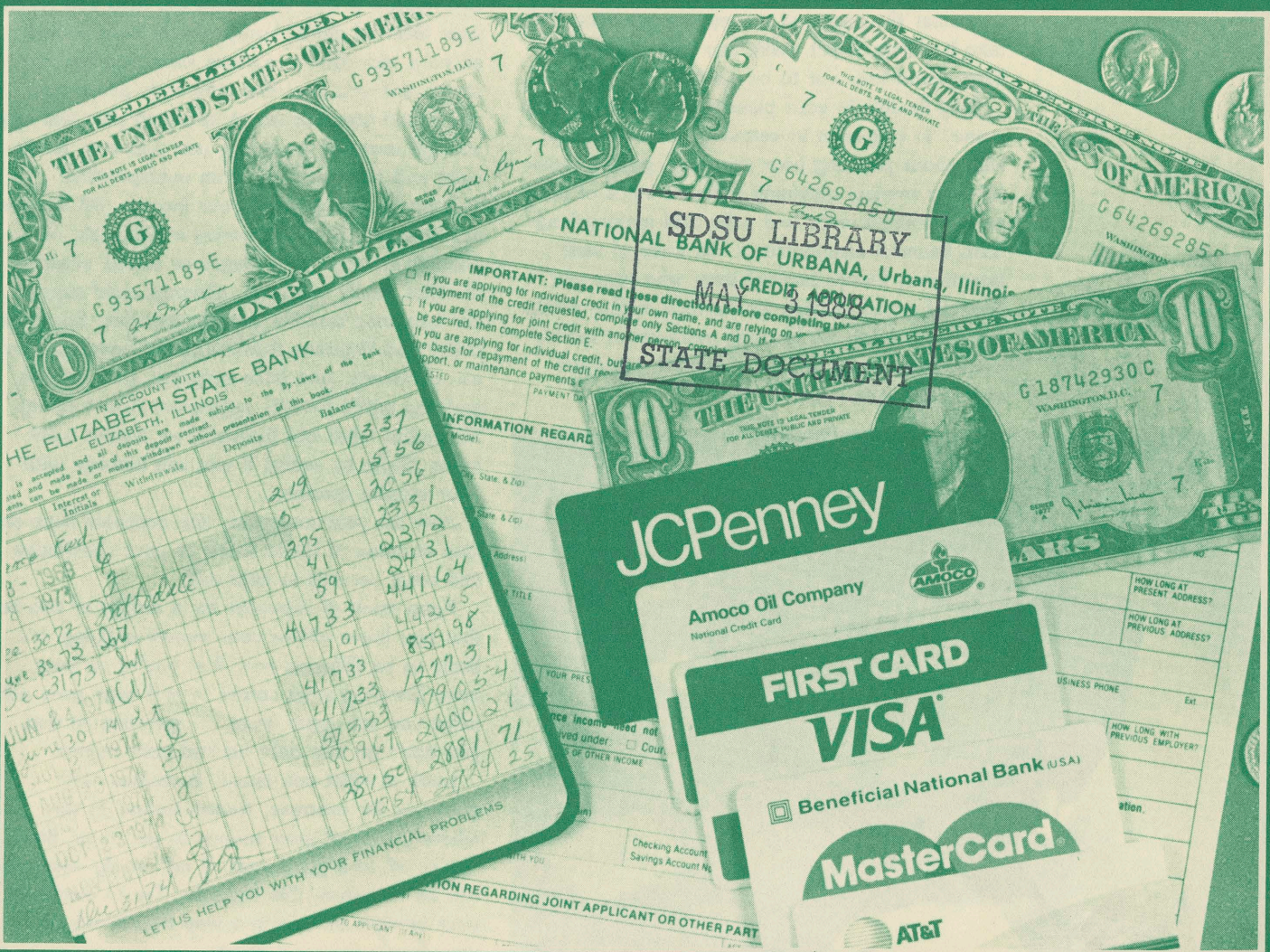
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ON PARENTING YOUR OWN



BE IN CONTROL OF YOUR FINANCES

Cooperative Extension Service
South Dakota State University
U.S. Department of Agriculture

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

As a single parent, it's very 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 following their advice. 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. You probably have experienced a reduction in income since you became single, and 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 help out.

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, 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.

All of your expenses won't be due each week or once a month; you will need to plan for periodic expenses such as auto insurance and 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 on the next page 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





"I went for financial counseling. I don't know that the counseling or advice was so good, but it was important for me to make the decision to get advice. Just the fact that I went and had to write all of this stuff down helped."

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. Write down each expense, the estimated cost, and when the money will be needed. This method will help you plan for the more frequent shorter-term expenses.

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	_____
Child care	_____
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, home owners' or renters')	\$ _____
Taxes	_____
Auto registration	_____
Major repairs and maintenance (auto and home)	_____
Miscellaneous	_____
Total	\$ _____
Total of monthly and periodic expenses	\$ _____



“The thing that upsets me about finances is that I feel so helpless. This month the day the support check was to come was the day they were to come to turn off the water, and the health insurance on the kids and me was due. A friend gave me \$125.00. That was the difference between being able to deal with the situation or not.”

Begin a Savings Plan

Financial emergencies sometimes happen, so it's 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 passbook savings account or an interest-paying checking account. If having your emergency money in a checking account tempts you to spend it, then by all means keep it in a separate account.

When you have \$500 or more in your emer-

gency 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.

Stretching 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 make 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 a 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.
- Use self-service pumps at the gas station whenever possible.
- 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 at your local school.
- 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.
- Reupholster and refinish furniture. Remember community resources for this and simple home repairs.
- Rent 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 and clean shoes

- from water and salt stains.
- Swap outgrown children's clothing, maternity clothes, baby accessories, and sports equipment with neighbors.
- Make use of stores or centers that recycle clothes at reasonable cost — for example churches, Junior League, St. Vincent de Paul.
- Take dry cleaning to a coin-operated dry cleaner.
- Learn to sew at home. Modify 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. Take advantage of entertainment provided by the community.
- Check on free or low-cost health, dental, or counseling services.
- Phone or write to the Co-operative Extension Service for information and programs on energy use, food preservation, gardening, nutrition, money management, health care, child development, and family relations. Find out how to select, use, and maintain clothing, home furnishings, and appliances.



"When I see that I'm getting very low on money I get really strict with myself. I cut out all of the luxuries. I just stick to paying the bills, buying groceries, and buying gas for the car."

Investigate Protection Needs

Some emergencies are large. Insurance can provide you with protection when these emergencies arise. Generally, the cheapest way to obtain life, health, and disability insurance is through an employee-group plan. Often this fringe benefit is free or available at a reduced cost for you and your dependents. If you need more protection than the policy provides, you usually can buy additional coverage. This coverage is generally cheaper than buying supplemental insurance through an individual or private policy. If you do not work, compare the benefits and costs of insurance protection among several companies. Check to see what kind of coverage is offered by an organization you belong to, such as a teachers' association. It may or may not be your best choice.

Life Insurance. You may need life insurance to protect your children in the event of the loss of your income. What sources of income would your children have if you were to die when they are still young? Would they continue to receive insurance benefits or child support? Would they be entitled to Social Security, Veterans Administration, or pension benefits? What about income from investments?

There are actually 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 due 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 thirty-five 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 not usually 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.





"I've learned a whole lot about the importance of learning how to handle money. I was very ill-prepared to take it all over. I've realized how uninterested and uninformed I was."

Health and Disability Insurance. Both health and disability insurance are important. Health insurance not provided by an employer is very expensive. Again, check with several companies to compare policies. Your former spouse may be able to add the children to his or her plan as part of the separation agreement or may pay the premiums to cover the children as dependents on your policy.

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

medical coverage you are entitled to.

Disability insurance pays part of your lost earnings while you're disabled. Group disability insurance is less common than other types of employer-provided insurance, and some policies begin only after you've been on the job a couple of years. These payments partly compensate for lost earnings, with the difference being 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 twelve months or could result in death. Payments are made to the disabled employee and her or his dependents.

Social Security and Other Benefits. As a widow, you may be eligible for Social Security benefits if you meet certain conditions. You may qualify if your spouse contributed to Social Security. You must be taking care of your unmarried children under age eighteen or your disabled child of any age. Upon the death of your spouse, your unmarried children are entitled to Social Security benefits until age eighteen. Benefits are due a disabled child of any age. You do not qualify for survivor's benefits until at least age sixty if your children are over eighteen.

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 sixty-two 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 often are not entitled to their spouse's pension benefits if the spouse was not retired before his or her death. A divorced spouse of an employee very seldom receives pension benefits. Check with your spouse's employer. Check into Veterans Administration and fraternal organization benefits too.





Obtain Tax Benefits

You probably qualify for head of household status when filing your income taxes. This status entitles you to lower tax rates than those for single persons or married couples filing separately. To qualify you must pay more than half the costs of maintaining a home for yourself and your children. Whether or not you can claim your children as exemptions depends on the separation agreement, if applicable, and who pays what toward support.

If you have a child living with you and your earned income is under \$11,000, you may qualify for the Earned Income Credit. Earned income includes wages, salaries, tips, earnings from self-employment, and money, goods, or services you receive 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 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 \$550. (The figures given here were for the 1985 tax return.)

Be sure to take advantage of the child-care tax credit so that you can work. A certain percentage of your expenses can be deducted from income tax. The percentage is based on your income. Phone or write to the Internal Revenue Service for a brochure describing the child-care credit.

Alimony received 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). Whom 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 keep down the cost of writing a will, be prepared to furnish important papers, name the guardian for your child (or children), and name those people you want to receive your possessions.

Important Financial Tasks for Now and Later

Check the ones you are interested in doing.

- _____ Investigating ways to reduce the costs 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.



“Managing finances has gotten easier. . . except when things get out of hand. . . like the car completely breaks down. As time goes by it gets a little easier.”

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 there were so many personal and financial records you needed. 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 your 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.

For Further Reading

Pamphlets

Bock, C. A. *Property Transfers at Death*. Illinois Cooperative Extension Service, CHEP 590DH, 1980.

Hafstrom, J. L., Dunsing, M. M., and Krein, S. F. *Money Talk for Parents*. Illinois Cooperative Extension Service, Circular 1232, 1984.

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Hafstrom, J. L., Krein, S. F., and Dunsing, M. M., *Life Insurance and Family Protection*. Illinois Cooperative Extension Service, Circular 1206, 1982.

Books for General Reading

Loeb, M. *Marshall Loeb's 1986 Money Guide*. Boston: Little, Brown and Company, 1985.

Quinn, J. B. *Everybody's Money Book*. New York: Delacorte Press, 1979.

VanCaspel, V. *The Power of Money Dynamics*. Reston, VA: Reston Publishing Company, Inc., 1983.

Valuable Magazines

Changing Times

Consumer Reports

This circular was prepared by Sheila F. Krein, former Lecturer of Family Economics Extension. Acknowledgment is also given to the parents and children who enthusiastically shared their experiences through photographs and personal responses.

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Robert Hughes, Jr., and Jane A. Scherer, University project coordinators, Illinois. For more information on single parenting, contact your county Extension agent/home economics or Extension Home Economics, SDSU, Box 2275A, Brookings, SD 57007.

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