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in this issue:

Becoming a Financially Savvy Single Parent

Raising children without a partner can be challenging—emotionally, physically, and financially. Challenged by the work involved in earning a living and caring for children, single parents can sometimes feel that they may never break the cycle of living paycheck to paycheck. But, even if you have a limited income, you may find that simply managing your money better can alleviate some financial problems and allow you to save for the future. Consider the following steps toward becoming a financially savvy single parent:

Analyze Your Expenses

The first step is to take stock of your situation. What are your fixed costs? How much do you pay for housing, utilities, transportation, and childcare? If these expenses alone consume most of your income, leaving you with little money for groceries or discretionary spending, consider whether some of these costs could be reduced or eliminated entirely.

If your mortgage, property taxes, and utility bills are more than you can reasonably handle, selling the house and moving to a smaller place may be your best option. It may be difficult for you and your children to leave the family home, but the prospect of having more money to spend on other things may make it worth it. Similarly, it may make sense to trade in that late-model sport utility vehicle for a more fuel-efficient or used vehicle.

If you need childcare while you are at work, there may be ways to reduce your costs. Daycare centers are often more expensive than programs offered by local religious institutions or YMCAs. If your children only require after-school care, a stay-at-home parent may be willing to help out in exchange for your babysitting services at other times. You may also want to speak to your employer about working a flexible schedule or doing some of your work at home. If you do pay for childcare, be sure to claim all available tax deductions and credits.

Control Spending, Start Saving

Next, assess areas where you can cut back on other forms of spending. By keeping a diary of all expenditures over the course of a month, you can identify some fat that could be trimmed from your budget. Simply replacing takeout with fresh, but easy-to-prepare meals can save a bundle.

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Required Minimum Distributions for Traditional IRAs

Saving as much as you can for retirement, as soon as you can, and as often as you can, is crucial to your financial well-being when you finally exit the workforce. Suppose you have spent a lifetime contributing to a traditional **Individual Retirement Account (IRA)**, and hope to leave your nest egg untouched for your heirs. The Internal Revenue Service (IRS) has certain requirements to follow concerning your IRA distributions once you reach a certain age.

At age 70½, or by April 1st of the year following the year you reach this age, the IRS mandates that you either empty the account in one lump-sum payment, or take required minimum distributions (RMDs). If you choose to take RMDs, ongoing distributions must be taken at the end of each following year. If your birthday is December 3, 2013 and you turn 70½ on June 3, 2014 you can wait until April 1st of the following year—2015—to take your first distribution. But, doing so can have tax consequences. In December 2015, you will be required to take your next distribution, which will raise your taxable income for the year, potentially boosting you into a higher tax bracket or even causing your Social Security benefits to be taxable.

The minimum withdrawal amount is calculated by dividing the amount of your account balance by the appropriate life expectancy factor, which depends on your age. The IRS Uniform Lifetime Table above illustrates the amounts for the majority of taxpayers, including individuals who are single, married with spouses 10 years younger or less, and married with spouses who are not the sole beneficiaries of the account and are more than 10 years older than the account owner:

Uniform Lifetime Table

Age	Years
70	27.4
75	22.9
80	18.7
85	14.8
90	11.4
95	8.6
100	6.3
105	4.5

For example, let's suppose that if you are age 70 and your account is worth $500,000, then your RMD amount would be $18,248 ($500,000 / 27.4). Married individuals whose spouses are more than 10 years younger and are named as the sole beneficiaries of their accounts can use a joint life expectancy table to calculate their RMDs. Remember that a required minimum distribution is just a minimum. You can always take out more than the required minimum. However, if you fail to withdraw at least the minimum amount, the IRS may impose a 50% penalty each year on the dollar amount that you neglected to withdraw. Based on the example, if you failed to take your RMD, the IRS could claim the amount of $9,124.

Distributions from your traditional IRA can be taken without penalty after you reach age 59½, but before you reach this age, a 10% tax penalty may be incurred on early withdrawals. There are some exceptions. Withdrawals taken for the purchase of a first home, or for medical or higher education expenses may not be subject to the penalty. In addition, distributions taken in a series of substantially equal payments over your life or life expectancy may not incur a penalty.

You will work a lifetime to accrue enough savings to attain a desirable lifestyle in retirement. Be sure to consult your qualified financial and tax professionals before RMDs are due in order to determine appropriate choices that are consistent with your overall objectives.

Inflation and Your Insurance

When Don and Megan purchased their **life insurance** policies 20 years ago, they had assessed their insurance needs at the time, accounting for their home mortgage, projected college education costs of their children, and their living expenses.

Recently, as they contemplated their retirement, the couple reevaluated their insurance needs. They were surprised to discover that their insurance coverage was inadequate. How could this be? The answer, in a word, is *inflation*.

Because inflation affects purchasing power, it may also affect life insurance needs. For Megan and Don, inflation means that life insurance coverage that was adequate years ago may now be insufficient. With this in mind, consider three of the more common uses for life insurance proceeds that may be affected by inflation:

Paying off your mortgage. The housing market experiences upturns and downturns, but in general, home values tend to rise over time. In addition, greater employment opportunities, dual-income households, and changing family dynamics have prompted many families to move or upgrade their homes. If you have recently moved, purchased a larger home, or remodeled your home, you may want to consider increasing your life insurance to help cover larger mortgage obligations in the event of an untimely death.

Funding future college expenses. If you are planning on sending your children to college, you may be concerned about the rising costs of higher education. Compared to the previous year, the average annual cost of tuition, fees, room, and board for the 2012–2013 academic year increased nearly 4% for in-state public colleges and 4.2% for private universities (The College Board, 2012). To be prepared for further increases, be sure to factor inflation into your college savings strategies. In addition, have a contingency plan in the form of adequate life insurance to help provide protection in case of emergencies. Review your plan periodically, and consider increasing your coverage to reflect the anticipated *future* cost of higher education.

Maintaining your family's standard of living. Everyday costs associated with maintaining your family's lifestyle, such as groceries, clothing, gas, family vacations, and medical expenses, are affected over time by inflation. If your life insurance needs calculations are based on your current income and today's cost of goods and services, your family may not have enough to cover the future costs of these expenses in the event of your death. For a comprehensive insurance strategy, include an assessment of both your current and *future* needs, as well as overall objectives, to help your family maintain their standard of living.

Future Projections

Determining current life insurance needs is important, but projecting how much coverage you may need in the *future* requires you to understand inflation and how it can affect your family's lifestyle. Plan to set aside time for an annual review of your coverage with a qualified professional to help ensure that your life insurance policy is keeping up with inflation.

Potential Benefits of Lifetime Gifts

Many estate plans include a program of making **lifetime gifts**. So, is it sometimes better to distribute assets this way, rather than bequeath them in a **will** or **trust**? Lifetime gifts have the potential to offer important rewards and benefits. Here are some you may want to consider:

May reduce probate costs and taxes. Lifetime gifts, especially of income-producing assets, can potentially reduce the size of your estate. A smaller estate may mean decreased probate costs and may also reduce or eliminate income and estate taxes.

Avoids uncertainty. Lifetime gifts can be assets that will go to those you intend, for instance, your children or grandchildren, and not a former spouse or creditors. On the other hand, a will could be challenged or creditors' claims could take precedence over your wishes.

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potential benefits of lifetime gifts

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Protects privacy. Lifetime gifts are private. Only you, the recipients, and possibly the tax authorities, need to know the details. By contrast, what goes through probate is a matter of public record.

Gives pleasure. Making gifts during your lifetime allows you to experience the pleasure of seeing your loved ones enjoy them. It may also give your heirs the benefit of the assets when needed most.

A program of lifetime gifts may make good sense as part of your estate plan. The potential rewards and benefits may extend to you and your estate, as well as your heirs. Be sure to consult your qualified estate planning team to find out more about lifetime gifts for your unique circumstances.

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With your spending under control, you can start planning for the future. After establishing a fund for emergencies, think about your retirement and education goals. If your workplace offers a 401(k) plan, try to contribute at least enough to take advantage of your employer match. You may also want to consider putting money into an IRA. If paying for your children's college education—or your own—is a priority, there are several tax-advantaged accounts that can help you save efficiently.

Insurance Protection

While finances may continue to be tight, it is important not to overlook the need for adequate health, life, and disability insurance. How would your children cope if you were no longer able to support them? To start, all families need health insurance. If you do not receive benefits through your employer, look into a high-deductible catastrophic policy that covers the costs of serious illness or hospitalization. Depending on your income, your children may be eligible for public health insurance programs. Note that in 2014, the Affordable Care Act (ACA) will offer insurance exchanges to provide health insurance to family members and individuals who lack coverage.

Consider also the protection offered by life and disability income insurance. Life insurance can offer funds that can be used to maintain your family's standard of living in the event of your death, and disability income insurance can replace a portion of your income if you sustain a sickness or injury that prevents you from working.

Despite your efforts to cut costs and adhere to a budget, you may still find yourself burdened with credit card debt. If possible, move the debt from higher-interest to lower-interest credit cards. Then, develop a strategy to pay down debt gradually and within your budget. In the meantime, avoid the temptation to take on new debt.

Sticking to a budget can sometimes feel like an exercise in deprivation, but it doesn't have to be if you set aside money for a few treats, like a weekly family pizza night. Even if you can only contribute small amounts, create a "fun fund" to be used for a vacation or a trip to an amusement park. Providing for a family on your own is a challenge, but it is one that can be met with careful planning.