Parenting on One Income (II)
Single handed

Back to:
Parenting on One Income
Home Page

Announcer: Today on Right on the Money!: surviving as a single parent. Louise is struggling to make ends meet.

Right on the Money! guest Louise: A single income cannot cover raising even just one child.
Announcer: This Washington Post columnist warns that it's time to tighten the belt ...

And UC-Berkeley's Richard Black has some good news about saving for college.

Right on the Money! expert Richard Black: Financial aid is going to work for this family.
Announcer: Then, we'll meet a family with tips for cutting your energy bill.

Plus, find out how a teen-age stock trader got nailed for stock fraud.

Chris: All that and more coming up on Right on the Money!, the show you can't afford to miss.
Announcer: Right on the Money! -- the show that answers your personal finance questions -- with business journalist and commentator Chris Farrell. Funding for Right on the Money! is provided by ING.

Meet the Family

Chris: Louise Sowers may be a single mother, but when it comes to spending quality time with her children, she seems to have the energy of two parents combined.

While Louise could rival many two-parent families in the enthusiasm department, she's having a hard time keeping up financially.

Louise Sowers: A single income cannot cover raising even just one child.
Chris: And Louise's single income doesn't just need to provide for one child, but three.

In addition to helping put her 21-year-old daughter through college, Louise has recently taken in her 8-year-old nephew and 11-year-old niece. And with the new kids have come new costs.

Louise: I have more bills, more people to take care of on the same salary or a little bit more salary than I did when I just had my daughter. It's very hard to kind of budget it all and also eat. You know, and make sure the children have enough food there and buying clothing, you know, for them.
Chris: While her financial situation has become more complex, Louise admits that her bill-paying technique has practically been reduced to a game of 'eenie meenie meinie moe.'

Louise: I have to decide which bill might not get paid. I have to make sure that my rent's paid so that I have somewhere to live. I have to make sure that my car payment's done so I can get back and forth to work. Once those are done then I work my way down.
The things that keep me going and not throwing my hands up in the air and saying, "I don't want to do this," is that I'm the oldest of eight. I've helped my mom raise my sisters and brothers and the children are my sister's and brother's, so they belong to me regardless of whether they're my biological children or not.

Sometimes I might feel like it's a burden, but I love them dearly. So it keeps me going.

Chris: Her priorities are clear, but Louise still isn't sure how to accomplish everything she has in mind.

Louise: I would like to know how to be able to budget my bills and all my payments, be able to pay off my credit cards and kind of get myself out of debt. But also I would like to know about CD's and investments so that I would have something to help my kids through college.
Chris: For many parents, the pressure to make children happy can be overwhelming. Wouldn't you like to surprise your kids with all the toys on their wish list? Send them to the college of their dreams? Get rid of credit-card debt and end the monthly bill paying triage? Lots of parents share these concerns and desires. But worries over money take on an added significance in the single parent households.

Money is tight. Louise is her family's sole breadwinner, and she's struggling financially since her income isn't covering her expenses. Yet she wants more for her kids, and is fearful that they'll be handicapped later on unless she scrapes together some money for college now.

I'll seek advice of a couple of people -- the first grew up in a household not unlike Louise's and learned some valuable money lessons. The other has suggestions on how Louise can invest in her children's education.

Michelle Singletary
Financial Columnist
This interview in its entirety is also available

Chris: To find out how Louise can make ends meet on a single income, I turn to Washington Post personal finance columnist, Michelle Singletary.

Michelle Singletary: For people like Louise who've found themselves in debt, have a limited income, you know, they care so much about their children, they want to give them the best things in life. You can get to a point where it seems quite overwhelming and you end up not gaining ground because you don't do anything. And so the important thing for her to realize is that you can climb out of this.
Chris: Louise wants advice on how to invest money for the future, but Michelle says it's far more important that Louise focus on her present day finances.

Michelle: It's so easy when you get stuck to put some bills on the side and say I'll get to it next month or I'll get to it in the middle of the month. But that's just exacerbating the situation. She has got to find a way to pay those bills on time because as you pay your bills late, that affects your credit rating and then that affects your ability to get more loans and financial aid. The next thing you know you have a really bad credit report.

Chris: So how does Michelle suggest Louise get her credit back on track?

Michelle: Contact the credit card companies and the creditors and let them know what's going on, and try to figure out a payment plan so that she can pay her bills on time.
Chris: In order to pay her bills on time, Louise fears she'll need to get a second job -- something she dreads since it will give her even less time to spend with her children. But Michelle encourages Louise to take another stab at creating a sound budget.

Michelle: A lot of people when they hear the word budget, they sort of go running and some people even advise not to do a budget, that it sort of -- you're setting yourself up for failure. It's like dieting. But I look at it this way. You know, an architect wouldn't go about building a home without a plan and it's the same thing with your financial home. You gotta have a plan, even on a limited budget.

My grandmother made practically no money raising five grandchildren and she did it and she was still able to save. She saved for short-term goals. She saved for her retirement. And she did it by making hard choices. We didn't go out to eat. We didn't have a lot of clothes. But she was able to pay all her bills and pay them on time, making hardly any money. We didn't have cable. We didn't have records. I mean, and sure, was it hard? Absolutely. Were we teased? Absolutely. But in the long term, we were financially secure and that's the most important thing you have to realize.

While Louise can handle living without cable TV, she's having a hard time dealing with the fact that she can't save much for her children's college education.

Chris: But Michelle insists that Louise start putting herself first and her children second.

Michelle: I look at it this way. When you get on a plane and the flight attendant is going through the motions of what you should do and they tell you that the oxygen mask is going to come down, what do they tell parents to do first or if you're traveling with someone? They tell them to put the mask on themselves first and then their children. And as a parent, you sort of cringe at the idea that you would be saving yourself first, but you can't help your children if you don't put on that mask first. If you aren't financially sound yourself, you aren't going to be able to help your children. So she's got to think about herself first, her retirement, paying off those debts and then college savings.

I can understand Louise wanting to do the best for them and buy the best for them. But the best thing that she could do for them is to be financially sound and not so worried about her debt because they'll pick up on that. And if she pays -- if she tries to get things together, she'll find that she'll be a lot happier. And the kids will be happier.

Chris: Coming up: a visit to a college campus for a primer on financial aid. And this family talks about paring down your energy bill. But first I'll make a cyber budget.

Net Gains

Chris: Whoa ... I spent that much on groceries this week? Video rental $15 ... plus a $3 dollar late fee. Put in $18 there. And here's my gas bill for the week.

I wish I could say that budgeting is fun. It isn't. However, I can say that tracking and mapping your finances is liberating. A budget lets you take control of your finances. Plus, it's easier than ever to create a budget with all kinds of worksheets on the Web. The one I've been using here is by Kiplinger.com.

I'd also recommend exploring "Frugalliving," a Web site rich with articles on budgeting and calculators. Scroll down and click on "Money Matters"... then scroll down once more, put your cursor on "budgeting"... and as you can see, there's article after article examining the topic of how to bring a better balance between your income, expenses and savings.

For a Web site with a simple to use budget plan head to genus.org. Go to "personal finance calculators"... then to 'Budget"... and start filling in the numbers.

Louise also wondered about getting her kids ready for college. Two Web sites that I found especially helpful are Collegeboard.org and Adventuresineducation.org. To illustrate what I mean let's go to collegeboard. Let's go to "plan"... and here you can click on "Smart Steps To Take in High School." It tells middle-schoolers how to use their high school years to prepare for college, and starts with this chilling statistic:

About 2/3 of 8th graders plan on going to college. But only 1/3 plan on taking the courses necessary to get them into college. Don't let that happen to your kid.

Michelle Singletary suggested that Louise concentrate on day to day finances -- good advice for getting a family back on a solid financial path.

But what happens if there are no savings set aside when the children want to head off to college?

Richard Black
Financial Aid Director
This interview in its entirety is also available

Chris: To find out, I meet with Richard Black, the director of financial aid at the University of California at Berkeley.

Chris: Louise doesn't make much money. She has two young kids and as they get older she wants to send them to college and she's wondering how should she save or should she save for their college education.
Richard Black: She's not going to have a lot of discretionary income to save. So I would make modest deposits if I could, but if I couldn't I wouldn't worry about it because financial aid is going to work for this family.

If you are low income, your parent contribution will be zero. Louise is not going to be expected to contribute more than she's already contributing to the education of this child through buying clothes and toothpaste and the other things that she's providing right now.

Louise just has to believe that. And trust me, I've been in this business now for over 35 years and the money has been there.

Chris: More than $600 billion in financial aid goes to college students every year. Aid packages include various sources of assistance:

First, there are grants. These are based on financial need and don't need to be repaid.

Next are scholarships. These can be awarded based on anything from financial need to academic excellence to athletic ability. Like grants, scholarships don't need to be repaid.

Third are loans. These can come from the government, banks or colleges and must be repaid once the student graduates or leaves school.

The last type of financial aid is work-study. The college provides students with work and the money the student earns goes directly to the tuition bill.

The way Richard sees it, parents like Louise can afford to worry less about helping their children financially and concentrate more on aiding them academically.

Richard: That investment is so important and it has to be managed every bit as carefully as a financial investment would be. The parent should really find out what the colleges in her area require. Colleges will expect you to have taken four years of English. They will expect at least two years of a laboratory science and perhaps more. Increasingly colleges want four years of mathematics, and the mathematics they want is algebra through calculus. So find out what they want, even as far back as 8th grade.
Chris: If you follow Richard's advice, sending a child to college sounds like a snap.

But what about those dreaded college loans?

Chris: For any parent, including Louise, there is a concern about their youngster taking on too much debt.

Richard: And I think many students feel the same thing. How am I going to pay this off? Well, a rule of thumb is $13 per thousand borrowed or $130 a month for every 10,000 that you borrow. So if you borrow $10,000 to go to school, you're going to pay $130 a month when you get out. Now, think about that. Your college degree is going to be worth a lot more than $130 a month. It's going to be worth a lot more right out of school, and it's certainly going to be worth a lot more as you go on in your career. And you have those advancement opportunities that someone without a college education probably doesn't have. So it's a very good investment.

Chris: What have you found is the biggest hurdle for low income families when it comes to sending their youngster, their son or their daughter.

Richard: You know, a low-income family struggles, and I want to use that word, a low-income family struggles to meet daily obligations -- just to keep the car running, pay the rent and get the food on the table. And so how, they say, are we going to be able to pay thousands of dollars a year for somebody from our family to go to college? We don't have thousands of dollars on this. Well, with today's financial aid programs they don't need thousands of dollars. What they need is to encourage that student to learn and to develop to the full extent of their abilities, and the financial aid program will carry that student through the college experience. That's the biggest hurdle -- just imagining that it can be done.

To Sum It Up

Chris: Still concerned about sending your children to college? Consider how the type of school you and your child choose can affect the bill.

For example, the average annual cost of a fou-year private school is about $25,000, while a four-year public school is just over $11,000 a year. A two-year private college costs less than $16,000 annually, but a two-year public college is only about $9,000 a year.

Another thing to consider: Students attending out-of-state public schools will pay more -- in fact, they can tack on about $5,200 a year.

Many American parents -- like Louise-struggle to make ends meet on a skinny paycheck. And there are so many demands on that income, from food and shelter to haircuts and health -- not to mention the toys, shoes and designer clothes that seem so tempting.

Now, it's easy to say, and hard to do. But the path to financial security -- no matter what your income -- begins with the basics, especially creating and monitoring a budget. Michelle Singletary got it right: Sure, we all want more for our kids, but what really matters is providing a stable financial environment for them.

And you need to start with a plan. There are plenty of good budget templates available at your local library, bookstore and, as we saw, on the Internet.

As for college, well, keep the dream alive. But let the financial aid system work for you when the time comes. Concentrate on what you can control instead of trying to salt away money you don't have. Richard Black gave sound advice when he suggested making sure your kids are academically and emotionally prepared for college.

The payoff will be far greater than any dollars and cents measure.

Announcer: Coming up: more tips for parents in our e-mail bag, and energy saving tips for anyone who pays a utility bill. But first, Kiplinger Magazine's Dr. Tightwad gives us her two cents on ethics and trading for the newest online traders.

Janet Bodnar ("Dr. Tightwad")
Financial columnist

Janet Bodnar: A New Jersey teenager was nailed for stock fraud by the SEC. Now, that's bad enough, but what's worse, his parents seem proud of his scheme to make money by buying cheap shares in small companies, hyping the stock in misleading e-mails and then selling at a profit.
When I was interviewed about this case by a TV newscaster, I was asked how we could possibly keep other kids from trying the same thing. After all, the object of the stock market is to make money, so why not do it any way you can? Because hyping stocks is just as wrong as hiring someone to take your SAT exam. Investing should be held to the same standards of honesty and integrity as anything else.

The ease of online trading makes it tempting for kids, and adults, to become day-traders. But it's also important for kids to learn the value of long-term investing.

If you don't want to turn your kids under 18 loose on the Internet, open a custodial account with a traditional discount broker, so kids at least have to filter buy and sell orders through

another person. If you do want to set up an online account for a child, consider a stock purchase plan such as Buyandhold.com or Netstockdirect. Kids can invest small amounts and buy fractional shares. But trades aren't executed immediately so the system is geared for long-term investing, not quick turnover.

Question of the Week

Chris: Now it's time for our question of the week. What do the South Sea, the Mississippi, and tulips have in common? Find out later in the show. But first, a lesson in shaving energy costs.

Efficient Homes

Chris: This Midwestern house looks like any other -- but take a closer look and you'll see that it's a triumph of energy efficiency. David Boyce and Lee Olson have made it their mission to save energy, starting with the simple things.

Lee Olson: Turn lights off when you leave the room. Make sure appliances aren't on.
David Boyce: Find the best price on, like, compact fluorescent bulbs and replace as many of the incandescent bulbs that you have. Huge savings.

Lee: Turn your heat down at night. Open your blinds so that you're getting the sun in the south windows and make sure they're all closed at night.

Chris: But beyond the more obvious measures, conservation calls for creativity. Take these homemade window insulators.

Lee: You can hear it's got the internal -- I think it's Mylar -- and then this is the backing and you can just put any fabric you want on the front of it. And it changes your R value from a regular pane glass of 1 to about 8.
David: This is the power strip for the TV and VCR. We have both of those plugged in here so that when we're done watching, we turn it off and we know the clocks aren't running and they aren't pulling any electricity.

This is our-super efficient refrigerator/freezer. This is the freezer compartment on top. You can see how thick the insulation is all around the unit. Refrigerator down below, it's the same size.

Lee: This fireplace insert has really helped with our heat. We keep the furnace at 58 and the heat from the fireplace is bringing it up to about 64, 65 in the common areas. And the fan creates electricity from the heat of the fireplace insert and really blows it around the room and even into the other rooms.

David: We installed what's called photovoltaic panels on our roof and they actually convert sunshine into electricity.

This is the heart of the photovoltaic system down here in the basement, and this is the inverter that converts the direct current that the panels produce to alternating current.

It also automatically and instantaneously switches over to using power from the batteries when power goes out on the grid.

Chris: David and Lee are the first to admit that not all of their methods are cheap. Their kitchen appliances cost twice what you'd expect to pay for conventional appliances. But the couple recouped the costs in just a few years. The $20,000 solar panel system will take a bit longer.
Lee: I think the payback comes, and it will come, in 26 years I think we figured that we would have free electricity ...
Chris: Whatever the price, David and Lee say that the ultimate value is more than fiscal.
Lee: I think the real payback comes now and that's just having the feeling that watching TV or listening to the radio is not polluting out there, and teaching our boys that life can be as good as it is without being so damaging to the environment.

Answer to Question of the Week

Chris: So what do the South Sea, the Mississippi, and tulips have in common? Bubbles. No, not the soap and water kind of bubbles, speculative bubbles.

When an area of the market rises so high that prices are no longer rational, that area usually pops, or bursts, like a bubble. The South Sea bubble and the Mississippi bubble occurred in the early 18th century and involved trading rights. The Tulipmania Bubble occurred in the Netherlands in the 1630s. The latest market bubble? You guessed it -- hi tech in the 1990s.

Mail Bag

Chris: I have a couple of letters from people seeking help.
First, Mary from Arnold, Maryland, writes:

I'd like to get some information on reducing credit-card debt and credit counseling services to my son.
I know I can't help him, but maybe I can get some information to him at the right time.
Chris: Well, Mary, it's tough being a parent and watching your adult child in financial trouble. You're doing the right thing. You're not bailing out your son, but you're trying to get him information, to encourage him to restore his financial circumstances. So I would do two things. Contact a credit counseling service in your area. There are about 1,500 offices around the country. You can look them up in the Yellow Pages. Have them send the information to your son. You could also encourage him to go online to Myvesta.org. It's an online debt

counseling service, has a crisis management team, debt management counseling service and lots of good information. And then just keep up the dialogue with your son.
Chris: Next, we hear from Carole in Elmwood Park, N.J.

She writes: "I would like to know the percentages that should be spent on bills, clothes, and groceries for the month."
Chris: Well, Carole, I'm very wary of percentages. It varies so much depending on the size of your family or your individual circumstances. One good percentage is you want to try to save 10 percent of your income. Some people need to save more; perhaps some can do a little less. So let's talk about what are your goals, what are you trying to achieve? Save for retirement? Do you have children? Save for their college education? And then you want to look at where you're spending your money. Are you spending your money where you want to be spending it? So go to this Web site: it's the Consumer Credit Counseling Service of San Francisco and that's Cccssf.org. And they have a basic online budget where you can track everything where you're spending your money. See where it's going and then decide whether you're spending too much on clothes, or, perhaps, not enough.