Plan, prep, and pivot: How parents can go from two incomes to one

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Key takeaways

1. Make a financial plan to see if it's possible to live on one income.
2. Help protect your single-income family from unforeseen events with life insurance.
3. Regularly review and adjust your financial plan for new parents as needed.

On a typical weeknight in our house, you might hear the ruckus of my three young boys wrestling, my husband's laughter catching up with one of my stepdaughters, and the soothing voice of my son's therapist prompting him to advocate for himself with his brothers.

We're a pretty loud and happy lot. But behind the scenes, there have been many conversations and thoughtful plans to keep us this way.

Photo courtesy of Natalie Fidlow

The smiles on the Fidlows' faces belie the peaks and valleys Natalie (holding Jimmy) and Ben faced in downsizing their income.

Financial planning for new (and not-so-new) parents

I'll be honest. In our first year of marriage, my husband, Ben, an insurance consultant, and I had no financial plan. We kept our bank accounts separate and split our bills. It wasn't until we expected our first child that we even created a budget.

To do so, we listed our monthly incomes and subtracted all of our current expenses. We then projected the child care, healthcare, and other new baby expenses that we would soon have. This part was relatively easy to determine because Ben already had daughters, who were 13 and nine years old at that time. (Of course, while he'd been there and done that baby-wise, including a teen and a tween in the equation only added to our expected costs.)

To cover our expenses (relatively) easily, we opened a joint checking account that we funded from our separate accounts. (Some couples combine their finances, while others keep them completely separate. There's no right or wrong way. This setup worked for us.)

Once we had our budget, I was confident we were financially ready to add children to our family. I only wish we had done this sooner; we'd been wasting money on things that ultimately didn't matter to us. Once we recognized this, we were able to cut these costs and save. If you're considering bringing kids into your home, create a financial plan!

Moving from two incomes to one

When Jackson, my firstborn son, arrived over a decade ago, I chose to stop working and stay at home. Giving up my paycheck reduced our family income by 35%. Before we made that decision, Ben and I had revisited and updated our plan to include financial products we hadn't considered before.

Among our realizations: Life insurance would be essential for protection as we would depend on Ben's sole income. (By leaving my job I would be losing the health and life insurance my employer provided. We already had health insurance through Ben's employer, but Ben's work-provided life insurance policy would not be enough to cover his daughters and (now) Jackson and me.

As far as our expenses, we needed to make sure we could still cover our living costs, contribute to Ben's 401(k) for retirement, and fund the kids' 529 college savings accounts. These are a few things we considered and how we addressed spending needs through budgeting and investing:

The pros and cons of staying home

Besides evaluating our financial situation, Ben and I sat down and listed the benefits and drawbacks of my leaving my job.

Pros

- More time with kids, with only one parent working (and traveling for work)
- No day care, commute, or work attire expenses for me
- Extra time on weekends not spent running the house
- One parent could handle bills, housing, and kids' issues, while the other could focus on work

Cons

- Feelings of imbalance with Ben being the "sole breadwinner" in our relationship
- Walking away from my income
- Risk of losing our only remaining source of income
- Risk of losing our only source of health insurance if Ben ended his job

Could we overcome the cons? We brainstormed.

First, Ben and I agreed we could take on different roles in our family for now—but not forever. We promised to check in with each other occasionally to ensure my staying at home was still working physically, emotionally, and financially, and we were on the same page.

Next, we scoured our budget, looking for ways to lower our expenses to help fill the void from my lost income. To be sure having no child care or, for me, commuting costs helped. But two changes we made really moved the dial for us:

1. I learned to cook, so we didn't eat out or get takeout nearly as often.
2. We moved (back) to the suburbs, greatly lowering our housing costs.

This was a marked change of plans. When we married, Ben moved from a suburban house he owned (with a mortgage) to a rental apartment with me in New York City, where we both worked. Our intention had been to stop renting and sell Ben's house once we found "our" home closer to our jobs. But we realized that if I stayed with the kids:

- We wouldn't have the same pull to live as close to work.
- We could save on rent by giving up our apartment.
- We could save even more by moving into Ben's home and paying down the 15-year mortgage on a home he'd already owned for 11 years.

The savings made it worth it for me to give up the idea of buying "our" home (at least for now).

Helpfully, we were very good with debt—I'd paid off my student loans after three years of working, and we had no credit card balances to weigh us down. (If we had, I'd have made a plan to pay down our highest-interest cards first, so rising rates couldn't hurt us when we were bringing in less income.)

Finally, we had side income. Having been an insurance broker, which involved regular travel, I didn't think I could easily transfer my skills; however, through the years I found—and still take advantage of—consulting and writing opportunities. Now I can work flexibly, when my kids are at school or the younger ones are asleep. It's worth thinking about a side gig that could come from using your skills down the road to help build family income.

Connect with a financial professional

Get complimentary financial guidance that's focused on your goals and how to reach them.

Schedule an appointment

Life insurance for new parents

A major hesitation over moving to a single income was knowing we'd be completely reliant on one partner to pay the bills. It's tough to think about, but if Ben were to pass away, what would his income until I could go back to work. Life insurance, which pays out if the policyholder dies, could prevent financial hardship for our family.

A funny aspect of insurance is that you purchase it with the hope of never having to use it. Still, there's peace of mind knowing it's there if you need it.

We enlisted the help of a financial advisor, who priced different options for us. With the aid of a life insurance calculator, we purchased a 15-year term life policy in Ben's name, with me listed as the beneficiary. Simply put, this meant that if Ben passed away sometime during those 15 years, I would get a lump sum payment from the insurance company. If nothing happened to Ben over this time, the policy would end, and we'd stop paying its monthly premiums.

Fifteen years felt like a good time frame for us to have kids and raise them until they were somewhat independent. At that point, it would be easier for me to return to work if we decided it made sense.

We had two more children in the years that followed, so we added more insurance—a policy for Ben and one for me. Stay-at-home parents also need life insurance; child care is a job, and it would be very expensive for Ben to pay for help with the kids if something did happen to me.

This time, we purchased variable universal life insurance. These policies don't expire as long as the premiums are paid, and they carry two key components: One is insurance that pays a guaranteed death benefit (the face value of the policy) if you pass away. The second part is a variable death benefit, which allows you to invest some of your premiums in mutual funds, where they can grow tax-deferred.

What's more, if the account value grows, you can borrow or withdraw from it for other uses while you're alive. (The flip side: if the investments lose money, the losses are deducted from the policy's death benefit—the amount your beneficiaries will receive if you die. So while these policies have significant pluses, they also carry investment risk.)

The policies were more expensive than term, but the premium payments and death benefits are flexible. For example, over time (especially if the investment portions grow) we can choose to lower the death benefits and reduce our premiums; we can apply some of the investment gains to our premium (this way, in theory, the policy could eventually pay for itself); or we can maintain the policies' premiums and send more to the investment sides, enabling even more potential growth in the future. That last option would give us more account value to borrow or withdraw for our retirement or our kids' college expenses.

Even better, by then we had paid off our mortgage and could afford the higher premiums of these policies.

We felt good, like we had it covered if anything happened to us.

Then we had Jimmy.

Photo courtesy of Natalie Fidlow

Jimmy (right, in sister Dakota's lap) made Natalie and Ben's family whole, but his condition complicated their financial picture.

The unforeseen challenge: Jimmy's autism diagnosis

I knew something was different with my youngest son. At two years old, Jimmy started reciting full scenes from *Mickey Mouse Clubhouse* episodes (I later learned that such "scripting" is common in kids with autism), but he had a hard time with everyday speech. He frequently ignored us and would do whatever he wanted, including once running out our front door and down the middle of the street without warning.

Searching for answers and a little help, I came across a federal law that helps children with qualifying developmental delays and disabilities: The Individuals with Disabilities Education Act (IDEA) mandates that public schools must provide an appropriate education beginning at age three. And for children younger than three, states must offer early support and intervention services to qualifying families at a cost they can afford.

I called New Jersey's Early Intervention program for an evaluation; my son immediately qualified based on a speech delay. Once he turned three, our town's public school enrolled him in their special pre-K program. Soon after, we received Jimmy's autism diagnosis.

As Jimmy's situation became clear, our financial future was less so. Would we need to provide for him financially throughout his life? What would that look like, and how would we afford it?

Testing our financial plan

Ben and I are hopeful that with time and therapy, Jimmy can grow up to be an independent adult. But planning can't wait. We didn't want to risk him not getting his needs met when we're gone. So with an autism diagnosis in hand, it was time to revisit our family financial plan.

I belong to a private Facebook group for parents of children with special needs in my area. In the group, I came across a post about an upcoming free webinar, "Financial Education Workshop for Special Needs Moms and Dads," hosted by my county's department of special services. I attended. The presenting financial advisor had first-hand experience with a dependent adult son.

I learned that if Jimmy remains dependent on us through adulthood, we'll want to set up and fund a "special needs" trust. This legal arrangement holds money for a person with a disability, and so that they may also qualify for Social Security income. Also, the trusts specify "trustees" who manage the dependent child or adult. (In our case, we assigned co-trustee roles to Jimmy's guardian, who will care for him when we pass, and a local not-for-profit agency that specializes in coordinating care for special needs.)

Ben and I followed up with the advisor. He showed us that, if something happened to us, our insurance policies would pay out enough proceeds to fund the trust and have some left over for our other children. We were relieved that we didn't have to save more or buy more insurance.

Further, we didn't have to set up the special needs trust right away. Instead, we hired a law firm to adjust our wills to create the trust and fund it upon our passing. If we later determine that Jimmy doesn't need a trust, we can simply remove the language from our wills.

Bottom line: Jimmy's financial future does not have to be decided now, and our life insurance enables us to help protect him regardless of what unfolds. Today, I'm grateful for the peace of mind. We know that whatever comes next, we're financially prepared to handle it—on one income.

What you can do next

Making the leap from dual incomes to one can be daunting, but with budgeting, planning, and the right life insurance, you can make it work—even when unforeseen events arise. If you need help figuring out which policy is best for you, seek professional guidance to help protect your family's future.

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