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Can You Afford to Have One Spouse Stay at Home?





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For many families, this is an important question. Unfortunately, most dual income couples feel that both of them have to work in order to meet their expenses and maintain their lifestyle. If you evaluate your situation financially--factoring in the cost of working and the amount of taxes that you pay while both of you are working--you may find that you have a choice. One of you may be able to stay at home without seriously affecting your cash flow. This evaluation will at least enable you to make a more informed decision.

When one spouse stays at home, you will not have to incur several work-related expenses, especially if you have young children and are paying for child care. Most people are aware of child-care expenses because they are so obvious, but you need to take into account many other hidden expenses when you consider staying home. In many cases, not only do you save money by not incurring those expenses, but you may be able to save a great deal of money by making some small changes in your lifestyle. Here is what you need to consider:

- Impact of the loss of second income
- Cost of earning the second income
- Hidden benefits
- Long-term cost of not working
- Lifestyle changes

Impact of the loss of second income

Frequently, the real impact of eliminating a second income is not as much as the income itself. In fact, it can be much less. It is easy to think that if you are making \$70,000 a year, your loss would be \$70,000. However, if you calculate the taxes, the extra cost of working, and other expenses, the real impact may be far less, depending upon where and how you live.

Cost of earning the second income

Here is a list of some typical expenses that you need to consider before making that decision. Look at your spending diary and identify how many expenses are related to both of you working. Make a list of how much you can save by not incurring those expenses.

Child care

For most working couples with young children, child care is the expense with the most impact on your decision. Depending upon how young your children are, the kind of child-care arrangement you prefer, and the number of children, the cost of child care will vary. When you calculate child-care expenses, make sure that you add related expenses, such as driving to and from the child-care center or any payroll taxes that you may be paying for your nanny.

Commuting

The reduced commuting expenses also add up, not only in terms of gasoline and oil changes, but also wear and tear on your car and auto insurance.

Lunches out

When you are working outside the home, the seemingly small expense of lunches adds up. When considering whether you or your spouse should stay home, you should take into account the amount spent on office lunches.

Clothing

Depending upon where you both work, you may be spending a sizable portion of your income to buy work clothes. When one of you stops working, you will not be spending this money on clothes.





Dry cleaning

The same holds true for your dry cleaning expenses. Add them up to find out how much you would save if dry cleaning became unnecessary for one of you.

Take-out dinners

With two of you working, you are probably spending a sizable amount of money on take-out dinners. If you are able to have your dinners at home, you reduce the need for expensive take-out meals. You may also save on groceries, since you will have more time to shop carefully, and may find many items on sale.

Housecleaning services

When both of you work, you may be paying to have your house cleaned. Add up those expenses.

Hidden benefits

There may be some hidden savings when you switch from a two-income to a one-income household. For example, you may be able to save on taxes. Often, your joint income puts you into a higher tax bracket and you wind up paying a good portion of one spouse's income on taxes. If you are filing a joint return, calculate the impact of the second income on your taxes.

Long-term cost of not working

Although the picture in the short-term may look promising for one spouse to stay at home, you need to consider some long-term implications of that decision.

Consider the long-term effect on your 401(k) plan. If you or your spouse remain in the workforce, 401(k) plans not only give you an immediate tax break, but also grow to make a larger retirement nest egg. Your 401(k) is funded more when you are working because you are contributing (and your employer may also make contributions).

Consider when, if at all, you or your spouse is planning to reenter the workforce and the effect on future earnings. When one of you reenters the workforce, your earning power is likely to be diminished. Some individuals who reenter the workforce find that they are not getting paid their former salary while doing a similar job. Also, you may have to climb the career ladder once again since there may not be the opportunity to start where you left off.

Remember that now you are more exposed to the risks of the economy because you are dependent on one income. You are more vulnerable to economic downturns and company downsizing. So, if the working spouse loses a job, it will have a more devastating effect on the family's finances. Keep in mind that as your children grow, your child-care expenses--one of the biggest expenses in a young family's budget--will decrease considerably. As a result, you will save less from having one of you stay home.

Lifestyle changes

When one spouse stays home, you may need to make some lifestyle changes. In fact, making some changes in your present lifestyle might allow one of you to stay home. Here is how you can do it.

Make two lists: need list and want list

In your need list, include all the bills that you have to pay, whether you stay home or work outside. In your want list, include entertainment, travel, music and dance lessons, books, toys, and gifts. For many, the need list is probably all you can handle with one income. Don't panic. You can take steps to have at least some items from your want list.

Reduce expenses

You can make both big and small changes that will reduce your expenses.

Remember that little things add up

By making small changes, such as turning off lights when not needed or drying clothes on racks instead of using the dryer, you not only save money, but also instill in your children the value of such things.





Make things instead of buying them

Frequently, your creativity gets a big boost when you have a little more time to yourself. You can save a considerable amount of money by making small things such as birthday cards and holiday gifts. The added advantage can be the personalized attention given to each item, and the feeling of joy when you have created something yourself.

Find alternatives

If you work out at a health club, find out if you can join a nearby YMCA or a less expensive health club instead. Instead of renting a hotel room at a fancy resort, find out if you can rent a cabin in a national park.

Find out if you can make money working at home

You may not realize that you can also make money by staying home. Find alternative employment such as a part-time, evening, temporary, or a work-at-home job to fill the shortage.

Turn your hobby into a part-time business

If you like to write, find out if you can write for your local newspaper. This will not only give you extra income, but also some recognition, and may be a way to voice your opinions.

Plan ahead

Do not quit your job without planning. If you plan ahead, you can pay off a loan to save monthly installments, secure a part-time or at-home job, or start implementing other lifestyle changes to reduce the impact when your second income stops.

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