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A single parent's guide to financial security

By Dani Arthur • Bankrate.com

A single parent multitasks all the time. Sometimes she's the chef, other times the taxi driver or housekeeper, and always she's the breadwinner, family psychologist and teacher. Managing a family, a household and holding down a job keep her plenty challenged.

If you're winging parenthood on your own, you know it's difficult to carve out time to pay the bills let alone do financial planning.

Here are some suggestions for streamlining your financial life and building up your net worth:

Establish a cash reserve

Everyone should have an emergency cash fund, but it's especially crucial for a single parent. A good rule of thumb is an emergency fund equal to three months of expenses, but your savings needs to ultimately reflect your financial situation, advises Gayle Buff, a certified financial planner in Newton, Mass.

Continued below

If your job is secure and finances strong, then a home equity line of credit or open credit on a credit card is sufficient. Invest your extra cash more aggressively. However, if your job is unstable and your finances tight, then you need to tighten your belt and put away six months of living expenses.

The key to establishing a cash reserve is to be consistent. Check out these tips for building your emergency fund.

Take control of your finances

Healthy finances require that you pay attention to how you spend your money.

"Managing cash flow is difficult," says financial planner Mari Adam. "It can seem time consuming and overwhelming, but it's time well spent. If you ignore your expenditures, money simply disappears."

Set up a spending plan. Write down your short-term and long-term goals. Ask yourself how you can accomplish them. The first step is to evaluate your spending habits. Track your spending for three to four months, or look back over your checkbook and your income for the same period. Do you have any discretionary funds? Do you need to cut back your spending? Here's a handy guide for developing a spending plan.

At this juncture in life, the top financial goals should be to accumulate assets that will increase your net worth and your retirement savings. Pay yourself first through payroll savings plans and your 401(k).

Protect your family's future

Across the board, financial planners agree that single parents, in particular, need disability insurance and life insurance as a contingency plan to protect themselves and their children.

Long-term disability insurance covers your most valuable asset -- the ability to earn an income. Yet, it's the most overlooked insurance, explains Phil Behnen, a certified public accountant with AG Edwards & Sons, in St. Louis, Mo.

"Not only is it vital for your financial health, but it's inexpensive," he says.

Check with your employer to see if you can pick up this coverage at work.

Life insurance is particularly important for single parents, especially if you are the sole supporter of your children.

Gayle Buff recommends purchasing term life insurance over permanent, or cash value, life insurance. Permanent life insurance, which combines insurance with an investment option, carries higher premiums, and is often too expensive for the amount of insurance you need, leaving you short-changed on coverage.

"The investment products are poor investing tools," Buff says. "You're better off buying term life insurance and investing the savings on your own."

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Estate and contingency plans are vital

Single parents should have a will to protect and provide for their children in case something happens. Your will names your children's guardians and controls your estate -- that is, everything you own from your house, bank accounts, investments, insurance and personal property to your retirement plans.

If you die without a will, the state becomes the executor. Bankrate's Dollar Diva offers more details on setting up a will.

Single parents should also have a living will and a durable power of attorney. A living will expresses your wishes if you become terminally ill or incapacitated, and a durable power of attorney empowers someone you trust to carry them out.

Invest for college early

The earlier you save for college, the more your money grows. Mari Adam highly recommends the state-sponsored Section 529 college savings plans, which grow tax-free.

Most incomes can't heavily contribute to both retirement planning and college savings, so Adam recommends investing small amounts to both. Just get started.

"A common investing mistake is to invest too much money under the child's name," says Phil Behnen. Parents who open investment accounts for their child may find these earnings produce a larger tax bill than expected, due to the kiddie tax. Plus, parents who opt for custodial accounts need to remember that their child can access this money when they turn 18 years old. They may or may not choose to spend it on its intended purpose.

Lastly, a large sum of money in the child's name can hurt their chances for financial aid. This is one more reason to consider Section 529 plans, Behnen says, because they're assets of the owners, typically the parents, not the child.

Invest aggressively for retirement

"Don't invest too conservatively," says Behnen.

Concentrate your investments in growth-oriented investments.

Take advantage of your company's retirement program.

"The biggest mistake people make is they don't participate in their company's pension plan, and then lose out on the company's matching contribution," Behnen says.

He also recommends that you contribute to a Roth IRA. Adults who learn to invest early, explains Behnen, don't get used to having a higher income level to spend; they learn to live within their means.

Pay yourself first! Financial planners agree that the most reliable investment strategy is an automatic debit from your paychecks into your investment accounts. A good rule of thumb, says Adam, is saving 10 percent of your income, which includes your employer's contribution.

Here's why you should diversify your investments for a stronger portfolio.

Make your money go further
Take a look at your entire financial picture, and see if you can restructure anything to make it work better for you, says Gayle Buff.

Consider your banking products: How much does the checking account cost you? Can you put your cash reserves in a more productive vehicle?

How about your credit cards: Can you get a lower rate? Perhaps you'd do better to pay off high interest debt with savings from a low interest bearing account.

Own a home? A refinance may be beneficial.

Be tax savvy. In this down market, you may be generating a taxable loss. Make sure you claim this on your income tax return.

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