Money Makeover: Expectant single mother braces for change

A single mother of a 2-year-old is expecting her second child. A budget can help her thrive during a challenging time.

By **DEANNE GAGE** Special to the Star
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THE PERSON

Monica, 41, is a single mom to 2-year-old Jacob. She is weeks away from giving birth to her second child. She has a good job in communications that pays her $75,000 a year, and lives in a house that is mortgage free. Jacob attends full-day preschool and Monica plans to keep him there during her maternity leave. She has a small emergency account and saves $4,800 a year toward a Registered Retirement Savings Plan since she has no workplace pension.

THE PROBLEM

Despite not having a mortgage, Monica still finds herself living paycheque to paycheque. This will be a bigger issue once she's home with her baby and on a reduced income. Monica would like a cash-flow plan and strategies for how to budget and save better while she's on maternity leave.

THE PARTICULARS

Assets:

House: $800,000

Cash: $11,100

Registered Retirement Savings Plans: $40,000

Tax Free Savings Account: $20,000

Jacob's Registered Education Savings Plan: $4,600

THE PLAN

Once the baby comes and Monica is off work collecting maternity benefits, her income shortfall will be $29,800. She has a few options on how to manage that.

The first option is to tap into her current savings from both her chequing account and Tax Free Savings Account. In this scenario, Karen Richardson, Money Coach with Money Coaches Canada, recommends that Monica transfer $8,000 from her chequing account into a savings account and label it “Maternity Leave.” “This labelling will help Monica feel more secure that she is closer to reaching her savings goal and that she will be OK when the baby comes and she has to stop working,” Richardson says.

Monica may feel nervous about using her Tax Free Savings Account for maternity leave as this money is intended for emergencies.

Another option is to use her savings in her chequing account and make some cuts to her current spending. At $10,800 a year, preschool is Monica’s biggest expense. Richardson notes that if Jacob stayed home with Monica for the year rather than attending daycare, she would only need $11,900 in savings to meet her lifestyle needs while off on maternity leave.

If Monica wants Jacob to remain in childcare, Richardson recommends she reduce some line items in her budget.

For example, she currently spends $990 a month on groceries for her and Jacob, well above budget for her family size. As a money coach, Richardson generally estimates $325 per adult for groceries per month. She then budgets $100 a month for children under 4 years old. She also adds $90 a month per child for diapers, wipes, and formula. Monica’s budget should be $425 a month for food and another $180 a month for diapers and other baby incidentals. Sticking to this budget would save Monica $385 a month.

“Meal prep on weekends with a plan for the week helps families have dinner ready when everyone gets home,” Richardson says. “This is especially true for single parents who are 100 per cent responsible for all the cooking. If meals are prepped or frozen ready to go it is easier to stick to your budget and save a lot of money.”

Monica’s $400 a month on entertainment could be also cut in half.

Further cuts include her clothing budget, which could be pared back to $1,000 from $2,700, saving $1,700 for the year.

Travel expenses could be reduced to $1,000 instead of $3,000, saving $2,000 for the year.

Richardson notes that the gas for Monica’s vehicle should go down when she is off, saving her about $1,000 for the year as she will no longer have an hour-long work commute. She will also save $1,200 for the year for her office parking spot she won’t need.

Monica could also stop her RRSP contributions for the year.

Once Monica is back to work, she will have daycare for two children so it will be important she keep her expenses lower to be able to afford the increase in childcare.

Monica receives $166 a month from the Canada Child Benefit and it will increase by an additional $168 a month when the new baby comes. Rather than use this money towards discretionary spending, Richardson recommends Monica allocate the money toward a Registered Education Savings Plan (RESP) for the baby. “Monica will receive the Canada Education Savings Grant when she contributes to an RESP of 20 per cent on every dollar up to a maximum of $500 per year,” she says.

As a single parent, Monica should make sure she has a will and adequate life insurance, Richardson says. “I recommend she revisit her life insurance to consider increasing her death benefit to cover caring for her two children until they reach 18 years old,” she says. “Increasing her term policy likely won’t be very expensive. Speak to a broker to get competitive rates.”

Once Monica’s children are much older, around ages 10 and 12, and daycare costs are reduced, she can increase her retirement savings.