



**R. Dean Ogelby RFC**  
COMPASS FINANCIAL GROUP  
P.O. Box 420, Harrisville, NH 03450  
Phone 603.827.3022 Fax 877.827.3208  
dean@cfg3.com www.cfg3.com



Securities offered through The O.N. Equity Sales Company, Member FINRA/SIPC, One Financial Way, Cincinnati, OH 45242 Phone 513.794.6794. Investment Advisory services offered through O.N. Investment Management Company.

# the TWENTY *twenty* letter

Vol. 17, Issue 7

## *Becoming a Financially*

### SAVVY SINGLE PARENT

**R**aising children without a partner can be emotionally, physically, and financially demanding. Challenged by the work involved in earning a living and caring for children, single parents can sometimes feel that they may never break the cycle of living paycheck to paycheck. But, even if you have a limited income, you may find that simply managing your money better can alleviate some financial problems and allow you to save for the future. Consider the following steps toward becoming a financially savvy single parent:

#### *Analyze Your Expenses*

The first step is to take stock of your situation. What are your fixed costs? How much do you pay for housing, utilities, transportation, and childcare? If these expenses alone

consume most of your income, leaving you with little money for groceries or discretionary spending, consider whether some of these costs could be reduced or eliminated.

If your mortgage, property taxes, and utility bills are more than you can reasonably handle, selling the house and moving to a smaller place may be your best option. It may be difficult for you and your children to leave the family home, but the prospect of having more money to spend on other things may be worth it. Similarly, it may make sense to trade in that late-model minivan for a more fuel-efficient or used vehicle.

If you need childcare while you're at work, there may be ways to reduce your costs. Daycare centers are often more expensive than programs that

are offered by churches or the local YMCA. If your children only require after-school care, a stay-at-home parent may be willing to help out in exchange for your babysitting services at other times. You may also want to speak to your employer about working a flexible schedule or doing some of your work at home. If you do pay for childcare, be sure to claim all available tax deductions and credits.

#### *Control Spending, Start Saving*

Next, assess areas where you can cut back on other forms of spending. By keeping a diary of all expenditures over the course of a month, you can identify some fat that could be trimmed from your budget. Simply replacing takeout with fresh, but easy-to-prepare, meals can save a bundle.

## How to File

### AN INSURANCE CLAIM

Insurance is like a security alarm system. You may sleep better knowing you have it, but you hope it'll never be activated. If you do need insurance, however, it's helpful to know what to do.

For a claim under any insurance policy, the first step is to notify your insurance agent that you have experienced a loss. Your agent can tell you what to do next and send along any necessary claim forms to be filled out.

The second step is to fill out those forms and submit them as quickly as possible. In the case of a **life insurance** claim, you may have to submit the policy document itself, along with the claim form and a death certificate. Insurance companies generally act promptly to pay claims, but they cannot act until the paperwork is complete. Doing your share can help expedite the process.

Although your agent can help you with the details, it may be helpful if you've kept policies and any related information close at hand. For example, life insurance policies generally should *not* be kept in a safe-deposit box. In most states, boxes are temporarily sealed upon the death of the owner. Although an executor can gain access to the box to locate a will and insurance policies, the need to do so could slow receipt of the funds when they are needed most. Also, if you own **homeowners** or **renters insurance**, be sure to keep an updated inventory of your possessions, along with any documentation relating to their worth. This can help you substantiate the value of your belongings in the event of a covered loss.

When dealing with certain types of insurance, such as **health** or **automobile insurance**, be aware that some companies pay claims directly, and others only reimburse

after you've paid the bill. Payment procedures are determined by the in-house policy of your insurance company, standard industry practice, and the terms of the insurance policy.

Some policies also require a **deductible** amount that may result in you receiving a bill following a covered loss. Once that amount is paid, there may be a **co-payment** feature under which the insurance company pays a designated percentage of all covered claims, and you're responsible for paying the balance up to a specified amount. See your individual policies for the specific deductible or co-payment amounts that apply to your coverage.

Insurance coverage can help mitigate financial loss in difficult circumstances. Take the time now to fully understand your insurance policies and the steps needed in order to file a claim. **20/20**

## Take Care:

### CHOOSING A TRUSTEE

If you're thinking about establishing a **trust**, you need to select a **trustee**—someone who is charged with administering the trust according to your wishes. Perhaps you're considering naming a family member, or maybe you're wondering whether it would be wiser to designate your attorney or another trusted professional. Choosing a trustee is an important decision that requires great care and an analysis of your unique circumstances.

A trustee's role is to comply with the terms of the trust and fulfill

its objectives. In selecting a trustee, you may want to weigh many personal, family, asset management, and business concerns. For instance, an important consideration is the *size* and *complexity* of the trust. Corporate and professional trustees often possess the accounting, tax planning, and money management experience necessary to administer large, complicated trusts. On the other hand, a small trust may not warrant professional management.

*Duration* is another significant concern. A trustee's responsibilities often span one or more generations.

**Corporate fiduciaries** may have the advantage of perpetual life (although the individuals administering the trust may change over time). This longevity may allow them to more easily fulfill the record-keeping and reporting requirements of the supervising court, as well as Federal and state governments. If you've decided to appoint only *individual* trustees, you may want to consider designating **co-trustees** or **successor trustees** to address longevity concerns.

## Are Two Incomes

### BETTER THAN ONE?

In today's economy, many families have come to rely on two incomes to make ends meet. While this trend may be due to the difficulty of achieving an acceptable standard of living on a single income, it also occurs when both spouses wish to pursue careers. Regardless of the reason, the actual benefit of two incomes may not be equivalent to the dollars earned. How can you determine the true *economic benefit* of that second income?

A **cost-benefit analysis** can help you find the answer. This type of analysis compares the *marginal income* of the second earner with the *marginal costs* associated with his or her job. By definition, marginal income and expenses are the *additional* income and expenses that

would be eliminated if the second earner stopped working. The worksheet below can help you run the numbers. Perform your own analysis in the column on the right.

Is that second income worth the expense? It all depends. For some people, the net benefit of working may be necessary to maintain their family finances. For others, the additional benefits may not outweigh the additional costs. When looking at the figures below, the gross benefit per hour of \$21.39 may make that second income seem worthwhile. However, when the net benefit per hour is only \$8.67, you may question whether that second income is really worth it.

Bear in mind that a hidden cost of an additional income is the possibility of being pushed into a higher tax bracket. Further, certain itemized deductions are subject to floor amounts, which means families with higher incomes may not be able to take advantage of these opportunities. Thus, when performing a cost-benefit analysis, it's important to do a thorough tax projection.

Finally, reducing work to its financial aspects alone may discount important, nontangible benefits. Some people prefer to develop their skills or value feeling fulfilled at their job. Nevertheless, an understanding of the cost/benefit trade-offs is important and can help determine if that second income is worth the expense. **20/20**

A Cost-Benefit Analysis Worksheet		
Part I: Gross Marginal Benefit of Second Income	Example	You
1. Gross annual second salary	\$40,000	_____
2. Employer-paid retirement contributions	3,000	_____
3. Employer-paid medical benefits in excess of existing coverage	500	_____
4. Employer-paid childcare	1,000	_____
5. Other employer-provided benefits	_____	_____
Total marginal benefit:	\$44,500	_____
<i>Gross benefit / hour (at 40 hours per week for 52 weeks)</i>	\$21.39	_____
Part II: Gross Marginal Cost of Second Income		
1. Federal income tax (assumes 28% for married couple filing jointly)	\$11,200	_____
2. State income tax (varies by state, thus not included in example)	_____	_____
3. Social Security tax (7.65 % x \$40,000)	3,060	_____
4. Commuting expense (car, bus, train, etc.)	500	_____
5. Restaurant dining and take-out meals	1,500	_____
6. Housekeeping services	5,200	_____
7. Non-reimbursed childcare	3,500	_____
8. Business attire and dry cleaning	1,500	_____
9. Other costs	_____	_____
Total marginal cost:	\$26,460	_____
Part III: Net Marginal Benefit or Cost of Second Income		
<i>Net benefit (total marginal benefit less total marginal cost)</i>	\$18,040	_____
<i>Net benefit / hour (at 40 hours per week for 52 weeks)</i>	\$8.67	_____

*continued from page one*

## BECOMING A FINANCIALLY SAVVY SINGLE PARENT

With your spending under control, you can start planning for the future. After establishing a fund for emergencies, think about your retirement and education goals. If your workplace offers a 401(k) plan, try to contribute at least enough to take advantage of your employer match. You may also want to consider putting money into an IRA. If paying for your children's college education—or your own—is a priority, there are several tax-advantaged accounts that can help you save efficiently.

### *Secure Insurance Protection*

While money may continue to be tight, it's important not to overlook the need for adequate health, life, and disability insurance. How would your children cope if you were no

longer able to support them? To start, all families need health insurance. If you don't receive benefits through your employer, look into a high-deductible catastrophic policy that covers the costs of serious illness or hospitalization. Depending on your income, your children may be eligible for public health insurance programs. Consider also the protection offered by life and disability income insurance. Life insurance can offer funds that can be used to maintain your family's standard of living in the event of your death; disability income insurance can replace a portion of your income if you sustain a sickness or injury that prevents you from working.

Despite your efforts to cut costs and adhere to a budget, you may still

find yourself with credit card debt. If possible, move the debt from higher-interest to lower-interest credit cards. Then, develop a strategy to pay down debt gradually and within your budget. In the meantime, avoid the temptation to take on new debt.

Sticking to a budget can sometimes feel like an exercise in deprivation, but it doesn't have to be if you set aside money for a few treats, like a weekly family pizza night. Even if you can only contribute small amounts, create a "fun fund" to be used for a vacation or a trip to the amusement park. Providing for a family on your own is a challenge, but it's one that can be met with careful planning. **20/20**

*continued from page two*

## TAKE CARE: CHOOSING A TRUSTEE

Corporate trustees have other advantages, as well. For instance, they may be more impartial when considering beneficiaries' needs than family members, who may face conflicts of interest. Also, corporate and professional trustees are held to a higher standard of professional conduct than non-professionals. Of course, professional service comes with a price. Many grantors of small trusts choose non-professional trustees to avoid high corporate fees.

### *Benefits of Family Members*

When a personal touch is needed, family members or other non-professionals who know the family may offer special advantages as trustees. They usually have the sensitivity and flexibility required to support the special needs of a beneficiary. A family member or business associate may also be the preferred

choice if you're leaving a business in trust, as corporate trustees generally do not run businesses.

### *Best of Both Worlds*

Often, a *combination* of professional and non-professional trustees may work best. Corporate or professional trustees provide trust management expertise, while family members or other non-professionals respond to the changing needs and circumstances of beneficiaries.

Trusts are complex, varying by type and purpose, and are most likely to fulfill their objectives when responsibly administered. A trustee who is uninformed could mismanage a trust or take actions that could have serious tax consequences. A qualified legal professional can help you make the most appropriate choice for your particular situation. **20/20**

**The information contained in this newsletter is not written or intended as tax, legal, or financial advice and may not be relied on for purposes of avoiding any Federal tax penalties. Entities or persons distributing this information are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.**

The information contained in this newsletter is for general use and it is not intended to cover all aspects of a particular matter. While we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. Therefore, information should be relied upon only when coordinated with professional tax and financial advice. The publisher is not engaged in rendering legal, accounting, or financial advice. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by Liberty Publishing, Inc., Beverly, MA, COPYRIGHT 2011.