State Department Federal Credit Union
Topics of Interest

Four Money Mistakes Single-Income Families Make

When your family's financial well-being is riding on one paycheck, you need to make sure you are doing everything possible to protect that paycheck. Above all, avoid these big-time financial flubs:

- **No Life Insurance.** Single-income families present a situation where life insurance is essential. Remember, life insurance is your safety net if something happens to the breadwinner in the family. And when there's only one breadwinner you'd better be positive that paycheck is insured—which is precisely what life insurance will provide your family. A super-safe move is to buy a "term" insurance policy that is equal to 20 times what your family's annual living costs are. Don't worry, term insurance is not very expensive if you are in relatively good health. And buying 20 times your brood's annual needs means that they can live off of the interest of the death benefit, rather than having to draw down the principal. Just promise me you will only purchase term insurance. Do not be talked into anything called "universal life," "variable life," or "whole life" insurance. Whatever they call it, it's much more expensive and entirely unnecessary.

- **No Disability Insurance.** Okay, say you don't die, but you become disabled. What happens to your family if it loses its sole paycheck to injury? If you have a disability policy to go along with your life insurance, you're still protected. Make sure you get "own-occupation" coverage, meaning you can collect on the policy if you are unable to perform your normal job. Some policies will only give you coverage if you are unable to work at any job. You need to steer clear of that trap. You also want a policy that is "guaranteed renewable," meaning as long as you continue to make your premium payments, your coverage won't change.

- **Saving for College Before Saving for Retirement.** Yes, we covered this in the main article, but it needs repeating. Do not put your future at risk by funneling all your money into the kid's college account. Think first about where you'll be 20 or 30 years down the line. If you have no savings, will you be able to retire—or even keep up your mortgage payments if you are forced into early retirement? In trying to do too much to help your kids with school, you could end up becoming a huge worry and financial burden for them. It makes a lot more sense to make sure your retirement is going to be secure, and have the kids use student aid and loans to pay for school.

- **Using Your Home as a Credit Card.** It's as if everyone seems to think their home is now their personal bank; folks are tapping equity to pay for just about anything: a vacation, a fancy new car, or even to pay off the credit card debt they ran up with expensive dinners and designer outfits. This is insanity. When you live on one paycheck—heck, even if you live on two—you simply shouldn't ever use your home as an ATM. What if you get laid off, or are ill, or simply want to scale back your work to have more time at home with the family? If you have a big equity line in addition to your mortgage, you are greatly increasing your financial risk. Besides, home equity loans come with variable rates, and right now we are in a period of rising rates, which I don't see reversing for quite a while. So if you tap a home equity line today, you are probably going to be looking at higher and higher payments over the next few years as interest rates rise. Can you handle that on one paycheck? And remember, the roof over your head is your collateral. So if you get into a jam and can't make the payments on the equity line, there's a possibility you would have to sell your home to pay off the lender.