One income or two?

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Living on just one income can be a challenge whatever the circumstances. For singles and couples, with or without children, budgeting for all your household expenses is easier when you take steps to manage your money in a different way.

Juggling work, family and finances

When a family of two becomes three, it's usually the case that one partner is going to drop their income, for a while at least. And even if paid parental leave is available to one (or both) of you, it's only going to plug the gap in your budget for so long. Add to this the potential for having more than one child, multiplied by the cost of raising them and you're looking at a significant long-term impact on both earnings and household expenses.

The cost of being single

While mums or dads might find themselves weighing up the pros and cons of returning to work after having kids to boost their income, spare a thought for the growing number of single people taking full responsibility for costs couples get to share. According to the Australian Bureau of Statistics (ABS) 2016 Census figures, 24.4% of households are people living on their own. That's nearly one in four households, a sharp increase from one in five households back in 1991. And the ABS expects this rapid growth to continue, with an expected 65% rise in this type of household by 2040.

Not only do single people have to find the funds from their earnings to pay all their expenses – from their rent/mortgage and utility bills to gym memberships and holidays – they may also be less budget-savvy and have substantial levels of personal debt. Suncorp's 2014 report *The Cost of Being Single* found singles without kids had higher credit card balances and were also less likely to budget compared with couples or single parents.

Regardless of your current single/couple status and spending habits, if you're trying to do better with just one income, here are five essential tips for keeping your finances on track.

1. Get on top of your budget and cash flow

Making a plan to live within your means – or even build up your savings, see Tip 3 below – starts with knowing how much you have coming in and where all your money is going. Getting to grips with your cash flow might seem a little overwhelming to start with, but it really pays off when it comes to spending on the things that matter when money is tight. James Trethewie Financial Planner AFP® suggests automating your cash flow by directing income into four key accounts. This will help you take care of everyday expenses and savings with enough left over to pay for the extras without getting into debt.

2. Keep debts to a minimum

Whether it's downgrading your car or downsizing your home, aiming to reduce some of your biggest debt liabilities can be one of the most effective ways to budget on a single income. Getting to drive the latest car can feel great, but it will fall in value every day you own it. If you can budget to buy a good second hand car with cash instead of taking out a loan for a new one, then you won't have to budget for loan repayments. And when it comes to day-to-day personal borrowing, stick to having just one credit card and paying off the whole balance by the due date every month.

Although property can be an asset that will go up in value, if you have a mortgage it's likely to be one of your biggest household costs. If you can manage with a home that's less expensive than the one you have now, you'll be saving a small fortune on mortgage interest over the term of your loan.

3. Save for emergencies – and your future

By following the recommended cash flow model suggested by James in Tip 1, you'll be saving up to 30% of your income, with two thirds of that amount going towards your emergency or 'rainy day' fund. Your target for this savings buffer should be a minimum of three months' living expenses, to see you through if you're not earning in the short-term, due to illness, and accident or redundancy. And if you find you've reached this target, you can continue saving the same amount and earmark it for future expenses such as self-education, paying school fees for your kids, saving more into super or paying off your mortgage early.

4. Sort out personal insurance

Assuming that any loss in the one income you're relying on is temporary, then your emergency fund should tide you over. But what if it's a long-term illness and you're left without an income for longer? If you're a couple with kids and one of you were to die, how would you manage to juggle earning money and caring for your family? This is where personal insurance – life, TPD, income protection and trauma cover – becomes such an important part of your future financial stability. And give careful thought to arranging policies for both partners, regardless of who earns the money. If something stops a parent from being able to carry out their role as primary carer, it's going to have financial consequences for the whole family.

5. Don't miss out on your super

This last tip is for the partner who takes a break from earning and will be missing out on super guarantee payments (SG) as a result. Even if your household budget is feeling the squeeze, try to find a few dollars each month to keep adding to your super.
With government co-contributions available for low-income earners, even the smallest voluntary payments into super can boost your balance. Plus, the compound interest you'll earn on that extra little bit of super will also make a big difference to your retirement savings over time.