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Switching from a Two-Income Household to Just One

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Are you considering leaving your job to be a stay-at-home parent? If you're a little older, how about going back to school for a new degree or retiring earlier than your spouse?

Whatever the reason a working couple is considering going from two incomes to one, this decision can sometimes be overwhelming and even frightening. However, like many major events, anyone can sail through this transition with proper planning and be glad they made the change.

You may discover some tough choices need to be made, so here are some financial recommendations to consider before taking the plunge.

Be Realistic. If you've never developed a budget or tracked your expenses, now is the time to do it. Household expenses may be easily covered with two incomes, but before one of those vanishes, know how much money will be needed to cover those expenses each month.

A simple way to build a budget is to analyze the last two months of online bank statements and credit card spending. Start by listing fixed costs, such as the mortgage and tuition payments, as well as variable expenses, which include groceries, entertainment, and clothing. If there's a need to reduce expenses before quitting a job, this information will come in handy.

Practice Makes Perfect. As soon as you and your partner are serious about losing one income, begin to live on the remaining salary. Making this change allows you to experience any changes in spending and investing while there is still some margin for error.

You can practice living on one income by setting up automatic drafts or changing a direct deposit of the paycheck from the second income so it goes to a separate account. While running the household on the remaining income, here's what you can do with the final paychecks from the income that will soon be gone:

- **Save.** Padding an emergency fund is especially important. Take advantage of the time when this second income is still available and aim for six to twelve months of living expenses in your rainy-day fund.
- **Eliminate Debt.** Reducing credit card debt or student loans with money from those final paychecks could be a huge help in your future single income lifestyle. Eliminating any fixed expenses, such as auto loans, will make it easier to live on one income in the future
- **Contribute the maximum amount to retirement accounts.** Not only will the way you budget for expenses change on one income; saving for your retirement will be different as well. If you have already saved for a rainy day and eliminated debt, use your

remaining pay checks to max out your 401(k) to take advantage of that opportunity.

Many couples have rushed into this decision thinking they could go to a single income family and seen not only their savings stop, but reverse and be spent prematurely. As tempting as it may be to pull the plug, find out if you can survive on one income without causing financial jeopardy.

Understand Medical and Other Benefits. Before one person submits their resignation letter, a couple needs to consider all the other benefits of a second job as part of your household income.

For example, calculate the impact of medical and other benefits the employer may offer. If the person leaving their job is on a medical plan, make sure you understand the costs associated with your spouse's medical plan that you may be joining.

In addition, consider that an employer's match to a 401(k) retirement plan or stock options will be forfeited if you leave. Be aware of these changes and make sure you don't leave money on the table. A company's stock options plans are designed to entice employees to stay for the long-term, so be mindful of any losses you may incur. If staying at your company a few extra months adds thousands of dollars to your compensation package, carefully evaluate if that makes sense.

Make Lifestyle Changes to Pay the Bills. Lastly, as you practice living on one income, there may be some lifestyle adjustments. This is why having a firm grasp on fixed and variable expenses is so important.

There's no silver bullet and the right answer may be different for each family. Look at your expenses and identify any changes that will free up the most monthly cash flow. For some couples, the cost of a vacation could save several thousand dollars each year, while others can reduce the amount spent on dining at restaurants and other entertainment. You don't have to eliminate these items, but you may need to resize them to fit in your single income framework.

The alternative to reducing expenses, is to consider a part time "hustle." There are countless opportunities in this current "gig economy," some more legitimate than others. If it makes sense for your family, consider replacing your full-time income with a part-time venture that you can operate on your terms while adding some extra cash flow to the equation. Many stay-at-home parents and spouses bring in substantial income through social media gigs selling children's books, cosmetic products, or other services. These opportunities provide flexibility not often found in traditional part-time jobs.

One final adjustment that may boost the remaining take-home pay is to consider adjusting tax withholdings. Speak with a tax professional to see if making this change should impact the tax withholdings for the remaining income. Although a big tax refund would be a pleasant surprise, boosting the monthly take home pay is much more practical when making this change.

Finally, be thoughtful and patient as you consider this change. At the very least, living on one income for even a few months will boost your savings and potentially pay down some extra debt as you considered making the leap. And if you make the leap, you will be ready.

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