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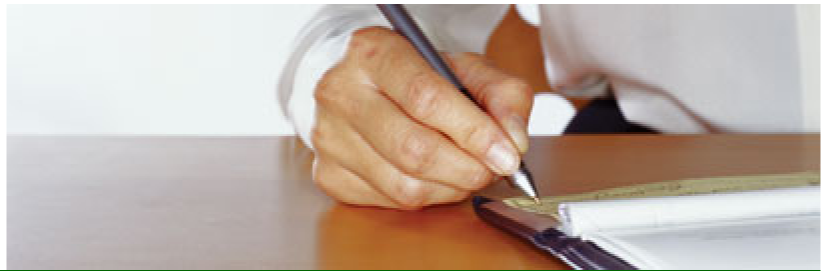

THE FINANCIAL FORMULA

Giving You The Financial Information You Need

January 2012

2012 is here! I'd like to wish all of our readers a happy & healthy new year. Enjoy the January '12 edition of The Financial Formula! Please contact me if you have any questions - thanks!

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The recession -- and subsequent slow recovery -- has caused millions of Americans to focus even more closely on living within their means. If you are ready to face up to your own financial realities, one crucial step is to set out a plan of action.

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It certainly comes as no surprise to parents that raising a child can be expensive. But just how expensive?

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Women often view financial matters very differently than men. They also face unique financial challenges that can affect their financial security, both now and in retirement.

Make a Plan to Reduce Your Debt

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The recession -- and subsequent slow recovery -- has caused millions of Americans to focus even more closely on living within their means. If you are ready to face up to your own financial realities, one crucial step is to set out a plan of action. Here are some key considerations to keep in mind.

Keep Track of Your Spending

It's hard to reduce your spending if you don't have a good idea of how much you are spending. Keep track of your typical monthly expenses for three months to find out where your money is going. To get an even more realistic idea, factor in some unexpected expenses -- such as auto and home repairs. Once you have a record of your spending, compare your average monthly outlay with your monthly income. If you have a surplus, this is the amount you can apply each month to paying down debt and building savings. If you have a shortfall, you'll need to examine your expenses more closely to see what you can potentially cut back or cut out.

Keep Saving

One way to establish good saving habits is to make saving even easier than spending. A handy tip is to set up separate savings accounts with separate goals attached to them. Here are three suggestions that can help you better allocate your savings.

- **Emergency Account:** Your goal for this account should be to build up at least three to six months of living expenses. This way, if you lose your job or need a lump sum to pay for a significant expense, you may not have to tap into your other savings or ring up more debt.
- **Family Account:** This account can help fund your children's school expenses (such as class trips and team uniforms) or vacations.
- **Investment Account:** This account should be reserved for general or long-term saving goals. Hopefully, you already have a retirement savings account (either through your workplace or on your own) and perhaps a college savings plan. But having another account to save for other longer-term goals -- maybe to start your own business or remodel your home -- can be a smart move.

Keep a Tight Watch on Your Credit Cards

If you've accumulated significant credit card debt, you've first got to stop the bad behavior. Paying off debt is easier once you stop using your credit cards.

- Pay off your highest interest credit card debt first, making sure you avoid the "minimum balance trap." Paying more than the minimum can make a big difference.
- Consolidate your debt by transferring outstanding balances to lower-rate cards. If you don't want to transfer your balances, you may be able to get your current credit card company to match the interest rate of a competitor.
- Cancel all cards except for the one that offers the lowest interest rate.
- Finally, set up a realistic payment timetable and stick with it. If you have trouble keeping pace, talk to a professional. The counselors at the nonprofit National Foundation for Credit Counseling can help develop a more structured plan for you. To find the nearest location, call 800-388-2227 or visit www.nfcc.org.

How Much Will That Little Bundle of Joy Cost You? Try $163,000

The average total child-rearing costs for a child born in 2010 and living at home through age 17 range from $163,440 to $377,040, depending on the family's income level.

It certainly comes as no surprise to parents that raising a child can be expensive. But just how expensive? While many financial studies focus solely on college costs, research by the U.S. Department of Agriculture (USDA) provides parents and prospective parents with a general idea of the cumulative expenses for a child *before* college kicks in.

The results are sobering. The average total child-rearing costs for a child born in 2010 and living at home through age 17 range from $163,440 to $377,040, depending on the family's income level. The USDA calculations include a wide variety of expenses, including housing, child care and education, health care, clothing, transportation, food, personal care, and entertainment.

Estimated Cumulative Child-Rearing Expenditures, 2010-2027

Lowest Income Group (<$57,600)	$163,440
Middle Income Group (between $57,600-$99,730)	$226,920
Highest Income Group (>$99,730)	$377,040

Source: USDA, *Expenditures on Children by Families, 2010*; June 2011. All figures are in 2010 dollars.

Households in the lowest income group (those earning under $57,600 per year) are estimated to spend 25% of their before-tax income on a child, while those in the highest income group (earning more than $99,730 annually) are estimated to spend just 12%.

For a middle-income family with two children, the largest expenditures are:

- Housing, at an average of 31% of total expenses.
- Child care/education, 17%.
- Food, 16%.
- Transportation, 14%.
- Health care, 8%.

Total annual costs for that middle-income, two-child family range from $8,480 to $9,630 per child on average. For those couples with only one child, costs tend to be as much as 25% higher. Overall, costs for single parent households average about 7% less.

Not surprisingly, geography matters. Parents in the "Urban Northeast" had the highest average expenses, while those in "Rural" areas had the lowest. It also should come as no surprise to parents that it is generally more expensive to raise a child today than it was when they were children. Average child-rearing expenses for a middle-class family have climbed nearly 25% since 1960.

The USDA website has a free calculator that can help parents estimate their child care costs. The Cost of Raising a Child Calculator factors in geography, single or two-parent status, and the costs of additional children. The tool is available here: http://www.cnpp.usda.gov/calculator.htm.

Financial Confidence a Chief Concern for Women

For working women, employer-sponsored retirement plans, such as a 401(k) or 403(b), are probably the most important saving and investing tool they will ever use.

Women seem to be of two minds when it comes to their relationship with money and investing. On the one hand, two-thirds of women polled recently consider themselves to be the "CFOs" of their households -- strong, even dominant, managers of family finances.[1] Yet another study found that women are significantly less confident about making their own investment decisions than men.[2]

Whatever the reasons, there are real, tangible reasons why gender plays a critical role in an individual's long-term financial well-being.

The Gender Gap -- A Reality Check

Here are the facts. Generally speaking, women earn less than men, live longer than men, and often take time out of the workforce to have children or to care for aging parents. As a result, women are often playing "catch up" when it comes to saving for important life goals, such as funding their own retirement.

	Men	Women
Life expectancy at age 65	17.2	19.9
Average wage differential	$1.00	$0.77
Receive pension benefits	43.2%	29.4%
Average annual pension payout	$19,557	$12,127

Sources: CDC, National Center for Health Statistics, National Vital Statistics Report, August 2009 (based on 2006 and 2007 data); Institute for Women's Policy Research, September 2010; Employee Benefit Research Institute, "Retirement Annuity and Employment-Based Pension Income, Among Individuals Age 50 and Over: 2008" (most recent data available).

Beating the Odds

Despite these challenges, all women -- whether single, married, or divorced -- should make planning for retirement a lifelong endeavor. No matter what your age or situation, it's important to start planning for your future now. Here's how to get started.

- **Have a clear picture of your current finances.** Create a net worth statement that defines your assets minus your liabilities. In order to determine if your net worth is appropriate for your age, income, and personal circumstances, you'll need to analyze your spending and saving habits and create a workable monthly budget.
- **Save as much as you can.** For working women, employer-sponsored retirement plans, such as a 401(k) or 403(b), are probably the most important saving and investing tool they will ever use. In 2012, most individuals enrolled in such a plan can put away up to $17,000, plus an extra $5,500 in "catch up" contributions for those aged 50 or older. Traditional and Roth IRAs offer another way to save for retirement, even if you're married and don't work outside of your home.
- **Be realistic about how much it will cost to live.** The costs of health care, housing, and many other basics are rising faster than the overall cost of living, Be sure to factor that reality into your overall financial plan.

[1]*Source: Women & Co., March 2011.*

[2]*Source: MassMutual Retirement Services, March 2011.*