



The Nation's Leading Expert on  
the Business of Family Child Care

# Money Management and Retirement Planning

Presented by Tom Copeland, JD

For Child Care Resource and Referral agencies in Camden County and Monmouth County,  
New Jersey

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# Welcome

- This webinar will help you –
  - Better manage your money
  - Increase your savings
  - Identify acceptable and unacceptable debt
  - Save money for retirement
  - Identify the best IRA
  - Better understand when to claim Social Security benefits
  - Set financial goals

# Instructor

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# Disclaimer

“I am not rendering legal, tax, or other professional advice. If you require this type of assistance, please consult a professional to represent you.”



# Managing Your Money

## How Are Providers Doing Financially?

- Most family child care providers are not doing well financially
- Very few have saved enough for a three-month emergency
- Many have thousands of dollars of credit card debt
- Few are saving enough for their retirement
- Some providers are doing well financially

## Reduce Spending

- The first step in managing your money is to get your spending under control
- When your income rises your spending also tends to increase
- Increasing your income will not solve the problem – it will simply increase the size of the problem

## Track Your Expenses

- Track family's expenses for one month
- Fixed Expenses
  - Mortgage, property tax, gas, insurance, car loan, credit card payment, utilities
- Flexible Expenses
  - Food, clothing, gas, vacation, entertainment, cable television, charitable contributions, hobbies



## Examine Your Spending Habits

- Is spending level sustainable?
- If you are not saving money, start cutting some flexible spending
- Make savings a fixed expense each month
- Set aside a modest amount for savings at the beginning of each month

# Money and Values

- Successful money management is about setting priorities to match your values
  - Does your current spending reflect your values?
  - What would you change about your spending to bring it more in line with your values?

## Our Culture of Spending


- Our culture encourages spending, not saving
- Many providers spend money on children to express their love
- Spending on children can be excessive
- Don't spend money to meet an emotional need

## Start Saving Small Amounts

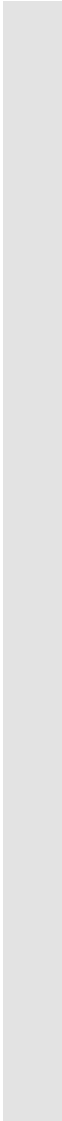
- Small amount of saving can add up –
- Save \$5 a day/5 days a week (don't buy the coffee or children's treats) = \$1,250 a year
- Invest the \$25 per week in an IRA at 8% a year for 10 years = \$19,127

## Savings Strategies

- Have parents bring business supplies
- Have parents bring birthday party items
- If you get a windfall, save it, don't spend it
- [www.thefrugalshopper.com](http://www.thefrugalshopper.com);  
[www.simpleliving.net](http://www.simpleliving.net)
- Ask yourself “*Will this improve my business or entice parents to my program, or will it not matter?*”



# Short-Term Savings Goals



## Increase Savings

- When do you need the money you are saving?
- Short-term savings goal: 1-5 years
- Emergency fund, car, down payment on home, home improvement
- Goal: preservation of money, readily accessible
- Low risk, low return

## Short-Term Saving Options

- 1) Bank savings account – less than .5%
  - No risk/very low return
  - No early withdrawal penalty
  - Deposits insured
  - Online bank savings  
([www.ingdirect.com](http://www.ingdirect.com))
- 2) Money market funds – less than 1%
  - Very low risk/low return
  - No early withdrawal penalty
  - Deposits not insured



## Short-Term Savings Options

- 3) Certificate of Deposit (CD) – 5yr 1.5%
  - No risk/higher return
  - Early withdrawal penalty
  - Deposits insured
- 4) Short-Term Bond Fund – 3%
  - Low risk/higher return
  - No early withdrawal penalty
  - Deposits not insured

## Which to Choose?

- Money market funds and short-term bond funds are more flexible with a higher rate of return compared to other options
- If you don't need money for at least a year, CDs or short-term bond fund can deliver a higher rate of return



# Get Out of Debt

# Acceptable vs. Unacceptable Debt

- Acceptable debt
  - Will increase in value over time
    - House, home improvement, education
- Unacceptable debt
  - Will decrease in value over time
    - Everything else!

## Credit Card Debt


- Not paying off at end of each month is a sign of overspending
- Interest rates of 15 – 20+% make it impossible to save
- High monthly balances mean –
  - Poor credit rating, higher interest rates on car loan, mortgage, home equity loan
- \$5,000 balance, 18% interest, make \$100 minimum monthly payment
  - Take 30 years to pay off balance
  - Total payment: \$17,556!

## Kick the Credit Habit

- Don't go further into debt
- Throw away retail store credit cards
- Call up company to ask for reduced rate
- Shop around for better rate
  - [www.creditcards.com](http://www.creditcards.com);
  - [www.bankrate.com](http://www.bankrate.com)
- Debit cards
  - Act like checks, beware of overdraft fees

## Pay Down Debt

- [www.debtredutionservices.org](http://www.debtredutionservices.org)
- Prioritize debt
  - Can pay down highest interest rate first
  - Can pay down smallest debt first
  - Pay off credit card debt before mortgage
  - Pay off credit card debt and contribute to IRA
- Credit Counseling Services
  - Negotiate with creditors, get lower interest rates, lower monthly payments, reduce late charges
  - Contact United Way for referrals



# Saving Money for Retirement





## Getting Started

- Take the first step now/start with small steps
- Money grows over time
  - Faye starts saving at age 35
    - \$2,000 a year for 10 years (\$20,000 total)
    - Earns 8% - after 30 years has \$135,042
  - Fred starts saving at age 45
    - \$2,000 a year for 20 years (\$40,000 total)
    - Earns 8% - after 30 years has \$91,524

## Where to Find Money

- Develop the savings habit – monthly
- Take on a “retirement baby”
- Save Food Program check
- Make direct deposits into retirement account
- Dedicate any extra money to retirement
- Invest early in the year, not at end
- Pay yourself first

## How Much is Needed?


- Most providers are not saving enough for their retirement
- Experts say we need 70-80% of our current income in retirement
- Women need more savings than men
  - Will live longer
  - Earn less, so Social Security benefits are lower
  - Have more medical expenses over lifetime

# Savings Estimators

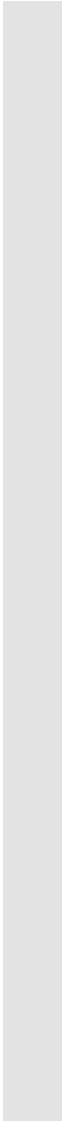
- Use retirement calculators to estimate amount of savings needed
  - [www.choosetosave.org](http://www.choosetosave.org) (ballpark estimate)
  - [www.aarp.org](http://www.aarp.org)
  - [www.cnnmoney.com](http://www.cnnmoney.com)
- If savings goal is hard to meet –
  - Work longer
  - Live on less

## Educate Yourself

- Take responsibility for your retirement planning
- Don't invest in anything you don't understand
- "Personal Finance for Dummies" Eric Tyson
- Take financial planning classes
- Join an investment club
- Internet resources: [www.tiaa-cref.org](http://www.tiaa-cref.org); [www.financialengines.com](http://www.financialengines.com); [www.moneycentral.msn.com](http://www.moneycentral.msn.com)



# Individual Retirement Account



## What is an IRA?

- An IRA is not an investment
  - Your IRA does not earn interest
- An IRA allows you to claim tax benefits for your retirement investment
  - Can defer paying taxes for many years
- You invest in a stock, bond, or real estate
- You then label your investment an IRA

## How an IRA Works

- Make Contribution
  - Can invest in almost anything
  - Tax deduction for investment (except Roth IRA)
- Investment Earns Interest
  - Interest earned tax free
- Withdrawal at Retirement (59 1/2+)
  - Withdrawal of contribution and interest is taxed



## Importance of an IRA

- Significant tax benefit of IRA
- Invest \$5,000 a year for 20 years earning 8%
  - Outside IRA: \$129,062 after taxes
  - Inside IRA: \$164,743 after taxes
    - Plus additional tax benefit of annual

## IRA Options - 2020

- \* Regular IRA
  - \* Income eligibility limits if your spouse has a retirement plan at work (MFJ \$124,000)
    - \* If no retirement plan at work, no income limitation
  - \* Maximum contribution: \$6,000 (age 50 + \$1,000)
  - \* Tax deductible/pay taxes later
- SIMPLE IRA
  - No income eligibility limits
  - Maximum contribution: \$13,500 (age 50 + \$3,000)
  - Tax deductible/pay taxes later

## IRA Options - 2020

- SEP IRA
  - No income eligibility limits
  - Maximum contribution: 18.58% of business profit
  - Tax deductible/pay taxes later
- \* Roth IRA
  - \* Income eligibility limits (MFJ \$206,000), single \$139,000
  - \* Maximum contribution: \$6,000 (age 50 +\$1,000)
  - \* Not tax deductible/no taxes later

## Which IRA to Choose?

- Maximize employer match in spouse's 401(k) plan
- Make maximum contribution to ROTH IRA
- Make additional contributions to 401(k) or SIMPLE IRA
  - Based on fund options and management fees

## Saver's Credit - 2020

- Tax credit for retirement contribution to any IRA
- Credit is in addition to the regular tax benefits of IRA contributions
- Significant tax break for low income families!
- Eligibility
  - \$65,000 – married filing jointly; \$32,500 single
  - 10%/20%/50% tax credit
  - Up to \$2,000 contribution per person



# Social Security



# Social Security Overview

- ▶ Will replace about 40% of current earnings
- ▶ To qualify – must pay in taxes for 10 years
  - Earn at least \$5,200 profit a year, or \$1,300 per quarter
- ▶ Age 62 – reduced benefit; Age 66/67 - full benefit
- ▶ Check Social Security annual statement
  - Are earning history correct?
  - Use to see estimate of benefits
- ▶ Use Social Security benefits calculator
  - ▶ [www.socialsecurity.gov/estimator](http://www.socialsecurity.gov/estimator)
- ▶ [www.opensocialsecurity.com](http://www.opensocialsecurity.com)

## Should You Claim Social Security Benefits Early?

- ▶ Should you claim benefits earlier than your full retirement age?
- ▶ If you claim Social Security benefits before your full retirement age and earn more than \$18,960 a year, your benefit will be reduced
- ▶ Ideally, you should wait to collect Social Security benefits until your full retirement age or later (best at age 70)
- ▶ Don't collect earlier than age 70 unless you absolutely have to
  - ▶ Every year you wait to collect after age 66, your SS benefit will grow by about 8% per year!





# Set Your Financial Goals



## Set Financial Goals

- 1) Contribute to employer retirement plan to get maximum employer match
- 2) Buy adequate insurance
- 3) Pay off credit card debt
- 4) Establish a 3-month emergency fund
- 5) Establish a car replacement fund
- 6) Save at least 10% of profit for retirement
- 7) Save for your child's college education

## Plan for the Long Run

- Do not be overwhelmed by the list
- Develop a plan for how you will meet your goals over the long run
- Make some progress each year
- Do not let short-term spending defeat your goals
- Review your goals annually

# Financial Planning During These Tough Times

- Budgeting in the middle of a crisis is difficult, but necessary to avoid additional problems
- You may want to consult with a credit counselor or financial planner for help

## Where Does a Budget Fit In?

- A budget can help you meet short-and long-term financial goals so that a short-term emergency won't cause as much damage
- It may be hard to think about a budget now
- In the short run it may be all about survival, or at a minimum, keeping a close watch on expenses
- As a result you may be forced to carefully track income and expenses

# The Purpose of a Budget

- The purpose of a budget is to meet your financial goals – both short and long-term
- Set financial goals and incorporate them into a budget
- Your budget is simply a tool to help you meet these goals
- The joy of budgeting comes from setting goals and meeting them! (yes!)
- Providers who set written goals are much more likely to meet them, than those who do not

## It's Not Just About the Money

- Caring for children is the top priority for providers
- Non-financial rewards are great
- Some providers will never make much money
- Others will do well financially
- Success and happiness has no price tag

# Ask Tom

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