

Financial Tips for New Parents

Overview

Tips on financial planning for a new baby.

- Before the baby
- After the baby arrives

Having a baby means making lots of adjustments and changes. But there's one area of life in which new parents don't always make the changes they should -- their finances. Your financial decisions, goals, and priorities should all be reviewed and adjusted when you have a new baby. This article tells what steps you should take to safeguard the financial future of your new family.

Before the baby

The following tips can help you get your finances in order before your baby arrives. But it's not too late if you don't get around to making some of these changes until after you become a parent.

- *Organize your finances.* Set up your regular bills so that they can be paid automatically or online. Establish an automatic savings plan that has money deducted from your paycheck and deposited into a savings account. Organize your financial documents at home. You may not have time to get organized once your baby arrives.
- *Make sure you have enough life and disability insurance.* Insurance is key to making sure your family would be OK if the worst happened. Most experts recommend getting life insurance that covers 10 times that of your salary. It's also a good idea to get disability insurance that would provide income for your family in case of a debilitating illness or accident.
- *Carefully review your parental leave policies.* Make sure you fully understand your benefits, including whether you have paid parental leave, are eligible for short-term disability, if you'll be using vacation or sick time or taking unpaid leave under the Family and Medical Leave Act. These benefits and the decisions that you'll need to make regarding your leave can have a large financial impact, so it's important to fully understand them.
- *Review your medical coverage.* Is your current health insurance plan the best option for a young family? If you need to make changes, find out when and how to do so. You can get more information from your human resources department.
- *Plan ahead for child care expenses.* If you'll be using child care, this will probably be the single biggest new expense you'll incur after you have a child. Look into your child care options as early as possible and make a plan for how you'll pay for them.

2 • Financial Tips for New Parents

- *Focus on paying down your debt as much as you can before the baby arrives.* This will help free up money for baby-related expenses or college or retirement savings.
- *If you or your spouse is planning on taking any unpaid or reduced-pay leave, start saving now.* If one of you will be quitting work, consider starting to live on one salary as soon as possible to increase your savings and get used to this financial change.
- *Plan for how your household budget will expand for new regular expenses once your baby arrives.* Many new parents are shocked at how much essential items, like diapers and formula, cost. Diapers alone can add \$100 a month in expenses. It's important to have a plan for how you'll cover these new expenses.
- *Pay your monthly bills a week or two before your baby is due.* The first few weeks after the birth of your baby are bound to be hectic. Paying your bills beforehand can help you avoid late fees.

After the baby arrives

- *Look for ways to save on baby-related expenses.* Look for ways to cut expenses, such as buying used clothing, equipment, and toys. Most communities have consignment shops that sell gently used clothing, gear, and toys for steep discounts. Don't turn down hand-me-downs or skip yard sales either. These are a great way to save money on items that don't really get a lot of use because babies outgrow them so quickly. (For safety reasons, experts recommend that you buy a new crib and car seat). Also remember that although buying things for your baby can be fun, babies don't really *need* a lot of items, especially when it comes to outfitting a nursery or buying toys.
- *Become a coupon clipper.* If you feed your baby formula, visit the manufacturer's Web site and sign up for special offers, coupons, and discounts. You can do the same for diapers and baby food. You can also reap significant savings by stocking up during sales.
- *Buy toys, clothing, and equipment as you need it.* You never know what size your baby will be wearing in a few months, so it's best to buy clothes as she needs them. The same is true for toys and other gear. Whenever possible, borrow large items, like strollers or swings, from a friend to see if your baby really likes them before you make an investment.
- *Start saving for college.* It may seem like college is a long way off, but most people need all that time to accumulate college savings. Look into your college savings options, such as 529 and Coverdell accounts. Even if you can only afford to put small amounts into college savings, they can really add up over time. You can also ask relatives to contribute to college savings instead of giving birthday or holiday gifts.
- *Don't neglect your retirement savings.* Saving for college is definitely important, but it's not more important than your retirement. Your child will be able to take out

3 • Financial Tips for New Parents

student loans to cover the cost of college, but you can't take out loans to pay for your retirement. So if it's a choice between the two, make sure your retirement is covered.

- *Make sure you get a Social Security number for your child when you are in the hospital.* You will need this to take advantage of certain tax breaks and deductions.
- *Prepare or update your will.* If you don't have a will, draw one up as soon as possible. Be sure to name a legal guardian for your child so that if something does happen, he or she will be raised by the person of your choice. Writing a simple will is fairly easy. You can prepare one yourself with help from Web sites such as *www.nolo.com*. Or you can hire a lawyer to prepare your will for you, which may cost around \$800.
- *Review the beneficiaries on all of your legal and financial documents.* Make sure your child's name is listed as a beneficiary wherever appropriate.
- *Take advantage of tax savings programs.* Parents do get some good tax breaks, including the dependent exemption and the child tax credit. To find out more about these and whether you qualify for them, contact a tax professional or check the IRS Web site at *www.irs.gov*. Other great tax-saving opportunities for parents are flexible spending accounts, which may be offered through your workplace. Dependent care flexible spending accounts allow employees to set aside pre-tax money -- up to \$5,000 -- to pay for child care costs. If your workplace offers flexible spending accounts, be sure to take advantage of them because they are a great way to save money.

Finally, realize that you can't do it all. For many people, it's just not realistic to expect that you will be able to fully fund your child's college and your retirement while maintaining the same lifestyle you were used to before you had a child. Expect that you will need to make some tough decisions today and down the road, and realize that this is simply part of the process of being a parent.

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