Starting A Family

Congratulations on the new addition to your family! Being a parent is a wonderful journey that comes with responsibility that at times is overwhelming. Even if you are already financially disciplined, adding to your family can be financially challenging. Here are some financial tips to keep in mind as a new parent.

Create emergency funds.

Unanticipated expenses unfortunately occur occasionally often at the most inconvenient times. Generally, financial experts recommend having at least six months of living expenses ready for emergencies.

Review your investments.

You may need to adjust your portfolio or add investment options that are now appropriate. A financial professional can assess your needs and suggest revisions to your current investments.

Continue to invest in your own retirement.

As your child grows, your expenses become less predictable. Maximize retirement plan contributions in the early years of your child's life.

Choose your child's guardian.

In the tragic event that something happens to you and your partner, the court will appoint your child a guardian if you have not. This person will usually be a relative, but you have insights to consider such as age, health, finances, and enjoyment in caring for your child.

Establish a Trust.

Decide how to manage your assets for your child's financial benefit should they be raised by a guardian.

Evaluate your life insurance.

Your financial professional will work with you to determine your life insurance needs, and whether term or whole life policies are more appropriate for your lifestyle.

Purchase disability insurance.

Disability insurance pays a specific amount in the event you are unable to work for a certain time.

Add your child to your health insurance policy.

Typically, you will have 30 days to add your newborn to your health plan. If you and your partner have separate health insurance plans, review the details of each plan to determine which plan is most cost effective and provides the most adequate coverage for your child.

Update your beneficiaries.

Ensure that your assets will go to those who are most important to you. Do not name your minor children as policy beneficiaries unless you have also named a trustee to oversee assets from insurance policies, trusts, etc.

Create a college fund.

There are many options when saving for college. It is very simple to begin a savings account for your child at birth for their education. As your child grows up, encourage them to deposit financial gifts and consider matching what they contribute. You may also wish to open a college savings plan which is tax-free and designed for the accumulation of college savings. How the money can be spent and rules around withdrawals vary on different plans. Series I and Series EE savings bonds are another option. These plans are also tax-free, so long as interest is used to pay for college tuition and fees. Investment accounts give you the advantage of spending the money how you want, but these accounts are usually taxed.

Begin teaching children how to manage their money early and continue as they grow up.

Communicate about your experiences with money, open a savings account for financial gifts your children receive and review it with them from an early age. Encourage your high school student to get a part-time job, budget, and start saving for college expenses each week. Educate them on all the expense of college including: tuition, room and board, books, supplies and transportation. Encourage your college student to set aside time to pay bills and review finances each week, and only use credit cards in emergencies. Assist your college graduates in creating a plan to repay student loans as quickly as possible, and teach them to direct deposit paychecks to a savings account to earn interest. Speaking to them about enrolling in a retirement plan as soon as eligible is also helpful.

Think cautiously about retirement plan loans.

A college education is a significant expense for most families, and many may contemplate taking a loan from their 401(k) plan to help cover the cost. This may seem tempting, but it is not always the best option. Consult with your financial professional to examine college funding options that make the most sense for your family.

Beware of loss of tax benefits.

When you add money to your 401(k) plan from your paycheck, money is added on a pre-tax basis. Loan repayments, instead, are made with after-tax money. That means that you will repay more than the amount that you borrowed. Removing money from your 401(k) plan prior to retirement could risk your overall retirement security. The amount of the loan you take may create a financial deficit that you may not be able to recover from. Also, many plans will consider an outstanding loan as a payment of additional income if job loss occurs which will cause a tax liability. Borrowing from your 401(k) plan will hinder the growth of your retirement assets because the outstanding loan balance cannot earn interest or profit from compounding interest.

Know the tax credits available to you.

Having a child will reduce your taxable income when your income does not exceed a certain amount. You can claim an annual tax credit for each child you support under age 17. You can claim an adoption tax credit, if valid, for a child under age 18 or a special needs child as well. There are education tax credits also such as the H.O.P.E. Scholarship and Lifetime Learning Credits. The H.O.P.E. Scholarship gives a federal income tax credit for each student for qualified higher education expenses. The Lifetime Learning Credit is a tax credit for anyone who takes college-level classes. Some employers offer a flexible spending account for dependent care in which you can set money aside up to a certain amount, and exclude it from your income, to help cover the cost of day care or a nanny. If you owe taxes, you can be credited for each dollar up to a certain percentage of your child care expenses. Also, help increase your take-home pay and avoid withholding too much income from your paycheck for taxes by revisiting the deductions on your Form W-4. Consult your tax and financial professionals for guidance on withholdings that are appropriate to your financial situation and family.

Obtain your child's Social Security number.

Your child is not required to have a Social Security number until they begin working, but they must have one to be claimed as a dependent on your taxes. Consider applying for a Social Security number when your child is born.

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