YOUR WEALTH JOURNEY — NAVIGATING LIFE'S FINANCIAL MILESTONES

Becoming a Parent: 10 Steps to Financially Prepare for a Growing Family

Tips for making sure your loved ones are protected

Welcoming a new child is one of the most exciting and transformative events anyone can experience. It can also have significant, long-term implications on your finances. It is worth considering how your financial needs and goals will change once your child arrives and ways you can protect and strengthen your growing family financially.

If you or a loved one are preparing to welcome a child, here are 10 financial steps to consider.

Forecast Your Expenses

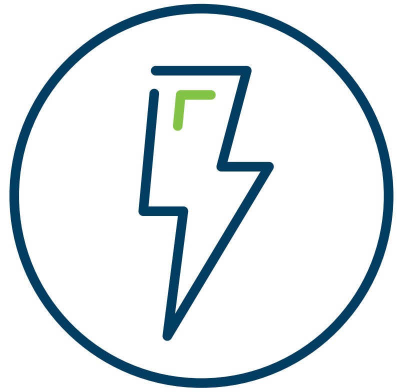
Your ongoing expenses may rise considerably once your new child arrives—both in the near term and over the next several decades potentially. It is important to understand how a child will affect your overall financial picture, so you can adjust your budget and financial strategies accordingly.

Questions to ask as you consider how having a child could affect your family finances include:

Do you and/or your partner expect to keep working and generate the same amount of income as you did before the child's arrival?

Will you be paying for childcare either in or outside of the home?

As the child gets older, will other expenses—such as education or extracurricular activities—become a major cost?



Review Your Emergency Savings Needs

It is generally advised to keep at least three to six months of living expenses in a low-risk, very accessible account, such as a money-market deposit account or savings account, in case of an unexpected event such as a job loss or health issue.

Recalculate how much you will need to set aside for emergencies based on how your spending patterns will change after factoring in the additional expenses described above. Doing so will help you continue to have an adequate emergency fund once the child arrives.

Evaluate Life and Disability Insurance Needs

You may already have life and disability coverage, but you may want or need greater protection once a new child is in the picture. Your or your co-parent's employer may let you add or increase your coverage to account for a child, but it often makes sense to get a policy that is independent from your employer so you can find a policy that fits your needs and you do not risk losing your coverage if you leave your job.

A wealth advisor can help you review your insurance needs by asking questions such as:

How much income would your family need to maintain your living expenses and other spending needs if one (or both) parents were to become temporarily or permanently disabled and not be able to work or pass away?

Over what time period do you need coverage? (Many new parents, for example, want to ensure that they are at least covered until their child turns 18 or graduates from college.)

What future expenses would you want coverage for? For example, do you want enough coverage to ensure that your child's college tuition would be paid for or to pay off a mortgage?

Update Your Beneficiaries

Many financial accounts, including retirement accounts, and insurance policies have designated beneficiaries—the people you elect to receive those assets when you pass away. It is critical to review and update those beneficiary designations after major life events, including after having a child, to ensure that your assets go to the intended people in the most efficient way possible. Note that beneficiary designations supersede your will or other estate planning documents.

Assess Your Health Insurance Coverage

You will want to make sure that you have the right level of healthcare coverage—both for yourself and for your child.

If you are newly pregnant—or ideally before you become pregnant—check whether your current health plan offers maternity care and labor and delivery coverage. It is also a good time to coordinate coverage with your spouse or co-parent to determine whether to have all family members on one parent's health plan and which plan will provide the best coverage for your child.

Look Into Employer Benefits

Many employers offer benefits that can help reduce the costs of caring for a child.

Check to see if your or your partner's employer offers the following benefits:

Health Savings Account (HSA):

This lets you set aside pre-tax income to pay for your family's healthcare. The funds do not have to be used in the year in which the contributions are made, so the money can accumulate year after year. The money remains tax-free if you spend it on qualified healthcare expenses. And once you reach age 65, you can use the savings to pay for non-healthcare expenses penalty-free, but those distributions are subject to income tax (similar to distributions from an IRA). Keep in mind that you must have a qualified high-deductible health plan to contribute to an HSA.

Medical Flexible Savings Account (FSA):

Similar to an HSA, an FSA allows you to save pre-tax money for qualified healthcare expenses. Unlike an HSA, though, you typically must spend most or all FSA contributions in the plan year you made them—or you may have to forfeit them.

Dependent Care FSA:

This type of FSA allows you to set aside pre-tax money for childcare expenses, such as paying for daycare, a nanny, summer camp, or before- and after-school care. Generally, you must spend the contributions in the year that you make them.

Adoption Assistance:

Some employers will help their employees cover the costs of adoption, such as agency fees, legal fees, and travel costs.

Review Your Estate Plans

Your estate plans become more important when you have kids, as you want to make sure your assets are transferred efficiently to the right people upon your death. Make sure these documents are updated to reflect additions to your family.

The foundation of a carefully constructed estate plan would include wills, possibly trusts, powers of attorney for healthcare and property, and a living will (advance healthcare directives).

You will also want to select a legal guardian for your child and a trusted individual or family member to serve as the custodian of the assets the child could inherit in the unfortunate event that you and/or your partner pass away while the child is a minor.

Consider Whether a Trust Makes Sense

In some cases, you may want to set up a trust to control how the assets are distributed to your child if you were to pass away. A trust allows you to set the conditions and timing for when your beneficiaries get access to your money and assets, and for what uses. For that reason, trusts can be ideal for parents who want to set some parameters around how their money is transferred to the next generation.

Start Saving for Education

Saving enough for your retirement is priority number one, but if you have extra money to set aside, you may want to start putting away money for your child's future education needs. The average cost of college attendance today ranges from about $20,000 (two-year public college) to $55,000 (private four-year college) annually, according to *The College Board*. The organization recommends assuming that those costs could rise 5% annually.

There are two types of tax-advantaged accounts that can help you save more effectively for college:

529 College Savings Account:
This account lets parents set aside money for a child's future education expenses and make tax-free withdrawals for qualified expenses. The savings can be invested in mutual funds or savings accounts. If all the funds in the account are not used by the original beneficiary, the account can be transferred to another child or family member. Some states allow you to deduct contributions from your state taxes.

Coverdell Education Savings Account:
This account also lets you make tax-free withdrawals for eligible education expenses. The annual contribution limits, however, are much lower than 529 plans, and there are income limitations on who can contribute.

Research Tax Breaks for Parents

While children are expensive, there is one financial silver lining to having a child: You may qualify for some tax breaks. These include:

Child tax credit
Adoption tax credit
Self-employed health insurance deduction

Becoming a parent creates immense responsibilities. Among all the other duties you have as a parent, it only makes sense to do all in your power to make sure that your family is financially protected. Creating a solid financial foundation at home can help alleviate stress and free up energy to focus on caring for your growing family. If you are interested in learning more, contact a William Blair wealth advisor.

Contact Us:

Please reach out to your William Blair wealth advisor or contact us at *pwm@williamblair.com*.

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