

Smart Financial & Insurance Moves for New Parents

As you start a family, consider these ideas.

Provided by Scott E. Holstein, CPA, PFS, CFP®

Being a parent means being responsible to a degree you never have been before. That elevated responsibility also impacts your financial decisions. You are now a provider and a protector, and that reality may make the following financial moves necessary.

Think about a budget. As a couple, you may have lived for years without budgeting. As parents, this may change. You will face new recurring costs: clothes, toys, diapers, food. Keeping track of weekly or monthly expenses will be handy. (The Department of Agriculture has an online calculator where you can estimate the total cost of raising a child to adulthood. The math may surprise you: the U.S.D.A. puts the average cost at \$233,610 for a middle-income family.)^{1,2}

Take care of health and life insurance. Your child should be added to your health insurance plan quickly. Most insurance providers require you to notify them of a child's birth within 30 days. You can get started before then; be aware that a Social Security number and birth certificate can take weeks to arrive in the mail. If you are in a group health plan, talk with the human resources officer or benefits administrator at work, and let them know that you want to add a dependent to your health care plan. (If you have coverage through a private plan, your premiums may go up after you notify the carrier.) Under the Affordable Care Act, a parent or legal guardian who has health coverage arranged through the federal or state Marketplace has 60 days from the date of birth or adoption to enroll a child as a dependent on their plan; once that is done, health care coverage for the child will apply, retroactively.³

Term life insurance provides an affordable way for new parents to have some financial insulation against a worst-case scenario, and disability insurance (which may be available where you work) provides coverage in the event of an extended illness or injury that stops you from doing your job. If you have a Health Savings Account (HSA), you can contribute more per year when you have a child. The maximum annual contribution for a family is currently set at \$6,850 (and for the record, the I.R.S. is allowing families to contribute up to \$6,900 in 2018).⁴

Draft a will and review beneficiary designations. A will can do more than declare who receives your assets when you die. It can also name a legal guardian for your child in the event both parents pass away. Additionally, you can specify a guardian of your estate in your will, to manage the assets left to a minor child. While you may have named your spouse or partner as the primary beneficiary of your IRA or investment account, you may decide to change that or at least add your child as a contingent beneficiary.⁵

See if you can save a little for college. The estimated cost of four years at a public university starting in 2036? \$184,000, CNBC reports. That may convince you to open a 529 plan or have some other kind of dedicated college savings account with investment options. Most 529 plans

require a Social Security number for a beneficiary, so they are commonly started after a child is born, rather than before.^{2,6}

Review your withholding status and tax forms. An addition to your family means changes. You may also become eligible for some federal tax breaks, like the Earned Income Tax Credit, the Adoption Tax Credit, the Child Tax Credit, and the Child & Dependent Care Credit.⁷

Keep the big picture in mind. You still need to build retirement savings; you still need to have an emergency fund. Becoming a family might make accomplishing those tasks harder, yet they remain just as important.

After reading all this, you may feel like you need to be a millionaire to raise a child. The fact is, most parents are not millionaires, and they manage. Whether you are wealthy or not, you will want to take care of many or all of these financial and insurance essentials before or after you bring your newborn home.

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Citations.

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