

Baby Steps: Financial Planning for Expectant Parents

So, you're expecting a baby. Congratulations — you're in for quite a ride!

While you're busy considering baby names, mulling color motifs for the nursery, working on your swaddling technique and otherwise basking in the glow of pending parenthood, it's important to also focus on the practical stuff — the pressing financial issues to address before the Big Day comes, so you can spend more time savoring the magical moments (and enduring the not-so-magical sleepless ones) once the baby arrives.

Below are some of the high-priority financial planning items that personal finance experts suggest expectant parents put on their to-do list, with insights on how to go about addressing them.

Household finances. Given the financial demands that come with new parenthood, babies might as well arrive with a price tag tied around their toe. All the baby gear (car seats, strollers, clothes, crib, etc.) is just the beginning. How much will you be required to pay out-of-pocket for perinatal care prior to and after the birth, and for the birth itself? How much income will the new parents forego taking time off work after the birth? What about the cost of childcare if both parents are working? Use the nine months of pregnancy as a window to **devise a detailed household spending plan** (i.e., a budget) that takes these and other factors into account, suggests Certified Financial Planner™ Brenda Knox, president of Financial Elements Inc. in Rolling Meadows, Ill.

To lessen the financial strain, consider shopping resale shops, garage sales, Craig's List and the like for baby items, she suggests. And don't be shy about asking relatives and friends if they have items to lend or give you.

Stashing cash for emergencies and baby-related expenses. Creating (or adding to) an **emergency fund** containing easy-to-access cash is especially important once a baby arrives, so you have a just-in-case account you can tap into for unexpected expenses. In addition to an emergency fund, consider establishing a **savings account** in which to set aside funds to cover the baby-related expenses you do expect, suggests Jim McGowan, a Certified Financial Planner™ at Marshall Financial in Doylestown, Pa., who specializes in wealth coaching for people in their twenties and thirties.

Get a handle on workplace benefits. If they're employed, it's important that each parent find out exactly what their employer offers in terms of **paid and unpaid parental leave and short-term disability insurance**, says McGowan, an expectant parent himself. Also consider reserving paid-time-off/sick days for when the baby arrives.

Do your health insurance homework. If both expectant parents are employed, **compare health plans** in terms of prenatal, postnatal and other maternity care and costs, then determine which plan to use for that care. If only one parent has healthcare through an employer, **learn what is and isn't covered** under that plan.

Whether one or both parents have employer-provided health coverage, also find out about getting coverage for the baby, then be sure to **add the baby to your plan promptly** after the

birth. Also be sure that if one parent is choosing to leave their job (and their health coverage) or go to a part-time work schedule following the birth, that you all still will have adequate health plan coverage going forward, says Knox.

Look seriously at life and disability insurance. Becoming a parent means you now have a “dependent” — a little person for whom you need to plan and provide should life take an unexpected turn. That means acquiring life insurance and disability insurance. McGowan suggests each parent invest in a **term life insurance policy** (with a fixed premium and a term of 20 or 30 years). He also recommends parents purchase **long-term disability coverage** to replace income they would lose should they become disabled. If your employer offers life and/or long-term disability insurance coverage as a workplace benefit, consider purchasing it. If not, purchase it privately with the help of an insurance agent.

Protect the little one, and other loved ones, by planning for the what-ifs. There’s never a “good” time to contemplate your own mortality what happens should you pass away. But with a baby on the way, there is a right time, and it’s now. Drafting a will (with the assistance of an estate attorney) is a top priority. This is a legal document specifying how your affairs are to be handled when you die (hopefully that’s a long way away!). In this context, your attorney may also recommend establishing some kind of trust to manage the transfer of your assets to your child(ren), notes McGowan.

In the will, be sure to specify who will assume **guardianship** of your child should both parents die while the child is still a minor. This is a vital step, as dependent children of people who die without legal documentation of their guardianship wishes may become wards of the state until the potentially lengthy legal process plays out. Your attorney also can help draft other important estate documents, including **power of attorney**, a **healthcare proxy/agent/surrogate** and an **advanced healthcare directive**. Find an estate attorney who specializes in serving younger families, suggests McGowan. “The process should be pretty simple, and it shouldn’t cost that much to do.”

Other considerations: Given the high cost of college tuition, it’s never too early to **start setting aside money for your child’s education** via a tax-favored vehicle such as a 529 college savings plan. Also review your **auto insurance coverage**, suggests Knox, as you may be eligible for a discount for being a parent, and/or if your driving habits will change as a stay-at-home parent.

As expectant parents, it can be daunting to have all these new responsibilities thrust upon you. A Certified Financial Planner™ (CFP®) professional can provide **much-needed guidance and assistance** in each of the aforementioned areas. To find one in your area, check out the Financial Planning Association’s national database at www.PlannerSearch.org.

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