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Preparing for Parenthood

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As you prepare for life with your baby, here are a few things you should think about.So you're about to become a parent. Congratulations! Parenthood may be one of the most rewarding experiences you'll ever have. As you prepare for life with your baby, here are a few things you should think about.

Reassess your budget

You'll have to buy a lot of things before (or soon after) your baby arrives. Buying a new crib, stroller, car seat, and other items you'll need could cost you well over $1,000. But if you do your homework, you can save money without sacrificing quality and safety. Discount stores or online retailers may offer some items at lower prices than you'll find elsewhere. If you don't mind used items, poke around for bargains at yard sales and flea markets. Finally, you'll probably get hand-me-downs and shower gifts from family and friends, so some items will be free.

Buying all of the gear you need is pretty much a one-shot deal, but you'll also have many ongoing expenses that will affect your monthly budget. These may include baby formula and food, diapers, clothing, child care (day care and/or baby-sitters), medical costs not covered by insurance (such as co-payments for doctor's visits), and increased housing costs (if you move to accommodate your larger family, for example). Redo your budget to figure out how much your total monthly expenses will increase. If you've never created a budget before, now's the time to start. If it looks like the added expenses will strain your budget, you'll want to think about ways to cut back on your expenses.

Review your insurance needs

You may incur high medical expenses during the pregnancy and delivery, so check the maternity coverage that your health insurance offers. And, of course, you'll have another person to insure after the birth. Good medical coverage for your baby is critical, because trips to the pediatrician, prescriptions, and other health-care costs can really add up over time. Fortunately, adding your baby to your employer-sponsored health plan or your own private plan is usually not a problem. Just ask your employer or insurer what you need to do (and when, usually within 30 days of birth or adoption) to make sure your baby will be covered from the moment of birth. An employer-sponsored plan (if available) is often the best way to insure your baby, because these plans typically provide good coverage at a lower cost. But expect additional premiums and out-of-pocket costs (such as co-payments) after adding your baby to any health plan.

It's also time to think about life insurance. Though it's unlikely that you'll die prematurely, you should be prepared anyway. Life insurance can protect your family's financial security if something unexpected happens to you. The death benefit can be used to pay off debts (e.g., a mortgage, car loan, credit cards), support your child, and meet other expenses. Some of the funds could also be set aside for your child's future education. If you don't have any life insurance, now may be a good time to get some. The cost of an individual policy typically depends on your age, your health, whether you smoke, and other factors. Even if you already have life insurance (through your employer, for example), you should consider buying more now that you have a baby to care for. An insurance agent or financial professional can help you figure out how much coverage you need.

Update your estate plan

With a new baby to think about, you should update your will (or prepare a will, if you haven't already) with the help of an attorney. You'll need to address what will happen if an unexpected tragedy strikes. Who would be the best person to raise your child if both parents die? If the person you choose accepts this responsibility, you'll need to designate him or her in your will as your minor child's legal guardian. You should also name a contingent guardian, in case the primary guardian dies. Guardianship typically involves managing money and other assets that you leave your minor child. You may also want to ask your attorney about setting up a trust for your child and naming trustees separate from the suggested guardians.

While working with your attorney, you should also consider completing advance medical directives. These documents allow you to designate someone to act on your behalf for medical and financial decisions if you should become incapacitated.

Start saving for your little one's education

The price of a college education is high and keeps getting higher. By the time your baby is college-bound, the annual cost of a good private college could be almost triple what it is today, including tuition, room and board, books, and so on. How will you afford this? Your child may receive financial aid (e.g., grants, scholarships, and loans), but you need to plan in case aid is unavailable or insufficient. Set up a college fund to save for your child's education. You can arrange for funds to be invested in the account(s) that you choose. You can also suggest that family members who want to give gifts could contribute directly to this account. Start as soon as possible (it's never too early), and save as much as your budget permits. Many different savings vehicles are available for this purpose, some of which have tax advantages. Talk to a financial professional about which ones are best for you.

Don't forget about your taxes

There's no way around it: Having children costs money. However, you may be entitled to some tax breaks that can help defray the cost of raising your child. You may qualify for one or more child-related tax credits: the child tax credit, the child and dependent care credit (if you have qualifying child-care expenses), and the earned income credit (if your annual income is below a certain level). For more information about tax issues, talk to a tax professional.

IMPORTANT DISCLOSURES

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