

# Pre-Baby **MONEY BASICS**

## Four financial steps to consider now

BY ♦ JULIE MEHTA

**A**llison Hockenberry didn't put much thought into financial planning before she got married. "I came from a family where if you wanted something, you got it. They used credit cards very freely," says the Pennsylvania teacher. But after giving birth to son Seth, now 3-years-old, she quickly discovered the value of having savings. "It was more expensive than we anticipated. Seth was very colicky, and we went from a formula that cost \$12 to a hypoallergenic formula that cost \$24."

Having a baby can mean making many overwhelming decisions about money, in a hurry. "New moms are so swamped and have to deal with what comes first, so financial planning falls on the back burner," says Julie Asti, a certified financial planner who works with many young families in Berkeley, CA. By thinking about matters like wills and insurance while you're pregnant, you can save yourself some post-baby anxiety and be able to focus more fully on your newborn child. Here's a rundown of the

financial considerations new parents face, and what you can do about them now.

### **WILLS**

"Making a will is extremely important, because it's the only way you can choose the guardian of your child if something happens to you," says Celia Hayhoe, Ph.D., a certified financial planner who teaches new parents about money in Virginia. A will also allows you to specify who will receive your assets, instead of leaving that decision up to the courts, which can cost your family money.

Hayhoe recommends having first, second, and third choices for guardians. She also suggests that spouses create individual wills, because if the will is joint and one spouse dies, the other cannot change it.

You can get a will template at a stationery store or online and write it yourself or, for a relatively low fee, have a lawyer draw one up for you. Nolo.org has an online will program; similar to a tax-filing program, it asks you questions





A tax exemption and child tax credit are just two advantages of being a parent.

and then fills out the form for you to sign with a witness present. However you do it, don't put it off. "Many parents overthink creating a will," Asti says. "Remember it's for a worst-case scenario and it can always be changed."

## INSURANCE

You might already have some life insurance through your employer, but experts recommend buying more when having a baby. Of the different types, Asti says, "Term insurance is easier and less expensive. It's designed to replace income if something happens to you." For example, a \$500,000 term life insurance policy costs \$1,000 to \$2,000 a year, and your family receives the full amount in the event of your death. Experts recommend buying coverage equivalent to 5 to 10 times the insured person's annual salary.

"A lot of families get insurance for a working husband and not a stay-at-home mom, but both parents need life insurance," Hayhoe says. "The father would need to pay for the care the mother would have provided." Again, experts

suggest taking out a policy in the amount a full-time nanny would cost for five years—approximately \$250,000. Some insurance agents may try to sell you life insurance for your newborn as well, but Hayhoe and Asti agree this is generally not necessary.

## TAXES

There's actually a financial bonus to being a parent, at least when it comes to the IRS. "The first thing you should do after the birth is get a social security number for the baby, because you need this number to claim the child as a dependent," Hayhoe says. You can apply for a number at any Social Security office (find one near you at [ssa.gov](http://ssa.gov)).

In addition to being able to claim an income tax exemption for each child and reducing taxable income, parents may be able to file for a child tax credit that lowers the dollar amount they owe or increases their refund. Another way to save on taxes is through the childcare credit, which allows parents to claim a deduction for a percentage of what they

spend on nannies or other childcare providers. You must use a professional childcare provider (not just a neighbor or friend) and should save receipts.

If one parent stays at home and earns little or nothing, Asti says a better tax advantage is to use a flexible spending account from the working spouse's employer. This lets you set aside pre-tax dollars to pay for dependent care and medical costs—up to \$5,000 a year. You get paid back from this account by sending receipts for eligible expenses in for reimbursement.

## COLLEGE

By far the most daunting financial task new parents face is saving for their child's college education. Joseph Hurley, CPA in Pittsford, NY, and founder and CEO of [savingforcollege.com](http://savingforcollege.com), says parents can expect a four-year college education starting in 2024 to cost about \$160,000 at an average public university and \$384,000 at an average private university.

Fortunately, most 529 college savings plans allow parents to contribute more

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than \$250,000 to a child's education. The state-run plans come in two types. One draws upon after-tax earnings and puts the money into stocks, mutual funds, and other investments. Your child can make withdrawals to pay for tuition, books, and room and board at any accredited school tax-free. The other, called a pre-paid 529, allows parents to lock in tuition rates at certain colleges and can be a more stable investment. With both types, parents can choose plans from any state, and fees and investments vary widely, so it's wise to comparison shop.

Asti recommends a combination of a 529 plan and a Coverdell education savings account, which has a \$2,000 yearly contribution maximum but allows parents more control over how the money will be spent. "It's unique in that it can be used for K-12 expenses," Asti says. "So you can use it for science camp, a new computer, or private school tuition. And if there's some left over, you can use it for college expenses as well." As with 529s, any remaining money can be rolled over to another student beneficiary in the family.

The sooner you start planning for all these events—college, your first tax bill as parents—the better. But don't overstress it, advises Asti. A mother of two young boys herself, she says, "You'll go through about a two-year period in 'babyland,' so it's good to think about this stuff beforehand. But if you can't handle it before, do it as soon as possible." ■

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