



And baby makes three

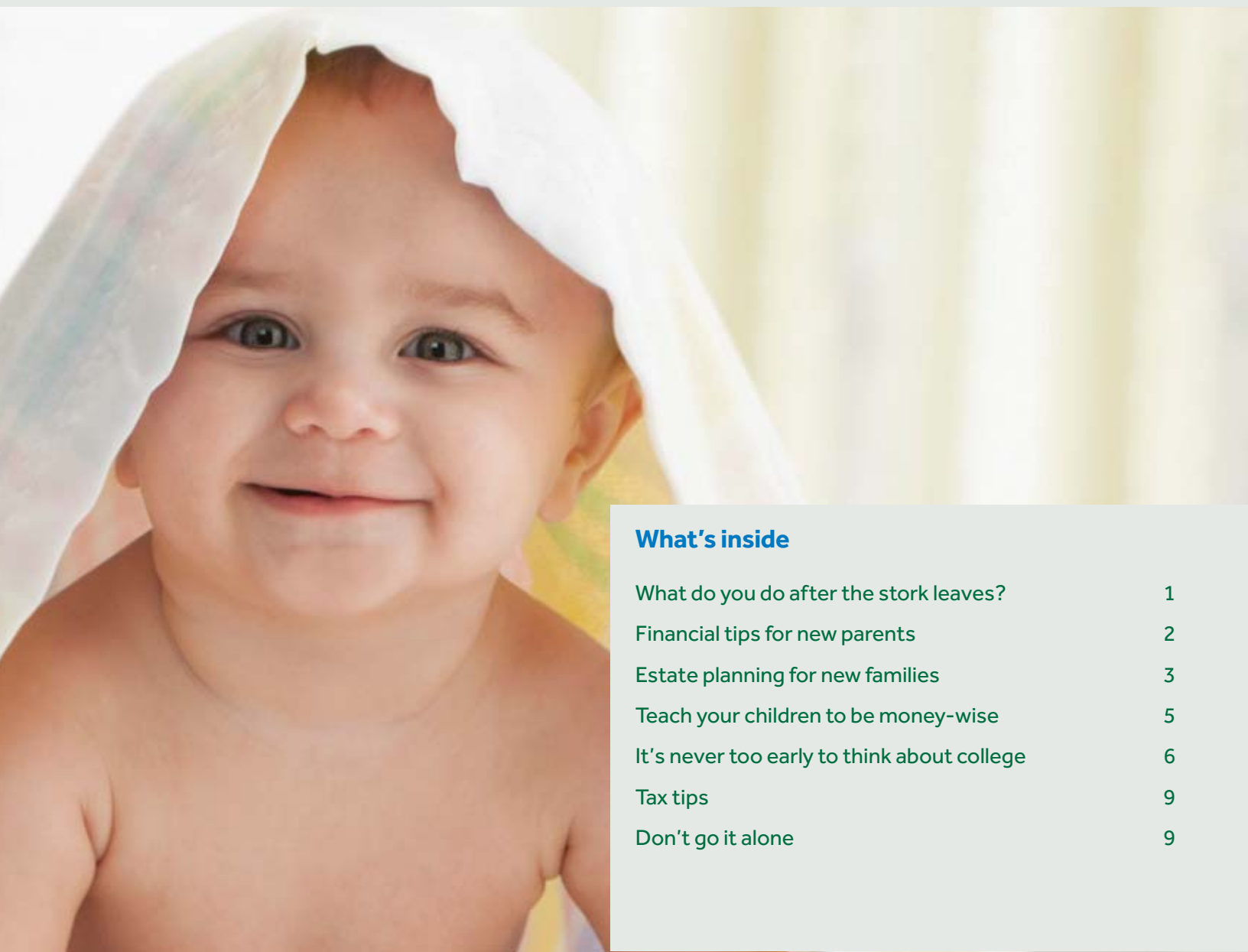
A financial guide for new parents



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Congratulations!

The birth of your first child is an event you will embrace for the rest of your life. You've spent months preparing for and anticipating this very moment, from deciding on the perfect name and decorating the nursery to stocking up on baby powder and diapers. And from the instant your little one arrived, you knew that your life, schedule, and priorities would never be the same. After the initial whirlwind subsides, it is important to set time aside to create a plan that will help to protect and provide for the one who will look up to you for love and guidance for years to come.



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What do you do after the stork leaves?

Being a new parent can feel joyous, exciting, and nerve-wracking—all at once. From the moment you announced that you were expecting, you were no doubt flooded with advice from family and friends. And after your baby was born, the same group of well-wishers most likely continued to support and guide you through the first few weeks of being a parent. But once everyone returns to their normal routine—leaving you to establish and settle into yours—it can seem overwhelming. Consider the following helpful hints:

- **Recognize best intentions.** At times, you may feel overloaded by a stream of advice from other parents. It is important to understand that they are speaking from experience and understand that having a new baby can sometimes be challenging. Realize that they are only trying to be helpful. During the times when you may feel less-than-receptive to advice, consider responses, such as:
"It's a good point, and I will give it some thought."
"Good idea. Maybe I'll try that next time."
"I've never thought of that before. Thanks!"
- **Sleep when your baby sleeps.** Lack of sleep can be one of the most difficult adjustments for new parents. When your baby is sleeping, you may feel compelled to catch up on tasks and chores that have been piling up. In order to care for your child properly, you need to be at your best, and that means getting as much rest as you can. So when your baby settles down—no matter the time of day—try to rest and recharge.
- **Be sensitive.** Bringing your baby home is a joyous event, but a new person in your house—even a small one—can affect everyone who already lives there. In addition, it's not always easy to make the immediate transition from being a couple to being parents. Being sensitive to any changes in the dynamic of your relationship can help you recognize, understand, and address your partner's feelings.
- **Communicate with your partner.** It is common for many personal and financial issues to surface for expecting or new parents. It is important to identify and openly talk about the issues, and make decisions as a couple for your new family. Will one of you stay home? Is it feasible to live on one income? If you will both continue to work, who will care for your child?
- **Remember date night.** Now that there is a new, little person demanding your constant attention, it can be difficult to remember what it was like when it was just the two of you. Do what you can to stay connected and keep your partnership strong, such as scheduling and maintaining a regular date night.



Financial tips for new parents

Having a child is the beginning of an exciting journey, and a great responsibility. As a parent, you must nurture and teach your child, as well as provide for their every need. Even if you have always been disciplined with your finances, it can come as a shock to your wallet when there is suddenly another mouth to feed. Here are some helpful financial tips for new parents to keep in mind:

- **Keep it simple.** Planning for your future, whether personal or financial, is an overwhelming task. Add a new baby to the equation, and it can feel impossible. You're not alone. When you are just starting out, focus on satisfying the basic necessities. Then, make a plan to address your future needs. A financial professional can provide assistance with this process and work with you to establish short- and long-term goals, outline a strategy to help achieve them, and keep you on track.
- **Establish emergency funds.** Many of the early expenses associated with your new family will be easy to identify. However, unanticipated expenses are an unfortunate reality, and they usually surface at the most inconvenient times. If you are already in the habit of setting money aside for a rainy day, you should focus on increasing your safety net. As a rule-of-thumb, many financial experts recommend having at least six months of living expenses set aside for emergencies.
- **Outline your expenses.** Your larger family will most likely call for a reassessment of your household budget. It is important to consider all of your new expenses and any adjustments they may trigger to your current lifestyle. Extra money that was available for discretionary items may need to be reallocated to cover new necessities, like diapers, bottles, and day care. Some common expenses for new parents include clothing, baby furniture, and "equipment," such as a car seat, stroller, high chair, and playpen.
- **Consider your investment options.** As you reprioritize your financial goals, you will want to take a fresh look at your investment portfolio. You may find that adjustments are necessary. Or, perhaps there are investment options that were not appropriate in the past, that are now. Your financial professional can help to assess your needs and suggest any revisions to your current investment mix.
- **Don't forget about your retirement.** Even in light of your new expenses, it is important to continue saving for your own retirement. Consider maximizing retirement plan contributions while your child is young and expenses are more predictable.



Helpful hint...

Accept hand-me-downs! View anything handed down to your baby from friends and family as a gift for both your baby and you. Your baby will receive newer items, and you will receive an opportunity to conserve money and build savings.

Estate planning for new families

Topics such as trusts, wills, and life insurance, may not be the most pleasant for new parents to consider, but they are essential. Estate planning is an important responsibility associated with caring for your new family.

Draft or update your will

Regardless of your financial situation, every parent needs a will. In addition to outlining how you want your assets distributed, a will allows you to designate who should care for your child in the event that something happens to you and your partner. It is always wise to discuss your decision with your chosen guardian before you include them in your will to ensure that they are willing to accept the responsibility.

- **Guardianship.** If you do not appoint an individual to care for your minor child, a court will appoint someone. Most times, the court will select a relative, but you may have insight about that person that the court does not.

For example, while a court may find that an individual is financially able to care for children, you may know that they have no interest in doing so.

When selecting a guardian, consider the person's age, health, finances, and comfort level with caring for your children.

- **Trust.** In addition to appointing a guardian for your children, consider how your assets should be managed and distributed to care for and benefit your children if they are to be raised by another person. Work with your financial professional to establish a trust and select a trustee.



As your family continues to expand, it is important to regularly revisit your household budget, review your financial portfolio, and ensure that you have adequate insurance to protect your growing family.

Review your insurance coverage

Your child will depend on you and your income for years to come, so it is important to take the steps to ensure that they will be able to continue enjoying the lifestyle that you have created for them, should something happen to you. Consult with your financial professional to learn about various insurance options and how they may align with your personal situation.

- **Life insurance.** Life insurance helps to replace lost income and the cost of time spent caring for your child. There are many varieties of life insurance, ranging from term insurance that covers certain periods of time to more permanent types, such as whole life insurance. The amount appropriate for your family is a personal calculation specific to your family's needs.
- **Disability insurance.** Disability insurance pays a portion of your salary for a period of time if you become disabled and are unable to work.
- **Health insurance.** Generally, you will have 30 days to add your newborn baby to your health plan. If both you and your partner are covered by health insurance, carefully review both plans for the best option. What will it cost to cover a newborn? Is one policy more cost-effective than the other?

Fund your children's future needs

Your goal should be to provide for your children's stability without putting a financial strain on their guardian. Consider the cost of education, clothing, food, entertainment, and health care. Then start a rainy day fund to help cover those costs. Once you have some money set aside, work with a financial professional to understand investment options that will help you meet your goals.

Update beneficiary designations

Your responsibilities have changed, so it is important to check and update the beneficiary designations listed on your retirement plans and insurance policies to ensure that your assets will transfer to those who are most important to you now. Your will cannot update any beneficiaries you may have listed on these accounts, so you may need to complete an official beneficiary designation change form with each plan provider. Be aware that you should not name minor children as policy beneficiaries without also naming a trustee to safeguard the assets.



Teach your children to be money-wise

As your children grow, they will create many proud parent moments, such as graduating from college, getting married, and having children of their own. When you think about potential gifts to help celebrate these events, consider giving sound financial guidance. It will benefit your children throughout each major life event, and may turn out to be the most precious and timeless gift you can give.

Financial Tips for Your Children		
The Early Years	Educate your children about the value of money and the importance of making smart financial decisions. Beginning these lessons at a young age will help to establish sound practices involving money, and form the building blocks for ongoing financial discussions.	<ul style="list-style-type: none"> ▪ Be a positive financial example for your children. ▪ Talk openly with your children about money and communicate your own financial values and experiences with money. ▪ Open a savings account for your children to deposit monetary gifts and found change. Review bank statements together, so they can see how their money grows over time.
High School Student	Most high school students are accustomed to their parents covering all expenses, so many will be in for a financial shock when they go off to college. Use these years to prepare teens to properly manage their money.	<ul style="list-style-type: none"> ▪ If schoolwork permits, obtain a part-time job or start a side business, like babysitting. ▪ Put a small amount in a bank account each week to be set aside for expenses while away at college, like books, meals, or entertainment. ▪ Create a budget to show where money is going and how spending habits may be impacting any financial goals.
College Student	College students are focused on completing the studies that will help them lead the life they seek after graduation. One thing they may not be focusing on is how to handle their money. Not doing so can create a financial mess by graduation day.	<ul style="list-style-type: none"> ▪ Set and maintain a budget. ▪ Schedule “finance time” each week to take care of money matters, such as balancing a checkbook and paying bills. ▪ Build credit and only use credit cards in emergencies. ▪ Start saving early to help build extra funds.
College Graduate	The smart money habits learned throughout their life will help to establish the foundation for a strong financial life after college.	<ul style="list-style-type: none"> ▪ Repay any student loans. ▪ Direct deposit paychecks to a savings account to earn interest. ▪ Enroll in a workplace retirement plan as soon as eligibility rules permit.



It's never too early to think about college

It's natural for parents to want the best for their children, and a higher education from a prestigious institution generally tops the wish list. Not surprisingly, one of the biggest concerns for new parents is saving for the cost of a college education, so it is wise to start planning early.

Tuition is the annual price that colleges charge to attend classes, along with any additional fees related to enrolling in a college. The cost of tuition will vary by the type of college, as shown in the chart below.

How Much Is College Tuition? ¹	
Type of College	Average Published Annual Tuition and Fees
Public two-year college (in-state students)	\$3,347
Public four-year college (in-state students)	\$9,139
Public four-year college (out-of-state students)	\$22,958
Private four-year college	\$31,231

Tuition is only part of the cost

In addition to tuition and fees, there are additional categories of expenses to consider when determining the annual cost of college.

- **Room and board.** Colleges usually offer a variety of dorm room options and meal plans to students who live on campus.
- **Books and supplies.** On average, books and other supplies will cost approximately \$1,200 each year.²
- **Personal expenses.** These include any non-school related costs, such as basic necessities and entertainment.
- **Transportation.** There will most likely be costs associated with commuting to and from campus or making regular visits home.

1. The College Board, College Costs FAQs, Data based on published tuition costs; 2014-2015.

2. The College Board, Quick Guide: College Costs, Assumes a four-year public college; 2015.

Paying for college

Financing a higher education may seem financially unreachable to many, but with careful planning, it may be more accessible than you think. While sending your child off to college may feel like a far-away event, start saving as early as you can...you'll be glad you did!

The following ideas can help to get you started. The right option for you depends on factors like your child's age, your family income, your potential for financial aid, and the expected cost of college. Your financial professional can be an instrumental partner in helping you to develop a strategy to reach this goal.

- **Establish a college fund.** Open a savings account for education when your child is born, even if you can only put away small amounts. When your child is a little older, consider opening an account for him or her and start saving with them. Encourage them to deposit at least 10% of any financial gift they receive and consider matching the amount.
- **Consider a college savings plan.** Formal long-term plans exist for the sole purpose of accumulating college savings. Generally, these types of plans are easy to set up and tend to be tax-free. College savings plans vary, so consult your financial professional for details, such as how the money can be spent and any rules around withdrawals.
- **Grants and scholarships.** You may be able to use a grant or scholarship to help pay for college. The terms are often used interchangeably, but there are differences between these financial awards. Scholarships are usually awarded on the basis of academic merit or achievement, while grants are generally needs-based and awarded according to your financial situation.
- **Financial aid.** Financial aid is money that the government, colleges, and other organizations loan to individuals to help pay for the cost of higher education. Not all financial aid packages are the same, so it is important to review the specific options available to you, as well as the requirements to repay the loan.
- **Series I and Series EE savings bonds.** Interest earned from these types of savings bonds is free from federal tax as long as it is used to pay for college tuition and fees.
- **Investments.** Investment accounts provide many advantages, such as a variety of options, the ability to retain and control your assets, and the flexibility to use the assets for expenses other than college, if necessary. Earnings are generally taxed, though. Your financial professional can help to recommend investment options that are in line with your financial goals and personal situation.

Money experts caution against prioritizing college savings over your own retirement. As a rule-of-thumb, you should postpone saving for your child's college tuition until you are regularly contributing at least 10% of your income toward your retirement.



Rethink retirement plan loans

A college education is a sizeable expense for most parents, and many may consider taking a loan from their 401(k) plan to help cover the cost. This may seem appealing, but as you can see from the points below, it is not always the best option. Consult your financial professional to discuss college funding options that make the most sense for your family.

- **Loss of tax benefits.** When you contribute money to your 401(k) plan directly from your paycheck, money is added on a pre-tax basis. Loan repayments, on the other hand, are made with after-tax money. That means that you will ultimately be repaying more than the amount you initially borrowed.
- **Retirement insecurity.** Removing money from your 401(k) plan prior to retirement could jeopardize your overall retirement security. The amount of the loan you take may create a financial shortfall that you may not be able to replace.

In addition, in the event of a job loss, many plans will consider an outstanding loan as a payment of additional income, which will cause a tax liability.

- **Limited growth potential.** Borrowing from your 401(k) plan will limit the growth potential of your retirement assets because the outstanding loan balance will not earn interest or benefit from compounding interest.

Tax tips

Having a baby reduces taxable income for all taxpayers, even if your child is born on the last day of the calendar year. The following are some basic tax breaks related to children. Consult with your tax and financial professionals for the guidelines and limits specific to each of these tax provisions.

- **Basic exemption.** Having a child will reduce your taxable income, as long as your income does not exceed a certain amount.
- **Child tax credit.** According to the Taxpayer Relief Act of 1997, you can claim an annual tax credit for each child you support below age 17.
- **Adoption credit.** You can claim an adoption tax credit, if applicable, for a child under age 18 or a special needs child, providing your income does not exceed certain limits.
- **Education tax credits.** These credits include the H.O.P.E. Scholarship and Lifetime Learning Credits. The H.O.P.E. Scholarship provides a federal income tax credit per student for qualified higher education expenses paid during the tax year. The Lifetime Learning Credit is a tax credit for any person who takes college-level classes.

If you plan on working and paying for child care, you may need to choose one of two tax breaks:

- **Flexible spending account.** If your employer offers a flexible spending account for dependent care, you can set money aside up to a certain amount, and exclude it from your income, to help cover the cost of day care or a nanny.
- **Child care credit.** If you owe taxes, you can be credited dollar for dollar for up to a certain percentage of your child care expenses.

In addition, to help increase your take-home pay and avoid withholding too much income from your paycheck for taxes, consider revisiting the deductions on your Form W-4. Consult your tax and financial professionals for guidance on a withholding level appropriate to your financial situation and family.

Your child is not required to have a Social Security number until they begin their first job. But, in order to claim your child as a dependent on your taxes, they will need to have one. Consider applying for a Social Security number when your child is born.

Don't go it alone

Having a baby is a life event that will spark many changes in your life—both personal and financial. As you achieve life's major milestones, remember that your financial professional is a valuable

resource who can help you regularly review and refine your financial needs and, as your circumstances change, recommend any adjustments to your investment strategy.

Additional resource

The College Board
bigfuture.collegeboard.org



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