New Parents Face New Financial Challenges

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BECOMING A PARENT is one of life's greatest joys. It can also bring the most significant changes to your priorities, goals, and daily schedule that you will ever experience. Raising children can be extremely rewarding and at the same time frighteningly challenging; it is unquestionably an emotional roller coaster. Providing for the expenses as they grow up and planning future financial outlays suddenly becomes a top priority. You want the very best for them and to protect them as they travel the long and winding road from infancy to adulthood. You want to ensure their financial security. But meeting the costs of raising children, including their future education, can be difficult. Thankfully, there are ways to prepare for the financial challenges ahead.

Welcoming a new addition to your family is a perfect time to reassess your budget. Many of your current living expenses are likely to increase, including transportation, healthcare, groceries, clothing, and even housing. You will also encounter new expenses, like child-care — and have to cover expenses with less household income if one parent stops working. Making sure that your family expenses are rolled into your budget and reflect your new priorities is crucial to staying on track with your finances and financial plan.

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INSURANCE CONSIDERATIONS

As the head of a household's responsibilities increase, consider life insurance as part of your comprehensive financial plan. In the event of a premature death of a parent, what will happen to the children? The loss of income or of the caretaker of household duties can be a significant blow to a family's financial situation as well as emotionally. Life insurance allows for a preselected amount of money to be available to replace the loss of income or to cover expenses related to the loss of a household and family caretaker. A proper amount of coverage will allow your family to maintain its standard of living, but a policy amount high enough to cover such things as a college fund and other future expenses will help them continue to pursue opportunities and goals that an untimely death would otherwise make much more difficult. And while there are costs associated with life insurance, the peace of mind you have that your family will be taken care of if anything unforeseen happens to you is priceless.

It is also important to consider disability insurance. While life insurance will provide protection in the case of your death, disability insurance can cover costs and expenses related to an untimely, disabling injury. Disability insurance typically pays a percentage of your income and can help fill the gap until you are able to rejoin the workforce. While it is possible to qualify for Social Security disability, it is available only in the case of a permanent disability, and even then, qualifying can be difficult. Other disability insurance options offer more comprehensive solutions.

RETIREMENT AND COLLEGE SAVINGS PLANS

In preparing for future expenses related to their children, parents often consider putting saving for retirement on hold, in particular when it comes to saving for their children's education. The decision may be well-intentioned but can put your own financial health in retirement at risk. When you put retirement savings on the back burner, you those years of tax-deferred growth in your retirement funds. Ideally, it is best to save for both goals simultaneously. But if that is not possible, it is best to prioritize retirement savings, because while there are many ways to obtain financial aid for college, those options do not exist for retirement.

If you have sufficient funds to start saving for your child's college, begin as early as you can. According to a College Board report, the average cost in 2021 for one year at a four-year public college eclipsed $27,000 for in-state students and nearly $56,000 for a four-year private college. Costs include expenses such as tuition, room and board, books and supplies, and transportation. That adds up to a total cost for a four-year public college education of over $100,000 and well over $200,000 for a private college. While that may seem daunting, it is important to remember that you have about 18 years before that beautiful baby will start incurring those expenses as a college freshman. Opening a targeted investment account early allows you to take advantage of compounded interest. While investing includes risk, and no guarantee of return of principal, compounding interest can allow for a small monthly contribution to the account to grow substantially over those 18 years.

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There are many different strategies for saving for college in addition to investment accounts, such as pre-paid tuition and 529 plans. Keep in mind that risk tolerance and asset allocation should be determined by the number of years remaining until the child enters college. As that date draws closer, investable assets should shift to lower risk investments. The SECURE Act 2.0 of 2022 gives owners of 529 plans greater flexibility. For example, if the funds are not used, they can ultimately be funneled back into Roth individual retirement accounts (IRAs) for you or your children.

ALLEVIATING THE STRESS

Proper planning can help alleviate the stress that accompanies the expenses that come with having children. With a game plan for the future and a sound investment strategy, you can free yourself up to enjoy more of those special moments in your child's life. Before you know it, that newborn who was just learning to walk will be strutting across the graduation stage with a beaming smile and a wave to their number one supporters.

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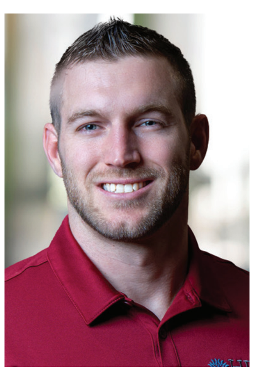

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