Six Financial Tips for a Growing Family

Whether you're having a baby or adopting a child, you have a lot of preparing to do. It's easy to overlook or postpone acting on the many financial responsibilities that come with welcoming an addition to the family. Addressing the financial aspects of a growing family can be just as important as making sure the child has a warm bed to sleep in.

Here are six tips you may want to consider as soon as possible – preferably before you bring the child home. If you wait, it will be more difficult to find the time you need.

Tip #1: Prepare and update important documents

Parents instinctively want to protect their child – physically. But you also need to take steps to help protect your child financially in the event something happens to you. That means thinking about estate planning. Things to think about include:

Creating a will

A will not only provides instructions for distributing property you own (in your name alone) through the probate process after your death, it's also the primary method you can use to nominate a guardian for your children. Wills can be simple or include complex provisions.

Your attorney can help you design a will that fits your needs and objectives.

Considering a trust

You can transfer the ownership of your assets to a revocable living trust, effectively removing them from your probate estate. It also lets you provide for continued management of your financial affairs if you are incapacitated or upon your death. This includes providing financial support for your children. By using a revocable trust, you can change the document's terms or discontinue (revoke) the trust whenever you wish.

Your attorney can help you determine whether a revocable trust is appropriate for you, and if it is, customize a trust to fit your situation.

Establishing a general durable power of attorney

A durable power of attorney is a legal document in which you name another person to act on your behalf. While a traditional power of attorney is no longer in effect upon your disability or death, a durable power of attorney will continue during incapacity to provide a financial management safety net.

Setting up a durable power of attorney for health care

A durable power of attorney for health care authorizes someone to make medical decisions for you in the event you are unable to do so yourself. This document and a living will can be invaluable for avoiding family conflicts and possible court intervention if you can no longer make your own health care decisions.

Preparing a living will

A living will expresses your intentions about the use of life-sustaining measures in the event of a terminal illness. It expresses what you want but does not give anyone the authority to speak for you.

Tip 2: Review your insurance needs

Insurance can play a major role in your lives when you have a growing family. It's important to take care of your insurance needs before they're actually needed.

Review your health insurance coverage

Health care coverage is an important consideration. If you're having a baby, talk with your health plan administrator about your level of coverage during pregnancy as well as the effective date of coverage for the baby.

There are many doctor visits and vaccinations during the baby's first year. Without insurance coverage, these expenses add up quickly. Also ask about the extent of your coverage in the event your baby has an extended hospital stay at birth due to complications with delivery or an unexpected medical condition.

Look at life insurance

Will your child be provided for in the event of your death or the death of you and your child's other parent? In some cases, caring for your child may be a financial burden on the surviving parent or on the guardian you selected. Life insurance can help.

Also talk with your attorney about your primary and contingent beneficiary designation on insurance policies, any trusts, or other accounts with a beneficiary designation (such as IRAs, annuities, and employee benefit plans). Make sure they're in line with your overall estate plan.

Consider long-term disability insurance

The chance you'll become disabled during your working years is much greater than the probability of you dying during that time. Accidents can happen. You should consider how you will replace your income if you're unable to work because of an injury or disability.

There are private companies that offer supplemental coverage in addition to what your employer may provide.

Tip 3: Apply for a Social Security number

There are good reasons to apply for a Social Security number for your child.

Your child's Social Security number will be needed to receive ongoing health insurance coverage. Contact your health plan administrator to find out if you are required to provide one within a specific time frame to maintain coverage for your child.

A Social Security number is necessary to receive a dependent exemption and other child-related tax benefits when filing your federal income tax return. Overlooking this step could mean a higher tax bill.

A Social Security number will be needed to open a savings or investment account in your child's name.

Many hospitals have a process to help you to apply for your child's Social Security number. Waiting a couple months requires more documentation, and it may take longer to complete the process. Visit www.ssa.gov to learn more.

Tip 4: Create a new budget

Take another look at your budget to figure out ways to pay for all the new expenses that come with having a baby or adopting a child. By planning ahead and adjusting your budget early, you can stay in control. You'll need to factor in:

- Child care costs (if necessary)
- Medical costs
- Food
- Diapers
- Clothing
- All the other accessories and necessities

Tip 5: Start an education fund

College may seem far away, but kids grow up fast, and the cost of college continues to increase. If you put just $50 a month into an account at a hypothetical 8% annual rate of return, in 18 years you would have more than $22,000. You can always increase your savings along the way if your financial position changes.

There are a variety of different ways to save for your child's education. Your financial advisor can work with you and your tax advisor to determine which one best suits your situation.

Tip 6: Take note of tax benefits

One added bonus to having a child is the many tax benefits you may be eligible to claim. Some are in the form of deductions reducing your taxable income, while others are credits directly reducing your taxes.

Deductions

When you add a child to your family, you get an immediate tax benefit in the form of a dependent exemption. This exemption reduces your taxable income by $4,050 (in 2017) for each dependent you claim on your tax return.

If your employer's benefit plan includes a Flexible Spending Account, you can allocate a portion of your pre-tax wages into the account, which reduces your taxable income. You can use a Flexible Spending Account for either paying qualified dependent care expenses (like daycare costs) or for paying qualified medical expenses.

When deciding how much to contribute to a Flexible Spending Account, keep in mind that some employers will allow you to credit a limited amount of an unused portion to the following year's account balance. However, in many cases, any unused funds remaining at year-end are forfeited. In other words, you have to use it or lose it.

Credits

The Child Tax Credit lets you reduce your tax bill by $1,000 for each qualifying child you have younger than 17. (This credit is reduced for high-income taxpayers.)

If you pay childcare expenses for your child who's under age 13, you may also be eligible for the Dependent Care Credit.

For parents who adopt a child, you may be eligible for the Adoption Credit, which can help offset the significant costs of adoption.

Create a team to help

Your lawyer, tax advisor, and financial advisor can provide more information about these topics. They can help you evaluate options and how each can fit into your personalized plan and situation.

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