

7 Important Financial Steps For New Parents To Take



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Have you or anyone you know had a recent addition to their family? With all the excitement of a new baby, it's easy for the parents to overlook some key financial steps to take. In honor of Mother's Day next Sunday, here are seven tips you might want to share with them or consider for yourself:

1) Add your child to your health insurance policy

You'll want to make sure your little one is covered and if you get insurance through your employer, you may have a limited time to add your child to your policy. You may also want to

switch to a lower deductible plan if you're concerned about your baby's potential health care costs. If you're in a high deductible plan and are switching from an individual to a family policy, be aware that you can now contribute \$3,500 more to a health savings account (HSA) for 2019.

2) Update your will, trust, and beneficiary designations

[A will](#) goes beyond just designating who will inherit your assets. It can also designate who will be the guardian of your child should something happen to both parents. The decision of who could end up raising your child is a pretty big one and not something you probably want the courts to decide if it's not in your will. Your employer may even offer a benefit that allows you to draft a will and other basic estate planning documents for free.

You might also want to add your child as a beneficiary on any accounts, trusts, and life insurance policies you have since those beneficiary designations trump anything on your will. That means neglecting to update those documents could cause you to inadvertently disinherit your child from a significant portion of your assets even if your will divides everything equally among your children. If you don't fill out the beneficiary form at all, your retirement accounts would go into your estate and your child could lose significant tax benefits.

In addition, you can put beneficiaries on bank accounts with a POD (payable on death) form and on regular investment accounts with a TOD (transfer on death) form that you can typically get from the institution holding the account. [Some states](#) also allow you to add beneficiaries to real estate and vehicles. Having these beneficiary designations allow these assets to pass on without the cost, delay, and lack of privacy involved with the probate process and with much less cost than a [trust](#).

Of course, a trust can provide other benefits like appointing a trustee to manage money for your child even beyond [the age](#) of majority in your state. (Do you really think an 18 year old will know to manage the money?) If you do decide to draft a trust, you may want to see if your employer offers a prepaid legal plan that allows you to get discounted legal services, including estate planning.

3) Ensure you have adequate life insurance

Once you've decided who will take care of your child and what your child will inherit, you'll want to make sure that your child has enough to live comfortably. That could be more difficult if they're going to be raised by your spouse as a single parent than if their guardian is a rich uncle. The good news is that your family may qualify for [benefits from Social Security](#) if something were to happen to you.

If that won't be enough, you may need to purchase life insurance. Since you'll only need the insurance until your child can support themselves, [term insurance](#) covering that length of time is generally the most cost-effective option. You can calculate roughly how much you'll need [here](#) and look for low cost policies [here](#).

Your employer may also offer you a window of time after your child's birth to purchase additional life insurance without a medical exam. This may be much cheaper than buying a separate policy that requires underwriting, especially if you have health problems. Just be sure to check if the policy is portable. Otherwise, you could be at risk of becoming uninsurable if your health deteriorates and you leave your job.

4) Plan for childcare expenses

You can estimate your childcare expenses [here](#). If you don't think you can afford it due to limited income, try contacting your [state's Childcare Program Office](#) for financial assistance. Otherwise, see if your employer offers a dependent care FSA (flexible spending account) that you can contribute to pre-tax and use the money tax-free for dependent care expenses. That's like getting a discount equal to your [marginal tax rate](#). Just be aware that the FSA is use-it-or-lose so you don't want to contribute more than you expect to spend that year.

You can also claim a [dependent care credit](#) on your taxes. You can't use the FSA and the credit for the same expense though. Generally, the dependent care credit is better for families in the 15% tax bracket or lower while the FSA is better for families in higher tax brackets.

5) Make adjustments to your budget

Of course, insurance and childcare aren't the only additional expenses you may have. Kids are [expensive](#), but there are some things you can do to make them a little less so. For example, it probably doesn't make sense to spend a lot of money on clothing that they'll quickly outgrow, especially when they're too young to care what they look like anyway, so shop for baby clothes at discount retailers like Old Navy and Target and even consignment shops. You can also purchase used toys and baby furniture. They won't know the difference.

6) Consider saving for education expenses

I say "consider" because as selfish as this may sound, you'll want to make sure your needs are taken care of first. That means paying off any high-interest debt you may have (anything with interest rates above 4-6%), building an emergency fund of at least 3-6 months of necessary expenses, and getting [on track to retirement](#). After all, there's no financial aid for emergencies or retirement. (It's just like how airlines tell you to put on your own oxygen mask first before helping your children with theirs.) However, once you are ready to start putting some money aside to help them with future education expenses, there are some [tax-advantaged options](#) to consider.

7) Start teaching good financial habits

It's never too early (or too late) to start learning the habits that can help shape a person's financial life. While they might be too young to learn about balancing a checkbook, just learning something as simple as how to [resist eating a marshmallow](#) can make a huge difference. As they grow older, you can help them further develop the discipline to delay gratification and eventually

plan and save for their own future. After all, watching them grow into responsible adults is something you really can't put a price on.

Sound like a lot? Of course, this is just a tiny piece of what parents do for their children. Be sure to keep that in mind this Mother's Day!

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