



Financial Preparation for the First-Time Family

Preparing for a new child can be an overwhelming process. There is so much to plan for and do, thinking about money can take a back seat to more exciting tasks, like selecting a name and choosing birth announcements. However, planning for the many financial changes ahead should be done sooner rather than later. Chances are you won't have a lot of time (or energy) after the baby is born to spend on rearranging your finances. If you start now, you will set a comfortable foundation for you and your family when you need it most.

Analyze your financial expectation and values.

If you have never considered what money means to you, now is the time. You and your partner should be perfectly clear about your individual financial expectations and value systems. Discuss your spending, saving, and investment styles. Are you a spender, she a saver? Does the slightest amount of risk send you overboard with worry, while he is happy playing the lottery?

Talk about what kind of life you want to have for your child. Have you always imagined sending your child to summer camps and private schools, then picking up the tab for college tuition? Or, maybe you believe in public education and having your child pay for his or her college expenses. Do you want to lavish your child with only the most expensive toys and clothes, or prefer a more austere lifestyle?

These are not simple questions, and there are no right or wrong answers. Opinions vary widely, and you may find significant differences in how each of you perceives money. That's why it's vital that you discuss - and resolve - these issues before conflict arises.

Analyze your current and anticipated budget

If you haven't looked at your spending habits lately, do so now. Most people can benefit from a serious budget analysis at least once a year. It helps to review each line item and make conscious expense choices. Seeing the numbers in black and white is a critical reality check, particularly at this juncture in your life.

Most people's budgets change dramatically after the birth of a baby. Some expenses may decrease (entertainment, dining out, and vacation costs often decline in the first couple of years), while many increase. Most people are surprised at how much having a child can actually cost. Cribs, bedding, clothes, diapers, toys, car seats, strollers, etc. can amount to a hair-raising figure. If you need help deciding what to buy, quiz other parents about what they valued most. You may be surprised at how few cute stuffed animals you need and how many blankets you require.

Baby showers can be a great way of reducing the initial outlay. Be sure to ask for what you truly want and need. Invite friends and family members who have had children to donate to your "baby fund." Often they will be happy to clear out some closet space for such a good cause.

Plan for emergencies

You will soon be responsible for another life - a daunting prospect. But you can reduce the amount of stress this thought can generate by planning ahead. Emergencies happen. If you don't have it already, consider adding insurance to your budget. Life insurance will provide a financial benefit to your child if you die; disability insurance will keep money flowing if you can't work; and health insurance will pay for all the doctor bills and other medical expenses that are an inevitable part of every child's life.

Another key aspect of planning for emergencies is setting up a savings account. A good rule of thumb is having three to six months worth of expenses saved in an account where you won't be charged early withdrawal penalties or assessed an excessive tax. If you want to go even further, you can plan now for higher education costs by setting up a Coverdell Educational IRA or a 529 plan. Both will allow you to contribute pre-tax dollars to your child's college fund.

Finally, keep in mind that your child will learn financial habits from you, so commit yourself to providing the best education possible. By living within your means and not relying on credit to pay for things you can't actually afford, you will be sending a powerful and positive message your child will remember for a lifetime.