

Adopting a Child Requires a Specific Financial Plan

Adopting a child is a massive decision, probably bigger than education, marriage or career. Few individuals or couples anticipate how expensive it is to have a biological child, and depending on your choice of adoption scenario you're going to need a financial plan.

It's not overstating to say that in some situations, you may be paying the price of a current four-year public college degree just to complete the adoption process.

Here's a very general review of those figures. The least expensive form of adoption comes from your local foster care system. Your cost could conceivably be zero since states often subsidize these programs to place these children. Meanwhile, agency and private domestic adoptions can range from \$5,000 to \$40,000 depending on agency and attorney fees, travel expenses, birth mother health and living expenses, state requirements and many other factors unique to the situation. International adoptions are somewhere in the middle of that cost range even with travel, adoption agency and other fees and expenses that need to be paid on the ground in the country of adoption.

All parenthood comes at a price. But with the help of a financial planner, you can not only afford the adoption but continue your planning for your child's upbringing and your retirement. Here are some financial stepping stones to a successful adoption:

Create a financial plan or re-evaluate your existing one: As you already know, a financial plan is a written set of goals, strategies and a timeline for accomplishing those goals. It starts with the basics – determining how much you really have in savings, debt, insurance and investments. Your planner can also help you understand how much the additional costs of adopting and raising a child will affect all those numbers.

Get rid of your high-interest debt: A major decision like having a child is a good reason to take a “clean slate” approach to debt. Before you can build a reserve fund, it's wisest to pay off your credit cards and any other high-rate debt first.

Make sure you have a solid estate plan in place: Today, adoptive parents are typically older and closer to retirement. That means you have to create an estate plan and a safety net of insurance and savings that will secure your child's future if the worst happens. Also, if you are a single parent or part of an unmarried couple hoping to adopt, the whole issue of estate planning becomes much more critical. You may also want to consider separate guardianship for the child and the child's finances.

Check your insurance options: In today's health, life and home insurance environment, the addition of a child to a policy can bring additional cost – sometimes without the guarantee of the best coverage. Before you start the adoption process, check with your employer or your independent insurance agent to make sure you have the best coverage for what you can afford. If you're self-employed, family coverage becomes an extremely expensive bargain, so you really need to evaluate your options since you're footing the entire bill. Also, keep in mind that you can put an adopted child on your health plan within 30 days of the adoption date, but if

you delay, you might have to wait until the next open enrollment session to put your child on your insurance.

Know your tax advantages: Families adopting overseas can get some tax relief. Parents are entitled to a one-time tax credit of \$11,390 in 2007 for adoption expenses. Though the credit can't be reduced by the alternative minimum tax, qualifying expenses include paperwork costs, court costs, attorney fees and all travel expenses including meals and lodging. This amount is phased out if an individual's modified adjusted gross income (MAGI) is between \$170,820 and \$210,820. Over the \$210,820 level, taxpayers can't claim the credit or exclusion.

Build your reserve fund: When a baby, toddler or older child comes into the house, money flies out the door at a velocity most childless people have never seen. Children always cost money and sometimes unpredictably so, but it pays to build your savings before they arrive so you won't overuse your credit cards. Also, in the case of surrogacy, it's possible that a birth mother's health may take a turn during the pregnancy, so that's an expense that needs to be anticipated.

May 2007— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by local member Bill Rodau, MS, MBA, CFP® at *Creative Financial Services*, 262-780-0870, www.imfeeonly.com. The column is provided for your general information only and you should contact this planner or other professionals for specific advice regarding your unique situation.