

FINANCIAL PLANNING FOR NEW PARENTS

Dramatic changes in one's life often require a reassessment of one's personal finances. And few events have a more profound impact on one's life and finances than the arrival of a first child.

The estimated cost to raise a child through age 17 is \$127,080 to \$254,400 for an average-income family, according to 2002 figures from the Department of Agriculture. This cost doesn't include college education, or the forgone wages and benefits one or both parents might incur while raising a child. So if you're expecting a child, or one was just born, it's time to do some serious financial planning.

Get that Social Security number. You'll want to get a Social Security number for your child as soon as possible – not because he or she is going to work soon, but because the number will entitle you to several tax benefits that will help defray some of the child-rearing costs.

For example, unless your taxable income is too high, you can claim the new \$1,000 child-tax credit. (By the way, if your child was born this year, you won't receive one of the \$400 checks the government is mailing out early to taxpayers who claimed the old \$600 tax credit in 2002; you'll have to wait until you file for 2003 to receive the \$1,000 credit.)

For tax year 2003, you'll also be able to take a \$3,050 tax deduction for your new child as a dependent. Qualifying low-income families may receive a higher earned income credit with the addition of the child. You may qualify for a tax credit for child-care expenses. And a single parent may be able to file as head of household, which can provide additional tax benefits.

Review employer benefits and paychecks. Consider increasing by at least one or two the number of allowances you check off on your W-4 form at work. This will increase the amount of your take-home pay in response to the increased deductions you'll receive for the child.

Add your child to your health insurance plan, and review possible plan changes. (Is your pediatrician on your current plan? Does it cover well-baby visits?) Most employers allow such changes even though it may not be during the open enrollment period.

Consider signing up or increasing the amount you put into a flexible spending account for health care if it's available at work, and if both parents work, considering starting an FSA for child-care. With these types of accounts, pre-tax dollars are set aside from your paycheck – up to \$3,000 for medical and \$5,000 for child care. You withdraw funds tax free from the accounts as you incur

qualified expenses. Just be aware in the case of the child-care FSA that you can't simultaneously claim a child-care tax credit, so you'll have to determine which option offers the greater tax savings.

Revamp insurance. Increase your life insurance to provide for the future needs of the child in your absence. If you don't have adequate disability insurance, and many people don't, beef that up.

Write or review your will. You'll want to designate a guardian for your new child in your will in the event you and your spouse die. Discuss who you would like to care for your child, and then talk it over with the person to be sure they're willing and able.

You also may want the will to establish a trust to manage estate assets for your child should both of you die before your child is old enough to manage the inherited assets.

Start saving. If you weren't saving or budgeting before, definitely start now because big-ticket expenses will grow with a new child – a larger home, a bigger car, medical expenses and so on.

Start saving for college. Like any form of investing, the sooner you start the less you need to invest in order to reach a specific target. That's because the power of compound earnings grows stronger the longer the time horizon.

On the other hand, don't save for college at the expense of saving for retirement. First, your child might not go to college and you've thus wasted all those years the money could have grown inside a retirement account. Second, if you haven't saved enough by the time the child reaches college age, there's always financial aid, a less expensive school, scholarships or work. But nobody gives financial aid for retirement.

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