

## **Baby Steps: Financial Advice for First-Time Parents**

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You're having a baby, and your mind is reeling with the changes that are about to happen in your life. Aside from the sleepless nights and sudden halt in your social life, babies also make a big financial impact on their parents. While you're preparing for these changes that will come with your new addition, don't forget to consider where your finances fit into the new family picture. There are many factors to think about - some are shorter-term, such as budgeting for daily necessities, others are a more permanent part of raising a child.

### **Insurance Matters**

Reviewing health, life and disability insurance coverage should be one of the first things new parents do. Make sure you know what medical expenses are covered during the pregnancy and birth. You'll want to be prepared to pay out of pocket for some of your prenatal care or part of the hospital bill if it isn't covered by your health benefits. And remember to add your baby's name to your health insurance so you don't end up paying for regular check-ups or other visits to the pediatrician yourself.

Buying a life and disability insurance policy or increasing your existing coverage also is important. In the event of a tragedy or a debilitating illness or injury, you have to make sure that the mortgage is paid for and that child care costs are covered. Having long-term disability insurance means that you'll receive a portion of your salary even if you can't work - maybe long after worker's compensation or any employee benefits expire. In addition, life insurance can replace the income you would generate until the child has grown and left the house. You should consult with your insurance agent or advisor to determine how much disability and life insurance you need.

### **In the Months Leading Up**

Use this time to pay down debt, before you have additional expenses related to your growing family. Another good idea is to pay all of your bills for the month ahead right before the baby is due. The two or three weeks following your baby's birth are a hectic time, and you don't want to pay any late fees because you accidentally overlooked a bill or missed the due date. Online bill pay with your local community bank makes paying bills even more convenient, allowing you to set the date you'd like bills to be paid automatically out of your bank account.

### **In The Months Following**

Your new child will affect your tax status - in a positive way. You can claim a new dependent on your income tax form. Be sure to register to receive a Social Security

number for your newborn before you leave the hospital. What's more, you'll be eligible for a child credit and possibly a child care credit. Still, those advantages are not enough to offset the long financial road ahead when it comes to raising children.

Once baby arrives, some families will be living on a smaller income, either during maternity leave or if one parent works less or not at all. To know for sure if your family can afford having one parent stay home full time, calculate your income and expenses and compare them with the average cost of child care in your area. Think about expenses you can eliminate by not going to work - such as lunches out, commuting costs, and dry cleaning.

If both parents decide to go back to work, the cost of child care becomes one of your biggest expenses. Take advantage of a flexible spending account if your employer offers one. Up to \$5,000 can be deducted tax-free from your paycheck over the course of a year for child-care expenses. While it probably won't cover the entire cost of your annual child care bill, it can cut back your out-of-pocket expenses. You can also consider investing your money in a money market account, a type of savings account with a competitive interest rate which can be liquidated at anytime without penalty. Investing in CDs is another option to take advantage of higher interest rates and annual yields than a typical savings account. A short to mid-term CD investment can help build your wealth over your child's life.

Continue contributing to your 401(k) to build retirement wealth. Always make sure that you contribute enough that you get all of your employer's matching funds. If absolutely necessary in order to enhance your budget, you can consider scaling back on 401(k) contributions but make sure you are still contributing the minimum amount to receive the employer match.

Long-term financial planning can be overwhelming when you are trying to pay for diapers and babysitters, but planning ahead for major future expenses like college and retirement is essential. Many financial experts will tell you that if you have to choose between saving for college and retirement, save for retirement. There is financial assistance and loans available for college, but funding your retirement is up to you.

Still overwhelmed? Visit your local bank and talk to a financial representative or tax advisor about ideas for both college fund and retirement savings. Your community bank can give you good advice on what will work for you and your family, on your budget. You should also plan to consult with your tax advisor before making long-term investment decisions.