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Baby Steps to Financial Success: A New Parent's Money Guide

Key Takeaways

- **Financial Check-In.** Conduct a financial health assessment before you have a baby (even if it isn't your first baby!) to make sure you fully grasp your current financial situation.

- **Childcare.** Rising childcare costs are forcing more parents to choose between stretching their monthly budget or having one parent leave the workforce. Don't be afraid to get creative with your childcare planning—and know there are many options available to you.

- **Insurance.** Ensure you have the right insurance to protect your wealth, health, and the security of your new child.

- **Career Planning.** Remember that the 12-week maternity leave mandated by the Department of Labor is unpaid. As you prepare to take time off work, you and your partner must start saving accordingly.

- **Education Savings.** College education costs may seem like a future-you problem, but being proactive with education planning can help save you and your child thousands when it's time for them to choose a school.

- **Estate Planning.** Putting an estate plan in place that reflects your wishes and ensures your child is taken care of is critical. We'll go over key steps to take to ensure you and your family are set up for success should an emergency situation arise.

Having a baby is an exciting milestone, and you and your family will have many new adventures to enjoy. As you continue painting the nursery and assembling the crib, take some time now to check in on your financial well-being. Babies are expensive (certainly no secret!), and your financial priorities will likely shift once your family grows.

This guide provides a "simple first, sexy later" approach to preparing your finances before you have a baby. Let's dive into the seven areas of your financial life we recommend prioritizing when a baby is on the way.

Conduct a Financial Health Assessment

Having a baby is no cheap adventure; the expenses don't stop once you leave the hospital room. Before your due date, sit down with your partner and deeply dive into your financial situation.

According to the Department of Agriculture, parents spend, on average, up to $14,000 a year on child-related expenses (including food, housing, care, medical expenses, etc.). However, in the first year of life, that average jumps to $20,000-$50,000.1 It's also worth noting that the last time the Department of Agriculture conducted this survey was in 2017, and with recent high inflation, it's likely these numbers have risen and will continue to rise.

If your budget was built for a family of two, now's the time to reevaluate your spending and saving habits and anticipate what will change when the baby arrives. For example, perhaps you and your spouse go out to eat a couple of nights a week.

Those excursions will likely become more limited with a newborn—and the savings can be used to help cover other new baby-related expenses. (Of course, you should still treat yourselves to date nights and "me" time when you can!). Or, perhaps you plan on postponing vacation plans this year and can use the funds to **pad your emergency savings** instead.

While you can't anticipate everything coming your way, here's a look at the new expenses you'll likely face in the first year of your baby's life:

Month	Expenses	Average Cost
Month 0	Nursery and baby care essentials	Minimum $1,000 (though likely more, depending on whether you buy new or used furniture and clothes).
Month 1	Delivery, postnatal care, hospital stay	Average $2,854 in out-of-pocket medical expenses
Months 2 & 3	Diapers, formula, doctor visits	Around $300
Month 4	Months 2 & 3 + childcare (if both parents are returning to work)	Around $300, plus $1,284 average for daycare center4
Months 5 & 6	Months 2-4 + solid baby food and new clothes	Around $1,100, plus $1,284 daycare
Months 7-9	Months 2-6 + Baby-proofing equipment for the house, like outlet plugs, baby gates, etc.	Around $300, plus $1,000, plus $1,284 daycare
Months 10-12	Months 2-9 + Occasional babysitting	Around $300, plus $200 (8 hours a month of babysitting, at around average $24/hour), plus $1,284 daycare
		Total: $23,910

In addition to all of these expenses, many families face extra financial considerations as their family grows, including:

Home renovations or upgrades.

Whether you want to expand your home, make it more accessible for your family, or refinish a room to serve as a nursery – these expenses can add up. Our advice is two-fold:

- **Don't act right away.** It's tempting to make all of these changes with your due date as an imaginary "deadline" for completing any home additions, renovation projects, or upgrades. While some changes may feel pressing, many things can wait until your new bundle of joy joins the family. This will give you a better sense of how you use your space as an expanded family, and you'll be able to make confident decisions about what to update – and when.

- **Get creative.** It may feel necessary to carve out space for an "office" in addition to your nursery and a guest bedroom (and all of the other things we see on Pinterest and HGTV). However, you can always get creative and have spaces serve multiple purposes! A murphy bed in your office can help you host excited grandparents, or a rollaway bassinet can help you transform any space into a zone for baby to sleep overnight or nap. Don't be afraid to think outside of the box!

Purchasing a new vehicle.

This is another major expense we see many families face when they're getting ready to welcome a new baby. However, unless you truly cannot fit a car seat in your vehicle, you may be okay to hold off for the time being!

The likelihood that you'll be driving many places immediately after having your baby is relatively low (those first few months fly by, and you spend so much of your time at home with your little one!). If you feel like you need a safer, newer, or larger vehicle option, you can always take your time to shop around, trade in one or both of your vehicles to accommodate the new purchase, or figure out a system where you can use one car instead of two.

If you're looking at how to finance some of these upcoming expenses, you have options at your disposal. Of course, paying cash from an earmarked or budgeted category is ideal. But if that's not an option, and you do need to make some significant upgrades, it's helpful to use:

- Bonus income from your job.
- Selling company stock or other investments in a brokerage account (watch out for short-term capital gains)
- Family financial gifts. You may need fewer burp cloths than you'll receive, and funds for a home, vehicle, or other upgrade can be extremely helpful!
- Financing through a local credit union to lock in lower rates.

Understand Your Childcare Options and Costs

The cost of childcare is a hot-button issue in the country, and when you start researching prices, it's easy to understand why.

As mentioned earlier, daycare centers for an infant in America will run a family on an average of $1,284 monthly. If you'd prefer to keep the child at home with a nanny, that average monthly cost jumps to $3,064.

The U.S. Department of Health and Human Services (HHS) indicates that "affordable" childcare should cost a family around 7% of their monthly income. In reality, families are spending, on average, 24% on childcare (more than 3x the recommended amount).

Creative Childcare Options

Rising childcare costs push more parents to choose between stretching their monthly budget or having one parent leave the workforce. However, some parents are able to look at creative options, especially if their career or family situation provides some flexibility:

- Staggering work schedules so that each partner is able to spend time with their new baby.
- Looking into a part-time daycare or Mothers Day Out (MDO) program.
- Leveraging grandparents or family members to watch their new baby part-time.
- In home daycares in your area
- Doing a nanny share with friends or neighbors to afford some flexibility and reduce costs.
- Engaging with an au pair program for more comprehensive, live-in help.

Due to the rising cost of childcare, many families look at a combination of different options to keep their personal childcare costs low, spend more one-on-one time with their child, and continue to work part-time or full-time.

There's no correct answer; it depends heavily on your family's circumstances. We recommend speaking with a financial advisor before making this decision.

They can help you review all options to determine what's best for your family now and in the future.

Leveraging a Dependent Care FSA

If you are leveraging childcare in order to work, a Dependent Care FSA can help you save to cover those expenses while reducing your taxable income. To qualify for a Dependent Care FSA, your child must be under the age of 13, and you must be using the childcare (daycare, MDO, nanny, or babysitter) to work or look for full-time employment. (This is not an option when one parent stays home full time).

The maximum amount you can contribute to a Dependent Care FSA is $2,500 pre-tax for people who file as single or Married Filing Separately on their tax return and $5,000 for those who file Married Filing Jointly or Head of Household.

Similar to a Health FSA or HSA program, funds are deducted directly from your paycheck – making this a tax-savvy option for tucking money away that's earmarked for childcare expenses. You can take distributions from the account whenever you'd like over the course of the year if you show appropriate receipts from your childcare provider. Often, it's best to space these out – taking one distribution at year end, or two approximately six months apart.

Think About Insurance Coverage

Outside the **open enrollment period**, insurance plan participants can only update or change their coverage when they experience a "qualifying life event." Well, no surprise here—having a baby is a significant life event, and yes, it qualifies you for a particular enrollment period. Now is the perfect time to reevaluate your health insurance coverage, and make any necessary changes as you head into this new season of life.

Health Insurance

You must apply to have your child covered within 30-60 days of birth (depending on your health care provider). Your coverage can retroactively cover your child starting the day of their birth if you apply or add your child to your plan within 60 days.

However, now may also be the time to evaluate whether your policy is offering you the best coverage (and the best bang for your buck!) with upcoming medical expenses. In general, we focus on two types of policies for young families:

HDHP (with an HSA)

A High Deductible Health Plan (HDHP) is exactly what it sounds like – you have a higher annual deductible than traditional health plans but pay a lower monthly premium. The high deductible allows HDHPs to be paired with tax-advantaged Health Savings Accounts (HSAs), which let people set aside pre-tax dollars to cover qualifying medical expenses. HDHPs offer comprehensive coverage after the deductible is met and can make sense for healthier individuals willing to take on more upfront costs in exchange for lower premiums.

Additionally, leveraging an HSA can help reduce your taxable income while tucking aside funds for medical expenses now and in the future. Contributions to your HSA don't "expire" like in an FSA, which means you can use them at any point in the future – even in retirement!

PPO

A PPO (Preferred Provider Organization) offers coverage through a preferred provider network. As a result, PPO coverage typically has lower deductibles and out-of-pocket costs (even if the monthly premium is somewhat higher). The preferred provider network would include hospitals, physicians, and specialists.

Although the higher monthly premiums may not make sense long-term for a young, healthy family, the lower deductible is appealing in Year One of having a baby. Because you can anticipate hitting your deductible between medical visits for you and your baby and the hospital stay during your birth, a PPO often makes sense for the first year of your child's life. Then, **during your next open enrollment,** you can always switch to an HDHP with an HSA if it makes sense for your family.

Health insurance aside, there are a few other insurance policies to consider updating or adding to your coverage.

Life & Disability Insurance

The more dependents you have (people who depend on your income to meet their basic financial needs), the more life insurance you should have. Life insurance policies are safety nets for your family, and with a newborn on the way, this is a critical time to make updates or add more coverage.

Life insurance has two primary types: term and permanent. We generally recommend term policies over permanent or whole-life insurance because it is much more cost effective and provides a larger benefit amount for a lower price.

Term policies cover you for a certain period, typically between 10 and 30 years. Once the period has ended, the coverage is terminated. Term policies are more affordable, and can be laddered to ensure you have enough coverage at different periods or seasons of your life.

Additionally, many employers offer employees a group life insurance policy that you can use to supplement your term policy worth one to four times your salary. On top of that, employees can elect to add additional coverage. (Note that any additional coverage is usually paid for by the employee.)

There's no reason not to take this coverage if your employer is paying for it, but it's probably not a substitute for your own policy – especially since you'll lose the coverage if you leave that job for any reason. Some coverage is "portable," meaning you can pay to take it when you leave, but it may be more expensive than buying your own individual policy.

Short and long-term disability insurance are additional considerations now that your family has expanded. Being able to seamlessly replace income in the event of an emergency is critical. Many employers offer some form of short or long-term disability, but it may be worthwhile to check what's available and determine if your unique family requires more coverage. For more information about short and long-term disability insurance, **check out our blog post here.**

Freelancing or self-employed? You still need coverage! Check out the **Freelancer's Union** or **HealthCare.gov** to explore your options.

Career and Income Planning

In 1993, the Family and Medical Leave Act (FMLA) changed parental leave rights for American workers. If your company has over 50 employees, you are entitled to 12 weeks of unpaid leave per year when caring for a newborn (or newly adopted child).8

Before going on leave, check with your employer for their maternity and paternity leave policies. FMLA is the legally required minimum, but as part of your benefits package, you may be entitled to additional perks like partial pay or additional time off. You can also combine your leave with leftover vacation days. If you have a short-term disability insurance policy, pregnancy and childbirth may also be covered by that.

Remember

That the 12-week maternity leave mandated by the Department of Labor is unpaid, but some **states may offer paid FMLA.** As you prepare to take time off work, you and your partner must start saving accordingly—especially considering those extra costs we discussed in section one.

Education Savings

One of the most significant expenses many parents face is paying for their children's college education. With costs continuing to rise, it's wise to start saving early,you'll also have compound interest on your side. A 529 college savings plan is an excellent way to do this.

What is a 529 Plan?

A 529 plan is a tax-advantaged investment account designed to help families save for future education costs. The money you contribute grows tax-deferred, and qualified withdrawals for educational expenses are tax-free.

Why 529 Plans Are Helpful:

- **Tax savings:** Your investment grows tax-deferred, and withdrawals avoid income taxes when used for qualified college education expenses. **Some states** allow you to take out up to $10,000 per year per beneficiary tax free to pay for K-12 religious or private high schools.

- **High contribution limits:** Most plans allow very high lifetime contribution limits (often $300K+ per beneficiary). However, if you plan to make a large one time contribution, you'll want to watch for annual gift tax limits and may be required to file a gift tax return if above a certain amount.

- **Flexibility:** Money can be used at any accredited college, university, trade school, or eligible educational institution. Funds can be used for tuition, room and board, books and school supplies, and other qualifying expenses.

- **Transferability:** Unused funds can be transferred tax-free to another beneficiary. Alternatively, new laws state that if a **529 Plan is 15 years old** (and you don't need it anymore for education expenses) funds can be transferred to a Roth IRA in the beneficiary's name. Alternatively, funds can be used to **pay off student loans.**

State Tax Benefits

Many states also offer additional tax incentives when you invest in your state's 529 plan. Typically, you can deduct some or all of your contributions from your state income taxes each year. Want to see if your state has benefits available for contributing to a 529 Plan? **Check out SavingForCollege.com's interactive map here.**

With their tax advantages, high contribution limits, and flexibility, 529 plans are an excellent way for parents to build an education fund early.

Estate Planning

Do you have a will? Because 64% of adults between the ages of 30 and 50 do not—and neither do 80% of adults in their 20s. The younger you are, the simpler your financial life and estate tend to be. When it was just you, or just you and your spouse, you may not have felt much desire or need to create a will.

However, your estate plan should be updated with any significant life change (including having a baby). You'll need to make plans for the future care of your child in the event you and your partner are incapacitated or deceased. This may include establishing a trust to cover your child's future expenses and naming a guardian for them in your will.

You should also look into setting up both a Healthcare Directive and a Power of Attorney. Both of these documents will give someone in your life the ability to make decisions about your health and your money in the event that you become incapacitated. Often, this person is a spouse or partner, but it can also be a close family member or friend.

As you start your estate planning journey, it's important to note that minors cannot be beneficiaries in many cases. You may need to route financial benefits to a trust that is created for the purpose of taking care of your minor children in the event that you pass away. It's also critical that you and your spouse or partner review and update your beneficiaries on all accounts regularly. Life situations and relationships change – you want to ensure your estate plan reflects that!

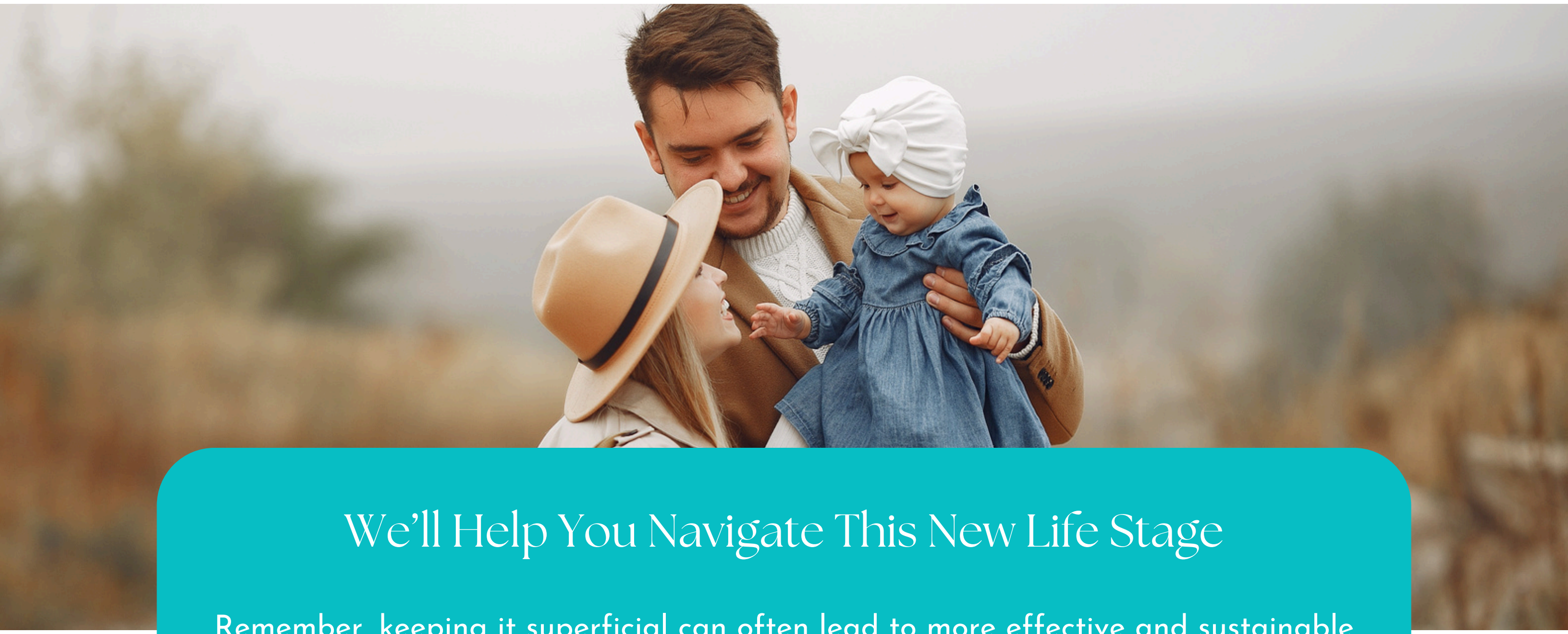
Not sure where to get started? **Trust & Will** is a fantastic online option that allows you to easily create an estate plan, organize your documents, and update your documents on an ongoing basis.

Don't Be Afraid to Review and Adjust

Parenthood is an incredible journey, and it will be full of ups and downs. While you can use this time to rethink your spending and saving strategies, try to be flexible and forgiving. Especially in those first few months, your whole world will change, requiring adjustments in nearly every aspect of your life.

As your family grows, schedule time to regularly review and update your financial plan to reflect your new reality best. This will include your evolving spending habits, new savings goals (like college), and **investing objections** (perhaps including your risk tolerance).

If you work with an advisor, they can help you stay informed about relevant financial and family-related policies that may impact your financial life, such as tax credits, education savings account incentives, and more.



We'll Help You Navigate This New Life Stage

Remember, keeping it superficial can often lead to more effective and sustainable financial planning. You're about to embark on an exciting journey, but one that will require some self-reflection and adjustment. If you'd like to review your current financial plan together and make proactive changes to prepare for your child's birth, we're more than happy to help. Feel free to reach out to our team today to learn more.

Sources:

1. The Cost of Raising a Child

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3. How Much Does It Cost To Have A Baby? 2024 Averages

4. This is how much child care costs in 2024

5. New baby could mean new health coverage options

6. Average American Debt in 2024: Household Debt Statistics

7. How Many Americans Have a Will?

8. Family and Medical Leave Act