

Planning for the Financial Impact of Children



Children are a special blessing and their arrival brings boundless love and joy into our lives that you can't put a price on. But adding a child to the household impacts the family budget--and women especially--in very measurable ways. Whether this is your first child or your fourth, here are some financial matters to think about and plan for before and after baby arrives.

Check Your Health Insurance

If you and your spouse are both eligible for employer-sponsored health insurance, compare plans to see which spouse's policy offers the best coverage so you'll be prepared during the open enrollment period. Along with comparing deductibles, co-payments, and premiums, look at coverage for prenatal visits, hospital and midwife services, infertility treatments, and dependent care.

Once you've chosen a health plan, read the policy carefully to see what maternity coverage is provided. Also find out if the policy covers complications from a premature birth, including a stay in a neonatal unit, and whether a separate deductible applies if your baby is hospitalized beyond a certain period of time. Typically, your baby will be covered under your policy from the time of birth, though you'll have to contact your insurer to officially add your child to the policy. If you're adopting a child, make sure you know when your policy will begin coverage.

Budget for a Baby

Some expenses typically increase when you add a baby to the household, including:

- Groceries, including diapers, formula (you may use some even if you're nursing), and baby food
- Clothing and baby equipment
- Transportation costs--Will you need to buy a larger, more practical, or second car?
- Housing costs--Will you need to move to a larger apartment or house, or will you simply need to push a bureau a few feet to make room for a crib?

If a housing move is in the cards but you aren't able to do it before baby arrives, don't worry. Plan as best you can ahead of time--request a free copy of your credit report and clear up any issues, compare mortgage rates, request a preapproval, look at real estate listings to get an idea of the inventory available in your price range, get estimates to remodel your existing space (if that's a possibility), and so on.

Thinking about the ways a child can impact the family budget often leads to a larger question.

Will you go back to work?

The decision to go back to work after having a baby is a personal one, and often depends on many factors. Maybe you want to work because you enjoy your job, or maybe you have no choice but to work because it's the only way you can survive financially. Or perhaps you want to stay home and you've spent the past few years shoring up your finances. Whatever you decide, know that your decision isn't etched in stone. Women, much more so than men, tend to move in and out of the workforce to accommodate children. So whatever you do this year might not be what you're doing two, five, or ten years from now.

If you don't plan to return to work:

- Find out if your employer will pay you for any unused vacation/sick time.
- Be up-front about your plans and remain on good terms with your supervisor and colleagues in the event you change your mind about working or need a reference in the future.
- Pay down debt where possible.
- Try to live on one paycheck before you leave work, which can help you cut non-essential spending.
- If you have federal student loans, a deferment or forbearance request can give you a six-month reprieve from paying them.
- Continue to save for retirement—you can establish and contribute to your own IRA (traditional or Roth) based on your spouse's earnings under the spousal IRA rules.
- Keep your professional skills up-to-date by taking occasional courses, networking, reading trade publications, and so on, and be on the lookout for new opportunities.

If you plan to go back to work:

- Confirm your maternity leave with your employer. Does the company offer paid leave? Can you extend your paid time off with unpaid leave? Can your spouse take paternity leave? Make sure you know your rights under the law—the Family and Medical Leave Act requires 12 weeks of unpaid leave for certain employees.
- Talk with your supervisor about your current job responsibilities and plan for your leave as much as possible. Who will handle your work when you're out? What can you expect when you come back?
- If you'd like to modify your current schedule, think about your ideal work arrangement, then request a meeting with your supervisor to discuss your well-thought out proposal. Would you like to work full-time, but with two days telecommuting from home? Four longer days instead of five regular days? Part-time? Flex hours, like 12 p.m. to 8 p.m.? Every woman's situation is different in terms of spousal availability for child care and outside child care arrangements. Sometimes, a flexible work arrangement can mean the difference between being able to stay in the workforce or having to leave it, so it doesn't hurt to ask. And clearly, flexible work arrangements are the wave of the future as more women (and men) request them in order to balance work and family. If your boss has concerns, propose a trial period, for example 3 or 6 months, where both sides can come back to the table and evaluate how things are working.
- Start researching child care options now. Compare facilities, quality, cost, and availability. At work, contribute to a dependent care flexible spending account (if available) so your child care costs won't be part of your taxable income.

If you return to work, try to keep everything in perspective as best you can. Working outside the home with young children requires a significant amount of mental and physical stamina. For some women, it's the hardest, busiest time of their lives. At work, women may face supervisors who are skeptical of their dedication to the job or assume they can't or don't want to take on challenging, high-level assignments, which can limit opportunities for raises and promotions. At home, women in dual-earner households often face primary responsibility for a seemingly endless to-do list of household and child-related chores. If you're married, make sure your spouse is an equal partner in these responsibilities and that you're not trying to "do it all." Encourage open communication and realistic expectations. Even then, be prepared for times when it's hard to balance everything. In those moments, take comfort in the fact that you are providing for you and your child's financial future and doing the best you can.

Finally, remember that no arrangement is permanent. You might stay home for awhile and then decide you want to go back to work, or vice versa. Try to keep an open mind and be flexible when facing the realities, financial and otherwise, that come your way.

Build a Financial Foundation

You've had the baby, taken maternity leave, gone back to work, and things are going smoothly for the most part. But you can't stop there! Here are some other things you need to do:

- Draw up or revise your will so you can name a guardian for your child and make sure your assets will be distributed according to your wishes. Also, consider completing a health-care proxy and durable power of attorney, which let you designate someone to make medical and financial decisions on your behalf if you should become incapacitated.
- If you don't already have life insurance, consider getting it. If you already have life insurance, reevaluate your coverage. Even if you are a stay-at-home parent, you need life insurance because your spouse might have to pay someone for child care in your absence.*
- If you're working, consider disability insurance to protect your ability to earn an income.
- Start a college fund and contribute monthly, even if you can only afford a small amount at first.
- But don't overlook retirement planning, and don't fund college at the expense of putting money aside for retirement.
- Research and spend wisely on large purchases.
- Stay involved in your family's financial decision making and planning, and one day, you can pass your financial know-how on to your child.

Now sit back, relax, and enjoy all those moments with your child that you can't put a price on!

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. This article is not intended to be exhaustive nor should any discussion be construed as legal or financial advice.