...And Baby Makes Three

A New Parent's Guide to Financial Planning

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"Getting a burp out of your little thing when she needs it is probably the greatest satisfaction I've come across at this point in my life."
-Brad Pitt

Congratulations! You're having a baby! After the initial excitement has worn off, the preparations begin. You undoubtedly know the difference between all the different types of anti-colic bottles on the market, but you may not have reviewed your finances with the same level scrutiny.

Before the baby is born and diapers and onesies consume your life, take a minute to create a financial plan to support your new bundle of joy. It could save you tons of money and give you a sense of security so you can sleep soundly—when you have time for it again.

Keep in mind that this guide is not meant to be a substitute for a financial planner, attorney, or tax advisor. Nobody but these professionals should be giving you specific financial advice. Be sure to hire a financial team that can speak to your specific financial circumstances.

BUDGET & CASHFLOW

One of the first major steps in planning for your new baby is to create a budget. This helps you and your partner understand the income coming in and expenses going out. Funds for new baby costs will need to come from somewhere. You may decide to forgo some discretionary spending for a little while, like dining out or going to the movies. Alternatively, you may decide to scale back your savings plans for a bit. Either way, it's critical to understand your household cash flow so you can make intelligent choices.

If you and your partner both work, you'll need to have care for your young one. Selecting the right daycare is not only a hard, emotional decision but also a major financial one as well. This is often a family's biggest monthly expense related to the child. Consider opting for the Dependent Care Flexible Spending Account (FSA), if your company has one. This will allow you to contribute pretax dollars to an account that is used exclusively to pay for childcare expenses. This could save you a substantial amount of money each year.

One of the major discussions parents have is the potential for one parent to stay home with the baby. If you are considering this, take a hard look at your budget to see how your family's lifestyle would be different with only one income. If the stay-at-home parent's income after taxes is not substantial enough to outweigh the costs of childcare, then from a financial standpoint, it might pay to stay at home. If the lost income is significantly more than the costs of childcare, then it might be more financially sound for both parents to work. There are many other factors that go into making these decisions, so contemplate all the variables.

BUDGET & CASHFLOW

Once you've nailed down your budget, you may want to start socking some money away in your savings account at the bank. This will act as your emergency reserves, in case something catastrophic happens during this time. What would you do if you or your partner lost your job or fell ill, or if your car broke down? This cash pot will be there in case you need it. The last thing you want during this time is added stress.

You might also accumulate this cash to help finance maternity leave. If your company doesn't have a favorable policy, which forces you to take leave without pay, then the cash could be used to help subsidize your lost income during this time.

If your pregnancy ends up going smoothly and you find yourself having too much cash after living on your new budget, then you can decide to reinvest the funds. The right amount to have in this account depends on your situation and your comfort level. Many experts recommend three to six months of expenses, but during this uncertain time in your life, you may want to opt for a bit more.

BONUS

Download a short worksheet to create and organize your own budget at **www.bit.ly/PFISheet**

INSURANCE PLANNING

As you ponder what life will be like with a new member of the family, consider reflecting on what that life would be like if you or your partner were no longer around. While it might feel a bit morbid to think about, it's better to run through worst-case-scenarios now and prepare for them, than to be caught off guard suffering a major financial hardship.

Many people review their financial obligations and create a list of items they'd want to be covered if either parent were to pass away. Statistics show that 86% of consumers don't buy life insurance because it's too expensive and they overestimate the true cost by more than two times*. While it is true that life insurance is an added expense to the budget, it's helpful in ensuring that your family's wishes can be carried out.

Proceeds from the life insurance policy are infused into the household budget when it is needed the most. Debts can be paid off, college accounts can be funded, and income can be replaced. While you or your partner may no longer physically be around to care for your child, the money paid out from a life insurance policy can make a significant impact on how your child grows up. Purchasing life insurance also makes a statement to your family and indirectly teaches your children about the importance of proper risk management.

*LIMRA's Facts About Life 2016

INSURANCE PLANNING

Beyond life insurance, you may decide to review your disability protection as well. Many companies offer disability insurance coverage as an employee benefit. As we discussed in an earlier chapter, if you cannot work to earn your paycheck due to illness or injury, you may be entitled to a percentage of your salary. Group plans are a great start, but most cap your benefits, and any money received is usually taxable. Additionally, most disability plans won't cover maternity leave, only a complication during your pregnancy.

Reviewing your disability coverage is a good idea to ensure that, if you were no longer able to do your job and bring in a paycheck, that money would be available to cover household expenses. This is especially important if you're a member of a one-income household. Protecting that income is critical to ensuring that the family's financial goals are attainable.

One other aspect of insurance that many new parents review is the family's health insurance plan. Whether you buy your coverage through your employer or another outlet, consider the costs of adding a new baby to the plan. Many insurance carriers give you a limited window of time once the baby is born to add that child to the plan. Make sure you know your insurance company's procedures and prepare as best as you can. In addition, if provided, consider adding a health care FSA to help pay health care expenses with pretax dollars. Be careful not to put too much into account since some of the money may be lost if you don't use it in the year contributed.

ESTATE PLANNING

In conjunction with proper insurance planning, it's also a good idea to create an estate plan. Even if you lack a substantial net worth, estate planning helps you and your partner discuss important decisions. One of the most relevant items is naming a guardian for your child should you and your partner pass away.

Whether you appoint family or friends, be sure to discuss your intentions with the named individuals and confirm they are okay taking on the responsibility. Consider sharing with them all or a portion of your estate plan so they know that this responsibility does not come with a financial hardship.

Related to this is who to list as beneficiaries on your retirement accounts and life insurance policies. It's generally not a good idea to name a minor as a beneficiary. A good alternative is to name a guardian or a trust for the benefit of the minor. This will allow the money to be used for the child's benefit without giving the child unlimited access the funds for anything they want before the age of majority.

COLLEGE PLANNING

A college education can be the most expensive cost that a young adult will undertake. Whether educational expenses are financed by a parent or other family member, a scholarship, loans, or a student's personal funds, there are many factors to consider when planning for this expense.

As Stephen Covey once said, "Begin with the end in mind." Consider the University of Maryland as an example. The in-state cost for the 2016-17 academic year was $26,525*. This includes tuition, room, board, textbooks, and incidental costs. Couple this with an inflation rate averaging 5% and it's no wonder that many people give up on saving for college altogether. While this number can be quite overwhelming at first, once broken down into a variety of funding sources, it becomes more manageable.

The burden to save may not be entirely on your shoulders. You may have parents, grandparents, or other family members who want to help out. Ask what the intentions are of each of your loved ones as this will help you understand what's left over. Some parents may not have the capacity to or may not want to cover the entire cost of college. You might want your child to have some skin in the game and encourage them to qualify for grants, scholarships or loans through a financial aid package. Also, they might hold part-time jobs throughout school to help pay for incidentals.

You might also forget that when your child goes off to school, you can see some of your monthly budget items go down. Food and utilities should fall with one less individual in the household. Along with this, you may realize that you can afford to pay some of the college costs from cash flow.

*University of Maryland Office of the Bursar

COLLEGE PLANNING

Many parents think about opening college accounts for their children when they are born. While we know that the sooner we begin funding the plan, the more money we will save for educational expenses, it makes sense to take a step back and pause for a moment. During the first few months of your new baby's life, you'll experience a lot of financial pressure. Your first priority is to make sure your budget is operating the way you planned before adding another savings strategy to the mix.

Consider starting a college account but leaving it dormant without any monthly contribution for a while. Friends or relatives might want to make a contribution, so investing any gifts received could help fund the account without impeding your budget. Once you get into a groove and feel comfortable with your new normal, consider adding this account to your savings strategy. Be careful not to forgo your own retirement savings to fund these accounts. Remember, you can always borrow for college, but you can't borrow for your own retirement.

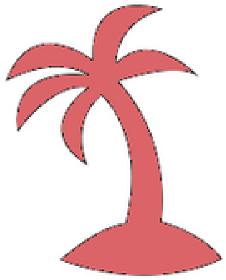
However you fund college, piecing it together might be easier than you think. Consider working with an advisor to discuss all of the moving pieces of your college plan and how each may impact your bigger financial plan. While you goal of helping your children is ideal, there's a definite trade-off between saving for college and savings for retirement. Remember, you can always take out loans for college, but you can't take out loans for retirement—nor would you want to.

RETIREMENT PLANNING

One often overlooked area of your financial strategy is creating and funding your retirement. With competing priorities, retirement contributions can sometimes be put on the back burner. Getting time on your side is one of the biggest strategies you can employ as an investor. By starting early, you can invest less money and use compounding interest to help accumulate wealth. Yet, many people aren't disciplined enough to put a strategy in place at an early age. Let's walk through a hypothetical example of what could happen.

When Sally is 25 years old, she meets with her advisor because she wants to accumulate $1,000,000 in her investment account by the time she's 65. She wants to know how she can get started. Her advisor tells her that she should invest about $125 per biweekly paycheck into a retirement account, assuming she earns a hypothetical 8% return to get to her goal of $1M. Please keep in mind that this is a hypothetical illustration and does not take into account fees, expenses, and taxes associated with investing.

Since the money will be contributed pretax, it will feel like less than that to her monthly budget. Sally decides that now is not the right time to start investing and would rather spend her money enjoying her 20s. After all, she's only young once and has the rest of her life to invest.



RETIREMENT PLANNING

She comes back to her advisor 10 years later. She's married now and has two kids. She wants to figure out how much she needs to invest now to reach that same $1,000,000 account balance. Her advisor does the calculation and shares with her that she'll need to contribute $335 per biweekly paycheck. That's over 2.5 times what she would have needed to invest just 10 years earlier. She decides that her budget won't support that level of contribution and she would rather spend the money on her kids.

Sally comes back at 50 years old and now knows she needs to get serious about her retirement savings. She meets with her advisor, and this time the advisor says that she will need to save about $2,700 per biweekly paycheck to get to that $1,000,000 account balance. Unfortunately for Sally, the amount that she will need to save takes her entire paycheck. Sally considers her option of continuing to work. She may feel hopeless, bitter, and as though the financial system failed her.

While Sally had many priorities to juggle during her lifetime, a little bit of preparation could have gone a long way. If she had only contributed some money in her 401(k) at an early age, she could have taken advantage of compound interest and potentially a company match that would have helped her greatly in her retirement years.

RETIREMENT PLANNING

As you review your own situation, consider creating a retirement strategy to coordinate all your asset and income sources and to understand if you're on track to hit your goals. If not, the strategy will help you to uncover what's needed to get you there. Whether you need to save more, work longer, or adjust your retirement lifestyle, you'll have a sense of security knowing that you're taking an active role in improving your financial future.

Risk is inherent in the investment world. You'll want to consider how much risk you're willing to take and align your investment selection with your risk profile. Also, use fundamental investment techniques, like dollar-cost averaging and portfolio rebalancing, to minimize your risk and maximize your potential return.

Try not to tap into these accounts for anything other than retirement expenses. You may incur major taxes and penalties if you do. Instead, try to find room in your budget to contribute to your accounts.

In the end, with proper retirement planning and risk management, you will have a clear path toward financial security for the later stages of your life. You will have built a moat around your financial fortress to protect your nest-egg from financial uncertainty. Ultimately, you will have attained your vision of retirement and achieved financial freedom.

BONUS

Download a risk tolerance quiz and corresponding model portfolios at **www.bit.ly/MAPSQuiz**

HIRE A PLANNER

As you are putting every ounce of tender loving care into your new little one, you may find yourself taking your eye off of the financial planning ball. This is certainly an emotionally and physically draining time, so don’t go at it alone. Hire a financial professional to work alongside you and help you identify the location and value of everything. This is your new beginning and, as such, a fresh start toward living financially free.

As you make the decision to hire a trusted advisor, you'll want to review the various types that exist and the responsibilities that go along with them. Each type has its pros and cons. It'll also help you to know how to select the right one for you.

• Fee-Only Financial Planners

The fee-only financial planner charges a flat or hourly fee to provide financial advice. Since all their revenue comes from fees, their rates may be higher than other types of planners.

HIRE A PLANNER

They usually cannot help you select financial products since it's outside the scope of their fiduciary duties. While this might make them seem more impartial, many times having an accountability coach to help implement the plan is one of the most beneficial parts of financial planning. With fee-only planners, you'll need self-motivation to carry out plan recommendations on your own. You might even need to hire other financial professionals to help you buy products or open accounts.

• Fee-Based Financial Planners

Fee-based financial planners earn both fees and commissions. You might hire this type of planner to help you create your financial plan first. After the plan is in place, you can then choose to work with them to select products or set up accounts. Any specific product recommendations are not a part of the plan, and you are under no obligation to follow them.

Fee-based financial planners may have lower fees since they receive revenue from a variety of sources. This can be a more affordable way for you to create a financial plan. They can help guide you through the action steps in your plan and be a great accountability coach too.

HIRE A PLANNER

Regardless of the type of planner or advisor you consider, each has an individual business model. You should ask how he or she is compensated. Good professionals will be straightforward about how they receive payment for services. They should be able to define their relationship with you without hesitation.

At the end of the day, selecting the right financial professional comes down to who you connect with the most. Reviewing your personal financial situation can get emotional. You might discuss your attitudes toward money and habits that you've created over the years. You may even uncover some hidden resentments. Feeling comfortable as you discuss the good, the bad, and the ugly will go a long way.

BONUS

Download a Financial Planner Interview Checklist to help you with your selection at **www.bit.ly/FPInterview1**

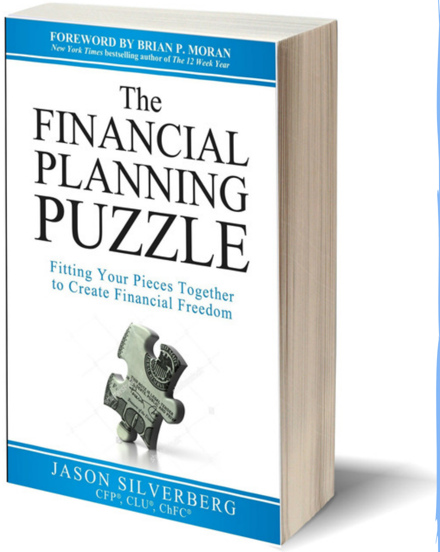
Do you feel overwhelmed by managing your money?
Start making smart decisions with a personal financial plan.

Are you struggling to plan for your financial goals? Do you feel frustrated and confused every time you think about your investments or retirement savings? While personal finances can be a challenge to learn, you can make smart, sound financial decisions with the right guidance. Personal finance expert Jason Silverberg is here to help.

After guiding hundreds of his own clients toward their financial goals, Silverberg has condensed the best of his advice into his new book, *The Financial Planning Puzzle*. This book has advice you need to help you find the solution to your financial success.

In The Financial Planning Puzzle, you'll discover ways to:

- Make financial decisions that help you achieve your goals
- Avoid the myths and misconceptions about money to make better choices
- Become an educated consumer & learn the basics of every part of your finances
- Find the right financial planner to help you stay on track for the long haul
- Achieve your version of the American Dream, and much, much more!



It's time to stop wasting time and money figuring out your financial life alone. If you're ready for a practical, simple, and enlightening personal finance book, then you'll love *The Financial Planning Puzzle.*

Buy the book to start getting your finances in order today!

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Jason Silverberg CFP®, CLU®, ChFC®, specializes in comprehensive financial planning. His practice aims at helping divorcees to fit their financial pieces together to create financial freedom.

He uses a values-based process to connect with his clients on a deeper level than some advisors, diving into the *why* behind the numbers. He focuses on helping clients achieve and protect their goals through methodical investment strategies and calculated risk management and insurance solutions.

In 2017, Jason released his first book, *The Financial Planning Puzzle: Fitting Your Pieces Together to Create Financial Freedom*. The book helps people organize and improve their financial lives.

In his spare time, Jason enjoys spending time with his wife, Lindsay, and children, Joshua and Rebecca.