BIRTH OR ADOPTION OF A CHILD

JNBA FINANCIAL ADVISORS

Adding a new child to your family is an incredibly exciting event in your life. It is important for every parent to be aware of some basic financial planning considerations before and after the child arrives. We have arranged these into the six core areas of financial planning below.

FINANCIAL POSITION

- ☐ Consider increasing your liquid emergency fund prior to your child's arrival to allow for unexpected expenses. A basic rule of thumb is to keep three to six months of living expenses in liquid bank deposits. You may decide to keep more than this amount available depending upon your comfort level.
- ☐ Determine how much maternity/paternity leave you can take. Will it be paid? Many employers offer paid maternity and paternity leave. Understand your employer's benefits.
- ☐ Will you go back to work full-time, part-time, or will one parent stay home? Discuss and consider short- and long-term goals and objectives as well as salary vs. day care expenses. Do you have the financial ability and desire for one parent to stay home with the child or will that seriously impact your goals?
- ☐ If both parents are returning to work, select a child care provider and build that cost into your budget. Consider the extra costs that a child brings (i.e. ,diapers, clothes, food, etc.) and build these into your budget as well.

INVESTMENT MANAGEMENT

Consider establishing a savings vehicle for your child's college education:

- ☐ 529 Plan is a college savings plan sponsored by a state or state agency. Savings in a 529 Plan can be used for tuition, books, and other higher education-related expenses at most accredited two- and four-year colleges and universities, U.S. vocational-technical schools, and eligible foreign institutions. Individuals can take $10,000 in distributions annually for K-12 expense as well. Earnings in a 529 Plan are generally not subject to federal and state tax when used for qualified expenses. Withdrawals are generally tax-free to the extent that the amount of the withdrawal is not more than the beneficiary's qualified education expenses.
- ☐ Coverdell Plan is a savings plan that has tax-free treatment, not just for college expenses, but also for elementary and secondary school costs (K-12). Similar to a 529 Plan, assets can grow and be withdrawn tax-free when used for qualified expenses.
- ☐ Uniform Transfer to Minors Account (UTMA) allows you to invest under a child's name with an adult as custodian. Earnings in these accounts as well as capital gains are taxed when realized. There are some potential tax advantages with these types of accounts. Unlike 529 and Coverdell Plans, UTMA funds do not have to be used for qualified education expenses but simply have to be used for the benefit of the child. Investments into an UTMA represent an irrevocable gift to the child and the minor is given full access to the account when they reach the age of majority established under state law (18 or 21).
- ☐ Taxable savings/investment accounts in your name are assets that you do not have to use for education if not needed. The funds could instead be used for retirement or other goals.

For more information on ways to save for college, see JNBA's "Planning for College" checklist.

RETIREMENT PLANNING

- ☐ Consider how the choices you make under the six core areas of financial planning might impact your future retirement plan and longer-term goals.
- ☐ For example, consider saving for your retirement goals ahead of your child's college education. You or your child may be able to find loans or other means of funding for college but not for your retirement.

RISK MANAGEMENT

- ☐ Arrange for health insurance for your child:
  - You can put your child on your health insurance plan within 30 days of the birth.
  - If you and your spouse both have health insurance through work, research which plan provides the best coverage.
- ☐ Buy life insurance to protect your family:
  - Your family depends upon you to provide for their financial needs. If you or your spouse passed away unexpectedly, you want to make sure your family is provided for. Expenses to consider are your family's annual living expenses, outstanding debt, and future college tuition and expenses.
  - A young family can require a large amount of life insurance coverage to cover the above. Consider purchasing term life insurance where you can obtain a larger amount of coverage (e.g., $1 million+) for a potentially more reasonable premium.
- ☐ Make sure you and/or your working spouse have disability coverage:
  - Your lifestyle would be significantly impacted if you and/or your spouse were unable to work due to a health problem or accident.
  - Two-thirds of your salary is a general guideline for the amount of disability coverage you should have in place.

ESTATE PLANNING

- ☐ Consider who you would name as a guardian and trustee for your child:
  - It is important to consider who you would want to care for your child in the event of your untimely death(s). A guardian would be the individual who would raise and care for your child if you were not here to do so.
  - A trustee would be responsible for taking care of the financial assets of your child and make sure the financial resources you left for them are used for their needs.
  - The guardian and trustee named would be listed in your Will. You can name the same person to do both or a different person for each role.
  - If you do not name a guardian or trustee for your minor child and you pass away, a court would make this decision for you and it may not be who you would have chosen.
- ☐ Have estate planning documents drafted:
  - It is important to have estate planning documents in place not only to list a guardian and trustee, but also to ensure all of your assets pass according to your desires.
  - Hire a qualified estate planning attorney to ensure you have the proper documents drafted, including Will(s), Power(s) of Attorney, Health Care Directive(s), and possibly Trust(s), depending on your situation.

TAX
PLANNING

- ☐ Apply for a birth certificate and Social Security number for your child:
  - The hospital where your child is born will give you a birth registration form which is necessary to obtain a birth certificate.
  - You can also apply for your child's Social Security number at the hospital with the same birth registration form.
- ☐ A new child brings new tax breaks:
  - You may qualify for a tax credit in the year your child is born until they reach age 17. Under current law, the credit is $2,000 per child and phases out at $200,000 of income for single tax filing and $400,000 for married filing jointly.
  - You may be eligible for a dependent care account if both you and your spouse (or single parents) are employed or students and/or you could claim the dependent care credit on your tax return.
  - Consult a qualified tax advisor to help you determine the tax advantages that may apply in your situation.