Preparing Your Finances for a New Baby

Your parents might have mentioned at least a couple of times while you were growing up how wonderful and expensive you were. The bottom line? Bringing a child up is a tremendous financial responsibility, and it's better to plan in advance than deal with a surprise down the line.

The U.S. Department of Agriculture compiles an annual survey on what it costs to raise a child from birth through age 17. In 2007, in the lowest income group, expenses ranged from a total of $7,830 to $8,830 for a two-child, husband-wife household to between $15,980 to $17,500 for families in the highest income group. Once again, those are the latest annual figures – so if you held spending unrealistically static for the next 17 years, the cost of raising a child in the lowest income group would range from $133,110 to $150,110 adjusted for inflation. In the highest income group, that range would be between $271,660 to $297,500.

Note that we haven't begun to discuss college yet. Across the United States, the average tuition and fees at four-year private institutions in 2007-2008 was $23,712, representing a 6.3 percent increase of more than $1,400 over 2006-2007, according to College Board's 2007-2008 Annual Survey of Colleges. At public four-year colleges, the average in-state tuition and fees averaged $6,185, a 6.6 percent increase.

All parenthood comes at a price. But with the help of a financial planner you can create a strategy to afford kids from birth through college. Here are some key points in that process:

Create or review your financial plan: A financial plan is a written set of goals, strategies and a timeline for accomplishing those goals. For many individuals, it may be the first time they seriously examine their financial future in such black-and-white terms. But it starts with the basics – determining how much you really have in savings, debt, insurance and investments. Your financial planner can also help you understand how much the additional costs of raising a child, including the startup costs of birth or adoption, will affect all those numbers. A financial plan should be reviewed with every major change in life, and having kids is certainly one of those landmark events.

Get rid of your high-interest debt: A major decision like having a child is a good reason to take a "clean slate" approach to debt. Before you can build a reserve fund, it's wisest to pay off your credit cards first.

Make sure you have a will: If you die without a will, you won't have a clear path of guardianship for your child, nor will your assets be properly directed to support that child. Any good adoption attorney will insist that you develop and file a will as part of the adoption process.

Check your insurance options: In today's health insurance environment, the addition of a child to a policy can bring tremendous additional cost – sometimes without the guarantee of the best coverage. Check with your employer or your independent insurance provider to make sure you have the best coverage for what you can afford. Also look into medical savings accounts with your financial planner if you decide to take a high-deductible policy to keep premiums low.

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Know your tax advantages: If you're adopting, you can get some tax relief. In tax year 2008, parents will be entitled to a one-time tax credit of $11,650 per eligible child. There are income limits – the credit disappears for individuals with modified adjusted gross income of between $174,730 for individuals and $214,730 for couples.

Ask what your employer can do for you: If you're working at a family friendly company, it's often considerably easier to apply for leaves of absence or work schedules that make more sense when you've got a young child at home. Some companies may offer to reimburse some portion of their workers' adoption expenses.

Build your reserve fund: When a baby, toddler or older child comes into the house, money flies out the door at a velocity most childless people have never seen. Children always cost money and sometimes unpredictably so, but it pays to build your savings before they arrive so you won't overuse your credit cards. Also, it's possible that a birth mother's health may take a turn during the pregnancy, so that's an expense that needs to be anticipated.

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