New Child Financial Planning Tips

Forecast delivery expenses. If you are birthing your new child, anticipate the costs of prenatal and obstetric care. Carefully study what your insurance does and does not cover; private health insurance may have a different fee structure for obstetrics than it does for primary care. Charges may vary depending upon whether your medical providers are in-network or out-of-network. Do not be afraid to ask questions, as a lot of your money may be at stake.

If you are adopting, investigate and list all costs, including your home study, medical certifications, travel (if adopting outside the area where you live), and legal fees. Service members may be eligible for reimbursement of adoption fees up to $2000 per child. See https://www.dfas.mil/militarymembers/payentitlements/adoptionreimbursement.html for more information.

Anticipate maternity/paternity leave. How long will you and/or your spouse be able to stay home when your child first arrives? Is your time off paid, or will one or both of you have to take unpaid leave? What effect will maternity/paternity leave have on your budget, and how will you close any expected gaps?

Fit your shopping list to your budget. Babies, in particular, come with a long list of “accessories not included.” If you can, spread purchases out over the time you are waiting for your child’s arrival. Communicate with your spouse about necessary and nice-to-have items. Set a limit on spending. Be a smart shopper, looking for bargains on gently used and refurbished items as well as new ones. Consider the Airman’s Attic for baby items and utilize resources from the Bundles for Baby class on your base.

Expect more demands on your household budget. Diapers, child care, medicines, clothing expenses, food costs, and school-related outlays will escalate the cost of running your household for the foreseeable future. Plan for these new expenses early so you are not blindsided. Take advantage of assistance programs like Women, Infants, and Children (WIC), if you qualify. Every little bit helps.

Check credit reports. The arrival of a new child means new bills from new creditors, and new opportunities for identity theft or errors that can affect your credit—like invoices sent to an incorrect address that are unseen until they lower your credit score. Also request a credit report for your child or children. Children are a favorite target of identity thieves, who may commit fraud in their names unnoticed for many years.

Establish an emergency/reserve fund. If you do not have one already, start with at least $1,000 and work toward a goal of saving three to six months of income to cover expenses. As hard as you try to plan for them, some of your child’s expenses will catch you by surprise. An emergency/reserve fund is a good way to get ahead of them.

Consider life insurance for your child. While a child’s death is statistically very unlikely, it is a good idea to insure him or her. Family members of active-duty Airmen and Guard/Reserve members covered by full-time Servicemembers' Group Life Insurance (SGLI) are automatically enrolled in Family SGLI (FSGLI). Premiums for spouses are deducted from the Airman’s pay; children are covered at no cost. FSGLI covers spouses up to $100,000 and dependent children under 18 to $10,000. Guard/Reserve members not covered by full-time SGLI can purchase a small term life insurance policy for children at a very low cost to cover a funeral and other related expenses.

Update your beneficiaries. You may want to consider adding your child or children as a beneficiary to your own life insurance policy, whether you have SGLI or a commercial policy. Likewise, you may want to consider adding them as a beneficiary on your IRAs and 401(k)s, including your Thrift Savings Program (TSP) account. SGLI/FSGLI updates can be made online via the SGLI Online Enrollment System (SOES). To access SOES, sign in at https://milconnect.dmdc.osd.mil/milconnect/ and go to the "Benefits" tab, Life Insurance SOES-SGLI Online Enrollment System. Make sure your will and/or child trust directs how and when children will receive benefits.

Fund your retirement. When a child arrives, important personal goals can sometimes be neglected. Keep funding your retirement plan(s) so your child will not have to support you in old age.

Save for your child's education. Let time and compounding interest help fund your child's education by starting to save early. Families have several options for education saving:

- **Savings accounts** pay low interest, but are very safe.
- **Savings bonds**, purchased at a discount from the federal government (https://www.treasurydirect.gov/indiv/planning/plan_education.htm), also low-yield, high-security instruments.
- **529 Plans** (https://www.irs.gov/newsroom/529-plans-questions-and-answers) are tax-advantaged investment accounts sponsored by states, state agencies, or educational institutions. Projected returns are not guaranteed. With few exceptions, the maximum annual contribution is $15,000 (above which gift taxes are levied) in 2020. Funds can be used for qualified college education expenses and tuition for K-12 schools.
- **Coverdell Education Savings Account** (https://www.irs.gov/taxtopics/tc310) is a tax-advantaged investment account which offers higher potential returns over time but with no guarantee. The maximum annual contribution per child is $2,000 per beneficiary per account (a single beneficiary may have multiple accounts opened in a single year) in 2020. Coverdell accounts can be used for both K-12 and college education expenses.
- **Uniform Gift to Minors Act (UGMA)** and **Uniform Transfer to Minors Act (UTMA)** accounts are additional ways to save for a child's education. This trust-like account can be set up by an adult (the custodian) who is typically a parent or grandparent. The account is managed by the custodian until the child reaches the age of majority (typically age 18 to 21) but the funds legally belong to the child regardless of the child's age. There is no contribution limit beyond the annual gift tax exclusion ($15,000 in 2020).

If you are considering using a Coverdell or 529 Plan, shop around for the best returns, the best track records, and the lowest management expenses.

Most Airmen also earn Post-9/11 GI Bill benefits that can be transferred to dependents. See https://www.benefits.va.gov/GIBILL/docs/factsheets/Transferability_Factsheet.pdf for more information.