

Ten Tips for Soon-to-Be Parents

If there's a baby in your future, chances are you're thinking about pink or blue. Just don't forget the green.

When you have a little one on the way, it's important to make financial preparations. And be sure to take advantage of those work-related benefits that can help ease the money crunch.

Here are some things to consider:

1. Build a nest egg. Things happen. The car breaks down, you need a new washing machine or one of you is laid off. So pare down the expenses and budget now to set aside some money. And put it in something that allows easy access, like a money market account, says David Foster, CPA, CFP, principal with Foster & Motley Inc. in Cincinnati.

How much you need will vary depending on your circumstances and whether you already have any kind of safety net. Bare minimum would be about \$5,000, says Foster. "Any less than that and you're really living month to month," he says.

"I think you need three to six months of reserves before funding the 401(k) to the max, the Roth and all those things," says Kathleen Miller, CFP, of Miller Advisors Inc. in Kirkland, Wash. "Because things happen."

Can't stretch that far? Save what you can manage.

2. Revisit your life insurance coverage. You'll need it more than ever if you or your spouse dies. You don't want to go broke buying insurance, but if you can afford it, make sure you have enough and check out term insurance, which should be less expensive.

"You're just making sure you've thought through, 'Hey, if one of us dies, what kind of economic impact is it going to have? How can we replace it with life insurance?'" says Foster.

If you have the income, you might also want to figure in additional costs, like college tuition or paying off the house, says Foster.

Want to figure out just how much you need? If you need to replace \$30,000 a year, at a modest 5 percent, that would require a \$600,000 policy.

One mistake couples make: only insuring the working party. If something were to happen to your stay-at-home spouse, what would you need annually to cover the cost of child care?

Another item to consider if you have the money: disability insurance. First, find out if it's available through your job. If not, do you want to spend the money to pick up an individual policy?

While it can provide a nice safety net if something happens and you can't work for a while, it can also be expensive. "In my own personal experience, very few people want to pay the premiums to buy a private contract," says Foster.

3. Re-examine your health insurance options. Which of your jobs offers the best family medical coverage? Which includes your preferred doctors or gives you the most autonomy in choosing who you want to see? Which plan will give you the best deal when it comes to labor and delivery?

4. Take another look at your work benefits. "Look at all of your options through your employer," says Foster.

Some companies offer plans that let you pay for medical coverage or day care in pretax dollars, which is a nice way to slice a healthy portion from your expenses. The downside: Many times any money unused at the end of the year is forfeited. And you need to know what happens to that money if you leave or are fired.

While you're at it, study the family leave policies for both you and your spouse. Options vary from workplace to workplace. Find out exactly what each of your employers offers so that you can make the most of it.

5. Shop day care, if you think you might need it. "By all means, get your name on a waiting list," says Miller. "You aren't going to find day care just because you want it."

6. Revisit your beneficiary selections. This is a good time to get out the paperwork on any retirement and investment accounts to make sure that, should the worst happen, your family is protected.

While you and your spouse probably want to name each other as beneficiaries, you will likely want to name your child as a secondary beneficiary so that he or she receives the money if something happens to both of you. But check the fine print, different types of accounts have different rules when it comes to passing money on to a minor.

Sometimes, naming a child as beneficiary or secondary beneficiary to certain retirement accounts can cause a problem, says Foster. In the wrong situation, the plan could require that the money be paid out in a lump sum, triggering a hefty tax bill. Instead, you could name someone you trust to act as a custodian. The custodian can legally make choices to prevent or mitigate lump-sum payment requirements, he says.

This is also where a quick call to an attorney can be helpful. Ask what, if any, language should be included on the beneficiary line in your state. Basically, it will read something like: Name of Custodian, acting as a custodian for Name of Child.

7. Make a will. The biggest decision with a will: naming a guardian who would raise your child if you and your spouse weren't around. If your child is to inherit any assets (your home, insurance or retirement accounts), you might also appoint a trustee (if you create a trust) or financial custodian.

These are two different sets of skills, so it would very likely not be the same person, says Miller. One "would be handling the personal and health-care needs of the child," she says. The other "would be handling the financial aspects of the child."

8. Get a copy of your credit report. "Find out what your credit looks like right now," says Miller. "Pay off as much debt as possible so that you're going into this with the least debt possible."

9. Open a college account. An education account can be a great place to stash the money that parents and grandparents want to give the little one for college some day. One smart pick: the 529 account.

"One of the nice things about the 529 plan is that you can have owner and successor owner," says Miller. "The owner controls the money. And the money grows tax-free as long as it's used for education."

10. Be flexible. You can't plan for everything, no matter how hard you try. So sometimes your best planning tool is the ability to make a new plan when the situation changes. One not-so-uncommon example: Before the birth, the mom-to-be decides she either wants to return to work or stay at home permanently. But after the birth she changes her mind. Time to draft a new plan.

"Many people think, 'I'm going to do this this way, and it will work,' and they don't take into account how they will feel emotionally," Miller says. "You don't know how you are going to feel about having a child until you have a child."