

Abstract: Babies bring joy and excitement. They also bring substantial adjustments to the family budget! This article discusses a couple of ways to pacify the challenge: checking insurance and reviewing tax breaks. A sidebar advises starting a college fund as early as possible.

Budgeting for baby

Babies bring joy and excitement. They also bring substantial adjustments to the family budget! In a September 2021 article, news provider U.S. News and World Report found that, after adjusting for inflation, it costs about \$267,233 in 2021 dollars to raise a baby to age 18 based on previously published Bureau of Labor Statistics data. That's a daunting number, to be sure. Fortunately, there are some things you can do to, shall we say, pacify the challenge.

Check your insurance

Life and disability insurance are critical. Life insurance provides financial protection if an income-earner in your family dies. Term insurance can be a cost-effective option. It offers protection for a specific period — say, 20 years — at which point many children will be relatively self-sufficient, and the loss of income less harmful. Of course, you'll also need to ensure that your will names a guardian to look after your children in case of your death while they're still minors.

Disability insurance provides financial protection if a breadwinner becomes disabled and no longer can earn a living. While some employers offer disability insurance, the policies often don't provide enough income to cover all expenses. And Social Security disability benefits might not offer the protection you expect. For instance, to obtain the benefits, the breadwinner typically must be unable to work at any job. So, consider purchasing your own policy that will pay if you can't continue in your current job. The distinction might make a difference.

Review tax breaks

Eligible parents can receive a valuable Child Tax Credit. And if you pay a caregiver to watch your baby so you can work, you may be able to claim the dependent care credit. Depending on your income, this can be up to 50% of eligible childcare expenses, up to \$8,000 for one child, or \$16,000 for two or more. The caregiver typically can't be a dependent, your spouse or a parent of the child.

Another option is a dependent care Flexible Spending Account (FSA). This is an employer-sponsored program that allows parents to set aside up to \$10,500 (for 2021) pretax annually (up to \$5,250 if you're married and file separately) to cover qualified childcare expenses. It's important to note that you can't use both the credit and the FSA for the same expenses.

Get expert advice

You'll want to reduce financial worries before your baby's arrival, as you'll be pretty tired immediately afterward. We can offer advice to help you evaluate various options and manage your finances. That way, your family will start, and build, on a solid economic foundation.

Sidebar: Start saving for college early

The sooner you start saving for your baby's education, the more you can leverage the value of monthly compounding. If you save \$200 per month starting at your baby's birth and earn a 6% return, you'll have nearly \$78,000 in 18 years!

One of the best options, potentially, is a Section 529 education savings plan. It allows you to save for college expenses, as well as K-12 tuition expenses. Contributions aren't tax-deductible for federal purposes, but many states offer tax benefits. Withdrawals used for qualified education expenses (limited to \$10,000 per year for K-12 tuition) aren't subject to federal income tax, and typically not subject to state income tax.

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