What To Expect (Financially) When You're Expecting

Whether you're considering children, pregnant, or already have a family – you're likely flooded with advice on healthcare, shopping, baby names, and more. You might also have come across financial tips from financial influencers ("fin-fluencers"), friends, or your or your family's financial advisor.

How do you figure out what's right for you at this stage?

While each family's path is different, below are five core financial topics that every new parent should consider:

1. Budgeting
2. Healthcare
3. Life and Disability Insurance
4. Estate Planning
5. Education Savings

As always, your team at 1919 Investment Counsel is here to support you as you embark on your new adventure.

1 Get Serious About Your Budget.

Be honest. You've had a "budget" for a while, but do you stick to it? A recent NerdWallet study found that, while most Americans have at least developed a budget, the vast majority exceed it. When you introduce children into the mix, you raise the stakes. Spending beyond your means, perhaps relying on credit cards or other forms of short-term credit, exacerbates your expenses long-term.

Healthcare, childcare, and basic household expenses like food and transportation all increase when you start a family. A recent Economist calculation highlighted an average cost of $300,000 to raise a child until the age of 17 in the United States (excluding private education costs). It's critical to plan for these new outlays early on.

Consider the following:

- Create a budget if you haven't done so. Whether you use Excel, a Google sheet, budgeting software (or our 1919 personal expenses worksheet), writing out your budget rather than keeping it all in your head often illuminates new ways to save.
- As savings opportunities arise, consider bolstering your emergency cushion. A good rule of thumb is to set aside 3 to 6 months of your current living expenses in cash or cash equivalents, like CDs, T-Bills, or money market mutual funds that you could access within a day or two.

**While it may feel like you're putting money aside for no reason, an emergency fund is critical for helping cover bills during unexpected events like job loss or a medical emergency.*

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Finally, if you have a spouse or partner, communication around finances becomes even more important. How will you manage your budget as your family grows? Will you have a joint checking account for family expenses? Whose insurance will cover your child? How will you design your estate plan? While no one method works for all couples, practicing open, honest dialogue around these topics can ease the process logistically and emotionally. Consider a regular "monthly" finances check-in to be sure you're on the same page.

2 Review Your Healthcare Coverage.

Costs increase with children – but so do ways to save.

First, be sure you understand the nuances of your employer's healthcare coverage. At a basic level:

- What is your deductible, the cost you bear before insurance kicks in?
- What is your co-payment or co-insurance, the costs you'll bear per service after your deductible?
- What is your out-of-pocket maximum, the total amount you'll have to pay for covered healthcare services in a year?

Beyond insurance, does your company offer benefits that support pregnancy, childbirth, post-partum, and parental needs like fertility services, a doula, or a night-nurse? While not yet widespread, many types of reproductive health benefits are on the rise. If you have a partner, compare your separate company plans to determine who will cover your child and/or if you should combine into a single-family plan. *Note: If you're self-employed, you're not necessarily excluded from these benefits. While you won't be splitting healthcare costs with an outside employer, you may be able to deduct your health insurance premiums from your income for tax purposes. A tax advisor can support you with your specific situation.*

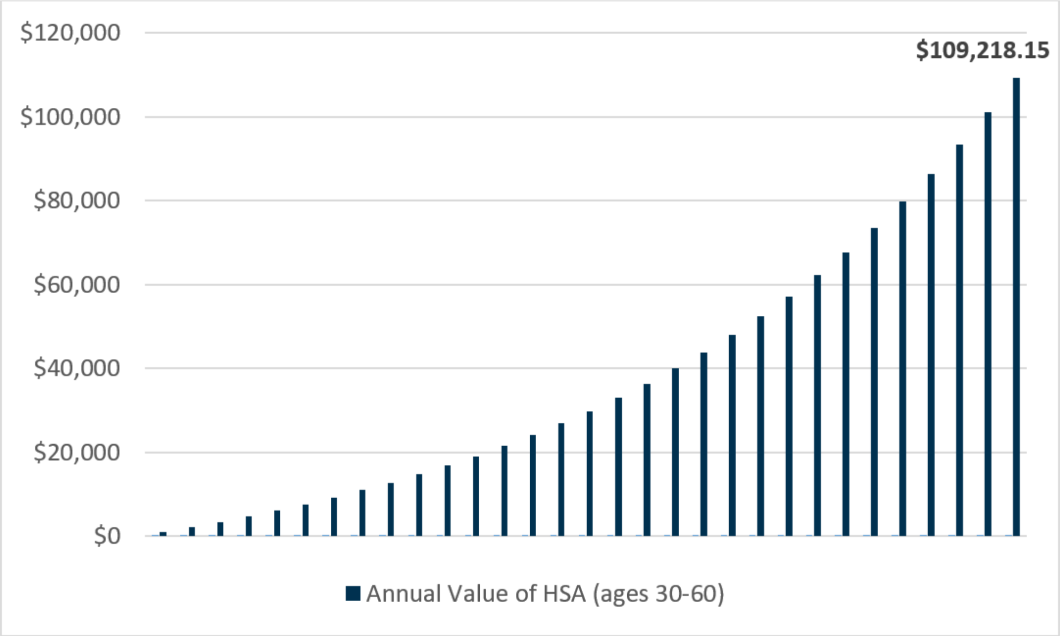
It's also valuable to explore your employer's FSA (Flexible Spending Account) and HSA (Health Savings Account) options.

FSAs allow you (and possibly your employer) to set aside pre-tax dollars for your annual healthcare costs. The downside, however, is that FSAs generally require you to spend your funds by year's end – or lose them. Some employers offer short grace periods (up to 2.5 months into the new year to use remaining funds) and/or the ability to roll over a small amount (up to $640) annually. Some employers also offer dependent care FSAs specifically for qualified child and dependent care expenses.

HSAs take healthcare savings a step further – giving you the ability to accumulate and invest savings over time for qualified expenses. (A note that HSAs are only available for high-deductible plans.) For example, if you contribute $1,000 at the start of each year to your HSA and make no withdrawals from ages 30-60, assuming 7% annual returns, you could have $109,218 in your account after 30 years.

Even if you withdrew $500 annually, you could amass a cushion of $58,182.

In 2024, the maximum annual HSA contribution for an individual employee is $4,150. If you contributed this annually with no withdrawals, you could end up with $453,255 – a healthy sum to support healthcare costs for yourself, your spouse, or dependents down the line.



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3 Are You Fully Insured?

Many new and potential parents opt in to their company's life and disability insurance policies; unfortunately, this coverage isn't always adequate for a family. The good news is that it is far easier to obtain such policies when you're young and healthy – generally around the time you start having children – than later in life.

With life insurance, many companies' health care plans offer basic and supplemental options, with discounted rates for employees that are priced by the group, rather than just the individual. However, these plans have limited personalization if you want to adjust lifetime benefits, premiums, elimination periods, or other variables. If you switch employers, these policies might not be portable. Finally, if your company subsidizes your premiums, and your benefit is above $50,000, you'll likely have to pay taxes on a portion of your premiums (the IRS counts them as part of your income).

For many families, purchasing outside term insurance for a period of 20 or more years can be a low-cost, flexible alternative or add-on to an employer group plan. You can often adjust the benefit amount and premium to fit your family's budget, ensuring adequate support if an incident occurs.

Many companies also offer long-term disability insurance plans, which replace a portion of your income for a period of time if you are unable to work due to a disability. While this can be helpful, if your family relies on 100% of your income, it's prudent to consider supplemental options. Similar to life insurance, you can purchase independent long- and short-term disability policies tailored to your family's income needs. Bear in mind that group plans' disability benefits are often taxable, while individual policies' benefits are generally tax-free.

Other types of insurance options abound – from business policies to umbrella policies that cover broader types of risk. In all cases, it's essential to speak with an insurance expert as you navigate this complicated terrain.

4 Explore Estate Planning.

We recently wrote a piece covering the basic estate planning documents everyone should have. As you start a family, these documents – Durable Power of Attorney, Healthcare Proxy, Living Will, Will, and in some cases a Revocable Trust – become even more critical.

It is a common misconception that only very wealthy individuals need estate plans. While taxable estates (those greater than $13,610,000 in 2024) may have more complex needs, estate planning can be helpful for everyone. The purpose of estate planning is to decide how to manage your assets and liabilities in the event of your incapacitation or death. Thinking through these possibilities might not be the most joyful part of preparing for parenthood, but it is ultimately one of the wisest, most respectful actions you can take to protect your family.

It's also critical to ensure you've added primary and secondary beneficiaries to your retirement accounts. Bear in mind that, in most cases, these are legally binding designations that would supersede the directions in your will.

Finally, it's important to identify a good estate planning attorney to help you draft these documents – and who might be able to partner with you over time if your situation evolves. If you're having trouble finding a good fit, a trusted financial advisor might be able to provide a recommendation from their network.

5 Get a Head Start on Education Savings.

Unfortunately, families in the U.S. face some of the highest costs of education in the world – and these costs are still going up, increasing at an average annual rate of between 5%-7%. It's a challenge for many families to afford college, let alone a private college and/or secondary school. That said, certain savings vehicles can help you, especially if you start early.

One of the most popular vehicles is a 529 Education Savings Plan. 529 Plans are easy to open and offer tax-deferred growth of earnings, as well as tax-free distributions if used for qualified education expenses. Many states also offer tax incentives for contributions. Family members and friends can also contribute to a 529 plan, making it a great choice for small presents or significant, generational gifts. Starting in 2024, after a 529 plan has been open for 15 years, the owner has the option to roll excess funds over into the beneficiary's Roth IRA (subject to a lifetime cap of $35,000).

Some families opt to create trusts for their children's education. Because a trust typically requires more money and professional assistance to set up than other savings vehicles, they may not be right for all families. The benefits of a trust can include greater flexibility and control over management and distribution of assets, but they can have downsides as well. For example, trust assets, as well as Uniform Transfers to Minors (UTMA) custodial accounts, are often counted as the child's assets when filling out the FAFSA (in contrast with 529s, which are counted as assets of the parents). This could make it more difficult to obtain financial aid or loans to pay for their education.

In all cases, understanding the full cost of college tuition and making a plan to move towards funding it are important steps for new families.

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Conclusion

Starting a family is an incredible adventure, full of unpredictable moments. Taking the time to lay a strong financial foundation will allow you greater independence, flexibility, and peace of mind as you move into this new phase of life.

1919 Investment Counsel is here to help guide you along your path – providing education, dynamic financial plans, and tailored investment portfolios to support your family's growth at every step of the way.

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Katherine is a Vice President at 1919 Investment Counsel. In her role as a Business Development Officer, Katherine works with individuals, families, foundations, and endowments, delivering comprehensive investment counsel. Her primary focus is developing new client relationships, working with prospective clients to understand their unique goals, and building the right client team around them. Katherine is a member of the Women & Wealth Advisory Team, the Financial Planning Team, and the Marketing Steering Committee.

Outside of the office, Katherine has previously served as a Board Member of the Spannochia Foundation and as a volunteer for Princeton in Asia's New York Chapter.

Before joining 1919, Katherine led customer operations for a digital marketing firm and held roles in sales and investment analysis at Neuberger Berman and DRD Investments Family Office, respectively. At DRD Investments, she also led the family's foundation efforts.

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About 1919 Investment Counsel

1919 Investment Counsel is a registered investment advisor. Its mission for more than 100 years has been to provide investment counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has offices across the country in Birmingham, Cincinnati, New York, Philadelphia, San Francisco and Vero Beach. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at 1919ic.com.

Disclosures

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