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New Parents: Buy Life Insurance, Name Beneficiaries and Save for College

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This article is part three of a three part series on financial wellness while becoming a new parent. See Part 1 [2] and Part 2 [3]

To quickly recap my first two blog posts, new parents and those expecting should take several actions to protect their finances. Start by checking your medical plan, getting supplies and padding your bank account. After that, make decisions on whether you will keep working, how you will handle childcare, and getting an estate plan in order.

I recommend that these items get done sooner rather than later because sleep deprivation is a real thing once that baby comes.

You may be asking now, “Am I all set?” “Is it smooth sailing from here on out?” Not quite! Let’s look at three more items that should be on your new parent financial checklist.

Buy the Proper Life Insurance.
Consider buying 20- or 30-year term insurance depending on how long you will need it. You will need to determine the appropriate amount for you and for your significant other, but there are many online calculators to help you find this number.

As you analyze how much insurance is needed, consider the risk of an accident occurring in your lives. For example, if one parent’s job requires a ton of travel and something happens to their spouse, you may need to move to a less demanding and perhaps lower-paying job.

If one person isn’t working, you may want to consider buying life insurance for the non-working spouse. I can tell you first-hand that childcare isn’t cheap. If a death occurs, you’ll need to be able to cover the cost of someone stepping in to help or allow for the surviving parent to spend time at home to help the family.

Check the Beneficiaries on Life Insurance and Retirement Plans.
After your child is born, consult with your advisor and attorney on the right beneficiaries for your life insurance policies and retirement plans. Note that these items are not controlled by your will, as the beneficiary designation is what matters when it comes to inheriting.

The attorney for your estate documents can tell you how the beneficiary designations should look if there is a trust named for the child(ren). If you are naming the child outright, the beneficiary designation will need to be updated after the child is born since you will need their

Social Security number. By the way, don’t assume the hospital handles getting this for you. My husband and I made that mistake and finally figured out we had to handle it ourselves, despite what we were told.

I’ve also seen some of my clients make the error of naming the child as the primary beneficiary instead of the contingent beneficiary. Generally speaking, if there is a spouse that is the other parent, you will want to leave the spouse as the primary beneficiary and add the child(ren) or the child(ren)’s trust as the contingent beneficiary if something happens to you and your significant other.

Consider Setting Up a 529 Education Savings Plan for College. These are tax-free savings accounts as long as all funds are used for tuition and other qualified education expenses (generally for college). In Georgia, starting this year, a married couple can deduct up to $8,000 ($4,000 for individuals) in contributions per child on their state income tax return. These funds can even be used to pay up to $10,000 per year for each child for tuition from kindergarten through grade 12 at private schools, though it’s better to save this money for college in order to maximize the opportunity for tax-free growth of the account.

Spoiler alert: college is not cheap, so the earlier you save, the better. But do not fund these plans to the detriment to your own retirement. While there are other ways to pay for a college education, there are no other ways to fund your retirement.

Also, make certain to not overfund these plans. The penalty for not using the funds on qualified education expenses is 10 percent on the earnings in the fund and all earnings are taxed at ordinary tax rates. However, the nice thing about 529 plans is that if you don’t use the funds, you can transfer them to another beneficiary like another child or even a grandchild. And if the child gets a scholarship, then you can pull out the equivalent funds penalty-free.

I think you have enough on the to-do list for now. Try to knock out these items… because this is the easiest part about becoming a parent!

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