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Baby on Board

Are you preparing for a new addition to your family? Here's a 9-step checklist to help protect your family financially.

By Megan Nye

Certainly, there's no shortage of preparations to be made when you're getting ready for a new addition to your family. You shop for adorable clothes, decorate a dreamy nursery and count down the days to your baby's arrival. But a new baby is a good reason to take a closer look at your finances as well.

Like many new parents, Erin and Aaron Wachter of Elizabethtown, Pennsylvania, have their hands full. But, when their daughter Evelyn was born two and a half years ago, they decided it was also time to create a financial plan.

The Wachers, who are expecting their second baby, have been Thrivent clients for almost two years. And already they've ticked some big tasks off their financial to-do list with the help of Natalie Kratzer, a Thrivent financial consultant in Hummelstown, Pennsylvania. "I knew [Thrivent] had a really good reputation—both nationally and locally—and we wanted a more personalized experience," says Erin. "They're well trusted and family-oriented." She adds that having a professional walk them through a comprehensive financial plan has been invaluable for her and her husband.

Thrivent's financial expertise can help new parents everywhere. Here's a nine-step action plan to help you prepare for your growing family.

1. Take stock of where you are

"Understanding your position right now and what it's going to look like in the short term is critical," says Renato Mazziero, Thrivent's vice president of Experience and Innovation who is expecting a second baby of his own.

As you start thinking about your family's financial plan, it's important to take the time to assess your money as it is today. You can tackle this analysis on your own or enlist the help of a financial professional. Some key questions: What's your family's existing income? Your debt? Your list of expenses? What protections do you already have in place for your family?

Then think ahead to what will be changing with the birth of your baby. Do you have the information and resources needed to take the next steps, or do you need some help?

2. Review and optimize your health insurance

Greg Durivage, a Thrivent financial associate in Maumee, Ohio, notes that preparing for medical expenses throughout a child's life is key. "Know

“If you don’t have an emergency fund, work toward it, and make sure you prioritize it.”

—Renato Mazziro,

Thrivent’s vice president of Experience and Innovation

Ready, Set, Baby!

A financial checklist for expectant parents to consider.

Before Baby

- Save toward your emergency fund goal each month.
- Pay down your existing debt.
- Set up your estate documents.
- Consider disability income insurance to protect your income.

You’re Expecting!

- Re-evaluate your life insurance coverage.
- Name a guardian for your child.
- Boost your HSA or FSA contributions to cover medical costs.
- Rework your budget to account for changes in income and expenses.

Within the First Year

- Add your child to your health insurance plan within 30 days of birth.
- Consider opening a college savings account.
- Contribute to a Dependent Care FSA to cover childcare costs.
- Claim relevant tax credits and deductions for your new baby.

your health insurance coverage by knowing what your deductible is, what your share of the coinsurance is, and what your out-of-pocket maximum is,” he says.

Durivage readily admits that it’s hard to estimate those future costs accurately. “I always recommend preparing for the worst case,” he says, referencing the out-of-pocket maximum set by your insurer. It helps to evaluate your coverage options during open enrollment season.

Fortunately, there are ways to reduce your costs upfront. You typically can see major savings by using in-network providers, whenever possible. And take advantage of a Flexible Spending Account (FSA) or Health Savings Account (HSA) if it makes sense for you, says Durivage. Those contributions are tax-deductible when you use the funds for qualified medical expenses. And the specialized savings accounts are excellent ways to save up for large medical expenses without depleting your emergency savings.

3. Prepare for the unexpected

Aaron Wachter says that his family’s employer-sponsored life insurance didn’t offer enough coverage. So he and Erin worked with their financial professional to identify and purchase the right contracts for them.

What’s the best type of coverage for you? “As a general rule of thumb,” says Durivage, “term life insurance definitely makes sense for new parents or younger families. It is typically the most cost-effective and provides the highest amount of insurance for that cost.”

The size of your premium depends on a number of factors, like age, health and term length. But Durivage notes that monthly premiums usually land between \$10 and \$100.

It’s a great conversation to have with your financial professional.

4. Overhaul your budget

With a new baby on the way, there are plenty of expenses to anticipate. In addition to medical costs, start thinking about other big-ticket items like a crib, car seat, high chair and stroller. Estimate the size of recurring bills for your baby—childcare, clothing, diapering supplies, baby food, etc.

It’s imperative that you understand the income your family will see after the baby is born, says Kratzer. Do your employers offer paid maternity or paternity leave? What income will you see from short-term disability payments? Will you take paid time off or use unpaid FLMA leave? Will one of you switch to part-time work or leave the workforce as your family grows? The sooner you know the answer to that last question, the better you can plan financially for that transition.

Kratzer advises new parents to look closely at childcare costs, which range from \$5,000 to \$24,000 each year, according to the Economic Policy Institute.¹ “For some parents,” she says, “it means asking the question: ‘Is it worth it for both of us to work?’” Durivage encourages families to consider a Dependent Care FSA (DCFSA), which lets you

cover eligible childcare expenses with tax-deductible contributions.

Both financial professionals emphasize the importance of continuing to allocate savings to long-term goals. “Usually, the primary focus for new parents should be creating a proper balance between having a solid financial foundation and saving for future goals,” says Durivage.

5. Fill the potential gaps

According to the CDC, one in four American adults lives with a disability.² So it’s essential that you ensure that you are properly covered with disability income insurance, says Kratzer. “The average employer disability plan is going to cover up to 60%.”³ She encourages her clients to consider wraparound disability coverage to fill the gap. “You will not be able to replace 100%, but usually you can get up to somewhere between 70% and 80%,” she says.

Make sure you’re covered for both short-term and long-term disability, says Kratzer, and evaluate your existing coverage and available options carefully. It’s vital to understand three key numbers—the percentage of income that will be replaced, the elimination period (the waiting period before payments start coming in) and the benefit period (how long those payments will last).

For new parents, Kratzer typically suggests a five-year benefit period for long-term disability income insurance coverage as a starting point. Expect to pay roughly 1% to 3% of your annual salary in annual premiums. And don’t forget coverage for stay-at-home parents. From childcare to cleaning to cooking, they provide essential services to your family that would be costly to replace. Kratzer points out that Thrivent is currently one of only



Before their daughter Evelyn was born, Erin and Aaron Wachter created a financial plan for their growing family.



a few insurers that offers disability income insurance for that group.

6. Build up a buffer

Money in the bank can keep you afloat when you face an unanticipated expense or job loss. Mazziero notes that the standard rule of thumb is saving four to six months’ worth of expenses in an emergency fund.

Mazziero offers a warning to expectant parents eager to fill that emergency fund: “I don’t necessarily think you need to prefund it.” He’s seen people put so much emphasis on establishing an emergency fund that they lose track of other financial priorities—paying down debt, buying life insurance, getting their employer’s 401(k) match and more. “Those things should happen in tandem,” he says. “If you just don’t have an emergency fund,

“Setting aside time to talk with our financial professional on a regular basis was really helpful.”

—Erin Wachter

work toward it, and make sure you prioritize it.”

7. Work with a financial professional to build your blueprint

Organizing the entirety of your financial life—especially while growing your family—is a challenge for any couple. Getting guidance from a professional can be invaluable. “As financial professionals, we sit down with you and really get to know your family goals, values and needs and then holistically evaluate your financial situation to create a customized financial plan that will offer a clear roadmap for you to follow,” says Durivage.

Erin and Aaron Wachter have an advisory relationship* with Kratzer. They say she has helped them nail down short- and long-term goals, think through timeframes and prioritize—an ongoing process as their lives and goals continue to evolve. And Erin says an added bonus she discovered along the way: “Setting aside time to talk with our financial professional on a regular basis. That was really helpful because, in everyday life, it’s just hard to find the time.”

8. Consider estate documents

If you don’t have a will, you’re in good company. “People always say they’re going to do it tomorrow,” says Kratzer. There’s no better time than now in her estimation.

But think beyond just a will. She suggests now also may be the time to consider a power of attorney, living will and a trust for your child as well—even before the baby is born. “A trust establishes the fact that that money is the child’s, and you get to set parameters around when and how that money can be accessed.” Talk to your attorney

How Thrivent Can Help

Talk to a Thrivent financial professional

Working with a financial professional can make your financial journey easier and more successful. “Our job is to point out any potential derailers to your financial plan and to be able to achieve your financial goals and cover those potential gaps,” says Natalie Kratzer, a Thrivent financial consultant. “We’re taking this financial-ese and turning it into plain English for you.”

If you’re looking for guidance on purposeful financial goal setting and protection as you grow your family, get in touch with your Thrivent financial professional or contact the Thrivent Financial Guidance Team at 888-834-7434 or guidance@thrivent.com.

Participate in a Thrivent workshop

Thrivent has workshops available in your church or community. Topics include:

- Financial Foundations: Your Blueprint to Thrive
- Budgeting for What Matters Most
- From Me to We: Six Must-Have Money Talks for Couples

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about ensuring that any future children are automatically covered by the trust. Thrivent does not provide specific legal or tax advice, but can partner with you and your tax professional or attorney.

Kratzer recognizes that the Internet offers plenty of free or

inexpensive legal documents but warns that you may get what you pay for. Depending on the complexity of your situation, you may want to use an attorney.

9. Think ahead to college savings

The cost of higher education is on



the rise. If you're planning to save for that big expense, Durivage suggests starting soon. "That will save you from having to set aside even more money down the road—mainly because of the effect that compounding interest can have when you start as early as possible."

Once your baby is born and receives a Social Security number, you can open a college savings account in that child's name. If you're confident you'll use the funds for qualified educational expenses, Durivage suggests clients consider a 529 plan** or Coverdell Education Savings Account, which may offer significant tax benefits. Otherwise, he suggests looking into a UTMA or other flexible savings option, though those do not offer the same tax savings.

Without a doubt, those nine months leading up to the birth of your baby are filled with countless things to do. But, a few simple steps can have a profound impact on your finances and safeguard your family's future. ■

Megan Nye is a personal finance writer in New Jersey.

Photo by Eli Meir Kaplan

An Insured Future

After a tragedy, a life insurance contract can protect your family financially. How much do you need? Greg Durivage, a Thrivent financial associate, suggests looking at what you want to accomplish with the death benefit funds. That might mean replacing your income, paying off debts, covering college or mortgage costs or funding retirement goals. Don't overlook stay-at-home parents, who provide important services to your family that would be costly to replace.

Also consider a permanent life insurance contract for your child. "It's generally cost effective when you get it in place at that young of an age," says Durivage. It guarantees that the child will be insured in the future, regardless of any circumstances that would make it difficult to buy coverage as an adult, as long as premiums are paid.

¹ The Cost of Childcare in the United States July 2019. epi.org/child-care-costs-in-the-united-states.

² CDC: 1 in 4 US adults live with a disability August 2018. cdc.gov/media/releases/2018/p0816-disability.html.

³ Disability insurance plans: trends in employee access and employer costs February 2015. bls.gov/opub/btn/volume-4/disability-insurance-plans.htm.

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