Fatherly

How to Manage Your Money After Kids, According to 15 Financial Advisors

We asked 15 financial advisors and experts for their best advice for new parents. Here's what they said.

Everything changes when you become a parent — especially your finances. You want to make sure to start off on the right financial footing. But, financially speaking, where do you begin? What's the best financial advice new parents need to know? There are many things to consider: tackling debt, setting up 529 accounts, focusing on retirement, changing health insurance, planning your estate, socking money into an rainy day fund. But, big picture, what should you focus on first? That's why why we asked a group of financial advisors: What's the single best piece of advice you have for new parents? Budgeting, retirement, FSA accounts, and will-writing all came into discussion. As did taking a step back and really looking at what your priorities are as a family are now. All the information, we hope, serves as a snapshot of what to think about and tackle as you prepare this new stage of financial life. Here's what they recommended.

Re-Evaluate Everything

"The best financial advice I got when I became a parent was to re-evaluate everything. You'll want to go over everything with a fine-tooth comb, because — guess what? Your life has completely changed. Why wouldn't your finances, too?

Start your analysis in this order: Make sure that you have an emergency fund that can cover 6 months of expenses, then attack your retirement fund. Get the company match through your retirement fund, then take action on a 529 plan. Here's why you'll take care of your retirement fund before your 529 plan: You can't borrow for your retirement — but your child can take out a loan to go to school. Look after yourself first. You don't want your poor kid to have to take care of you during your golden years.

Also, this is huge: Visit a site like Trust and Will or go to a lawyer's office. Be sure you get a will so if something happens to you and/or your partner, you'll know your child will be taken care of." — Melissa Brock, personal finance expert and Benzinga's Money editor

Understand Your Budget Inside and Out

The number one issue that clients struggle with is budgeting. It's critical to create a spending plan so that you know where your money is going monthly and determine how to best allocate discretionary income to reach your goals. Having a spending plan can help identify whether private day care is an option, when and how to fund a 529 college savings plan, how and where you're able to vacation and even help with planning date nights with your spouse. I recommend resources like Mint, which takes your spending data and provides a simple view of your activity. Ultimately, a budget or spending plan will give you a better understanding of where your money goes, so you can make the tweaks needed to help you put your new family in the best position to build wealth. — Krista Cavalieri CFP, associate wealth manager, Budros, Ruhlin, & Roe

Update Your HSA, FSA, and Employee Benefits

When it is open enrollment time or if your child was born or adopted in the last 60 days, review and update employee benefits. Childbirth creates a qualifying event that allows workers to update their employee benefit selection. It is like your own special open enrollment period that lasts for 60 days before and after childbirth. Open enrollment or the recent birth or adoption of your child provides an opportunity to make a larger contribution to tax-advantaged medical savings accounts such as a Flexible Spending Account (FSA) or Health Savings Account (HSA). If you will have childcare expenses this year, you may also wish to contribute to a Dependent Care Flexible Spending Account (DCFSA). — Patrick S. Whalen, CFP, CTFA, Whalen Financial Planning

Plan. Plan. Plan.

If you haven't already, get organized and take inventory of your family's financial situation before you set your strategic direction. Without understanding where you are at financially, it's impossible to appropriately develop and balance goals like paying down debt, saving for college, or building a rainy-day fund. Those goals are all indeed important and one's to which most new parents should aspire. However, doing so without having an overarching grasp of your complete financial picture and then developing a cohesive, well-thought plan to reach those goals could have unintended consequences. You are also far more likely to accomplish your goals if you have a solid plan backing them up. "A goal without a plan is just a wish." Antoine de Saint-Exupéry — Aaron Olson, CFA, CFP, Dakota Coast Capital, LLC

Keep Your Overhead Costs Low

Keep overhead costs low — particularly the cost of housing. Don't stretch and purchase the house "you can qualify for, for a mortgage." Certainly, do not get caught up in a budget that requires both spouses to be working full-time; if either has an employment setback it could be devastating — Len Hayduchok, CFP, CEO, Dedicated Financial Services

Automate Everything You Can

My number one financial tip for new parents is to automate everything you can. When I had my first son, I was overwhelmed with all the things I had to do and since you don't get more space in your brain to take on new tasks, it's easy to let some things fall by the wayside. I ended up missing a bill payment and my interest rate skyrocketed! Luckily, I called the company and they were able to change it back to normal, but that took time and energy away from other things I could have been doing. Sign up for automatic bill payments and put your savings and investing on auto-pilot too – that way you can stay on top of your finances, even when you're exhausted. — Misty Lynch, Head of Financial Planning at John Hancock

Don't Back-Burner Retirement

New parents get caught up in all of the expenses that come with a child, tending to put retirement on the back burner because it seems so far away. But studies show that the earlier you start saving for retirement, the better. Starting to save for retirement at age 25 could wind up netting you close to double at age 65 as opposed to waiting 10 more years to start saving. So start saving or continue saving before and after your new baby arrives. — Lisa Hutter, Senior Director for Wealth Planning for Wells Fargo Private Bank

Focus on Housing — And Creating a Forced Savings Plan

The first chance you have to own a roof over your head, you should do so. The dwelling should be modest at best. It's not meant to be your forever home. Life will throw you curveballs, whether you care to admit it or not. Having a roof over your head, and allowing you to focus, is essential to your mental health and financial well-being.

If you live in an area of the world (for example NYC) where the rent to own ratio is out of balance (cheaper to rent), then don't feel obligated to own. You should, however, feel compelled to put money away every paycheck as if you were paying a mortgage. This forced savings plan regardless of how well the stock market or economy is doing (or not doing), will allow you to compound your money and potentially grow substantial wealth over time. — Michael Tanney, a Director with Magnus Financial Group

Build Your Emergency Fund

Becoming a parent means you'd better get used to dealing with the unexpected. One way to do that is to build an emergency fund. An emergency fund should be a reserve of readily-available money you can use to meet unexpected expenses. It should be held in a safe and stable bank account like a savings account or a money market account.

In some circumstances a CD can be an appropriate place for an emergency fund if you can find a CD with a relatively low early-withdrawal penalty in case you need to access the money before the CD matures. An emergency fund should give you a cushion for dealing with unexpected expenses like illnesses that aren't fully covered by health insurance, higher-than-expected costs for various baby needs (those needs just keep coming!) or lost wages from work absences.

A good time to start building an emergency fund is while you're still expecting the child. This allows you to put aside money before you start having to deal with the increased expenses of having a baby, and should help cover you if you need to take more time than expected for maternity/paternity leave. — Richard Barrington, Senior Financial Analyst for Money-rates.com

Write a Damn Will

In the event that both parents pre-decease their child, it is crucial to have arrangements in place for the disposition of your assets and care for your child. Having a will in place allows you to take care of all the above. Also, making sure to update your beneficiaries of your life insurance and retirement accounts to reflect the arrangements you decide on with your estate attorney. Selecting a guardian for your child is an important step in creating a will for new parents. This should be carefully considered and you should ask that individual or couple if they are okay being named guardian before signing the documents. — Zachary Morris, CFP, Wealth Advisor and Founder PacesFerryWealth

Don’t Get Caught Up in Buying Everything New
Everything you buy for baby doesn’t need to be brand new. New parents naturally want to give their baby the “best” and that often manifests as needing to pay the retail price for strollers, cribs, changing tables, and high chairs. For some parents, this could mean taking on more credit card debt to afford everything that they need for the new addition to their family. But any second-time parent will tell you that gently-used items are just as good and usually come at a fraction of the price (or free). The best place to start is to ask friends and family who have kids already. You’ll be surprised by how eager some parents are to purge their baby gear. — Bethy Hardeman, personal finance expert at Tally

Sit Down and Think: What Are Your Goals?
Everyone will tell you to make a rainy day fund, and you should. But before you start budgeting, think about your goals. And the future goals of your child (don’t worry if you’re not sure, you’re child won’t be sure until they’re about 30 anyway). It’s hard to plan for the unknown, but play out a few scenarios of what could be and then think about how you would deal with them. Want your child to go to college one day? Start saving for that now. Don’t have life insurance yet? Get some. Want to retire some day? Better start funding that now. Budgeting and saving is all about being prepared for the future. The most important thing to think about when planning is what is your goal? If you can figure out goals, you can start making important financial decisions that are right for your situation. — Morgan Taylor – CMO & Financial Advisor for Let Me Bank

Don’t Forget Estate Planning
A financial planning area that is often forgotten for younger households is estate planning. It’s very important to update your estate plan any time there is a major change in your family. This includes your will, designated beneficiaries for financial accounts, trust, durable power of attorney, letter of intent and medical power of attorney. This can establish a guardian for minors, who serves as executor of estate in event of passing and how assets get distributed in event of passing. — Brian Fry, CFP, Safe Landing Financial

Create a Family Mission Statement
Having a child is a great catalyst for parents to spend time creating their family legacy. Before understanding 529 accounts and 401k’s, it is important to have a foundation and a family mission statement. Why do we work? What is it about money that is important to us? What are we aiming to achieve and what type of life do we want to model and create for our children?

When the parents can confidently answer these questions, they will know if they want to pay for their child’s college or if they are prioritizing their retirement. Surely, we all want our children to work hard and become productive members of society, but the financial habits and attitude around money start from young. If Mom and Dad have decided that they do want to support their children’s education, funding a college savings account from birth can provide massive benefits. — Thanasi Panagiotakopoulos, Principal of LifeManaged

Understand Your Household Spending Inside and Out
The best advice for new parents is to completely understand your household spending. Spending is the second most important topic in personal finance behind growing your income. I think the process of creating the budget is actually the most useful part of the spending process because it allows people to see where their money is going and if they agree with their own lifestyle. Budgets don't have to be restrictive and say you need to pinch pennies.

A budget should be used as a health check for your finances, keeping track of the most important items like rent, student loans or car payments first, then smaller items that are recurring like gym memberships or Netflix. Once you have accounted for the big ticket and recurring charges, the rest can all be classified as discretionary spending. This strategy is more commonly known as the Jar of Rocks strategy. With all the free budget tools out there like Mint or Personal Capital or some of the more robust tools like YNAB, the process of creating a budget is as simple as linking your checking account or credit cards to their system. Once you're linked, just check-in monthly and see how you're doing in various categories and make a change if you see an opportunity. — Dan Routh, CFP, Financial Advisor, Old Peak Finance