

## Congratulations on your new baby!

You've probably heard that babies change your life in so many ways — and it's definitely true. But one way many people don't think about is the impact a new baby has on your financial life. Whether your new baby is your first or your fourth, his or her arrival represents a significant change in your financial situation.

That's why FORUM Credit Union has created this kit. Our goal is to provide the information you need so that you can make the best choices for your baby's future — and your own, too. Inside, you'll find a variety of helpful resources and suggested sources for more information. And don't forget that answers to your questions are as close as your nearby FORUM location.

## Financial Resources For New Parents

FORUM Credit Union offers products and services for all the stages of parenthood, from preparing for your new arrival to helping him or her obtain the best possible education. Some of the ways we can help you include:

### Home Equity Loans

If your house isn't quite ready for baby's arrival, or if you're just looking for an affordable way to prepare his or her room, consider a home equity loan or line of credit. Borrowing against the equity (ownership) you've built up in your home is convenient and affordable. It's especially sensible when you're using the funds to improve your home. Plus, your interest payments may be tax-deductible.

### Savings Accounts

"Saving for a rainy day" is timeless advice that's the single biggest step toward building financial security. While your child is still an infant, you can give him or her a head start by direct-depositing money into a savings account regularly, or by opening an Aware certificate in his or her name. A little bit each month can add up to a lot. When your child is a little older, teach the value of saving, spending and sharing wisely with an Aware account — our savings account that's designed especially for kids.

### Coverdell Education Savings Accounts

With large annual increases in tuition and fees, the cost of a college education could easily grow to more than \$250,000 by the time your child is ready. Don't panic! Instead, start saving now. A Coverdell Education Savings Account gives you an excellent way to save tax-free for your child's education.

### 529 Plans

If you haven't heard of 529 College Savings Plans, you should learn about them. They allow you to make even larger contributions than a Coverdell Education Savings Account, and give your savings a tax-deferred way to grow.

### Sprout Account

FORUM's Sprout Account is also a great option when it comes to saving for your child's future. Sprout is similar to a 529 Plan or Coverdell Education Savings Account in that it earns interest and certain penalties may apply for early closure or withdrawals. However, this account does not require that the owner use the money specifically on school. The money can be used on purchasing a car, putting a down payment on a home, and more. Additionally, FORUM will match a certain percentage of deposited funds per calendar year based on different tier levels.

### Just Ask!

We're here to help you, so call or stop by your nearest FORUM location for answers to your questions, and to learn about all the ways we can help with your family's financial needs.

# NEED TO KNOW

Other things new parents will want to know.

## Getting A Social Security Number For Your Child

Before you claim your little one as a tax exemption (more on that later) or open a bank account in his or her name, you'll need to obtain a Social Security number. Most hospitals will give you an application before you leave. If yours didn't, or if your child was born elsewhere, you'll need to visit the nearest Social Security Administration (SSA) office. The application is called Form SS-5, and you can also obtain it at [www.ssa.gov](http://www.ssa.gov). It usually takes 6 to 12 weeks to receive a card.

In addition to completing the form, you'll need to provide:

- Social Security numbers for both parents.
- Two documents that verify your child's age, identity, and citizenship status (usually a birth certificate and the hospital's birth record).
- Proof of your own identity, such as a driver's license or passport.

## Adoptions And Social Security Numbers

If your adopted child is a U.S. citizen, he or she probably already has a Social Security number. If not, complete IRS form W-7A (available at [www.irs.gov](http://www.irs.gov)) to obtain an Adoption Taxpayer Identification Number that you can use while the adoption is pending. If you're adopting a child from outside the U.S., once your child is here and the adoption is final, you can submit a Form SS-5 to the Social Security Administration (as described in the earlier section).

## You've Earned Some Tax Breaks

Each child you have gives you an exemption on your tax return. That exemption allows you to deduct a portion of your taxes (it changes nearly every year) to help offset basic living costs. Your child generally qualifies for the exemption until age 19, and if you earn a very high income, you may not be entitled to the full exemption amount. To claim your exemption, simply list the number of dependents on your tax form, and follow the instructions.

The government currently also offers a Child Tax Credit that reduces your taxes by \$1,000 for each child you have. You obtain the credit by completing the appropriate line on your tax return. The child tax credit is not available to taxpayers above certain income levels.

## How will a child impact your finances?

Parents know that adding a child to their family involves some extra expenses, but few probably realize just how expensive it can be. According to U.S. government statistics, a family earning what's considered a middle income can expect to spend as much as \$250,000 — that's a quarter of a million dollars — to raise a child from infancy to age 18.

In addition to the costs that are obvious — such as clothing, food, medical care and furniture — having a baby may impact your finances in other ways.

### Keep Working Or Stay Home?

Perhaps the biggest impact to your finances will involve the way you work and what you earn. You may be planning for one of you to take a break from work to raise the baby. That means your income may drop significantly, leaving you with less money to meet your normal expenses and cover all those new costs. (Of course, you'll probably be doing things like eating out less — and if you're not working all of the time, you won't need to spend as much on wardrobe and transportation.)

Or you may both plan to keep working. In that case, you'll need to investigate the cost of childcare — and you might be surprised just how much that adds up. For example, bringing your baby to a daycare center could run as much as \$1250 each month, with home daycares typically between \$500 and \$700 monthly. Thinking about a nanny? A live-in nanny may run you \$500 per week.

### Start By Budgeting

Now is a good time to sit down and prepare a realistic budget to determine what impact the baby will have on your situation. Be sure to list all of your expenses (and don't forget to budget some money for savings, college and retirement investments). When budgeting, it's usually a good idea to be very conservative when estimating income, and to allocate more for expenses than you probably need. That way, you'll have a cushion to protect yourself against unexpected costs.

If you do decide that both of you will continue to work, start looking at childcare providers long before the baby is born. Often, the best providers in your area are in so much demand that they may have waiting lists for vacancies. Be sure to ask for (and follow up with) references. It's also a good idea to visit a provider at different times of the day to see how the children are being treated.

### One Helpful Tool

If you're planning to use a childcare provider, ask your tax preparer whether it makes sense to set up what's known as a Flexible Spending Plan. With one of those plans, you may be able to deduct as much as \$5,000 of childcare costs from your pretax income, which can lower the amount of federal income tax you'll owe each year.

# SAVING FOR COLLEGE

## Make college affordable by saving today

It may seem strange to think about saving for a college education when your baby hasn't even arrived yet (or has just been born), but there are two things you should consider:

- College costs go up about 5 to 8 percent each year, meaning that the cost of a college education could easily grow to more than \$250,000 by the time your child is ready.
- With any kind of saving and investing, time is your ally. In fact, starting now with a smaller amount will produce greater results than starting later with more money.

Fortunately, there are some smart ways to save for your child's education that let you begin very early. Many of them even include tax advantages!

### Coverdell Education Savings Accounts

An Educational IRA gives you an excellent way to save tax-free for your child's education. You can deposit up to \$2000 a year per child, from birth through age 18. You can transfer funds from one child's account to another child's account. When your child begins college (or needs to pay other qualified educational expenses), he or she can withdraw the money tax-free, penalty-free.

### 529 Plans

If you haven't heard of 529 College Savings Plans, you should learn about them. They allow you to make even larger contributions than a Coverdell Education Savings Account, and give your savings a tax-deferred way to grow. The money grows tax-free, and you won't have to pay taxes on what's withdrawn if it's used for higher education at any accredited college or university in the U.S.

### Roth IRAs

One of the benefits of a Roth IRA is that you can withdraw money that's been in your account for at least five years to pay for certain educational expenses such as college tuition without paying any penalties or added taxes. (With a Roth IRA, your annual contributions are not tax-deductible.)

### Custodial Accounts

If you'd like to maintain control of money you've saved for your child (or a grandchild) until he or she becomes an adult, a custodial account may be right for you. You make all the decisions about how much to invest each year, how it will be invested, and how the money should be used. In addition to cash, you can place stocks and bonds in custodial accounts. Generally, the first \$750 of earnings each year are not subject to taxes. Up to an additional \$750 of earnings will be taxed at the child's rate, and any earnings above that are taxed at the rate you pay. Withdrawals may be taxable, too.

### Prepaid Tuition Plans

Many states offer plans that allow you to start paying for most or all of your child's tuition at a public college or university while he or she is still a child. The advantage is that you're prepaying tomorrow's costs at today's rates, but the downside is that the money can only be used at one of the schools covered by the plan. To learn more, contact a college or university that interests you.

## Looking for some expert advice about your baby and money?

It's been said that babies don't come with instruction manuals, but there are more helpful resources available today than ever before — especially when it comes to family finances! We've listed some websites and books that we've found to be helpful and informative.

### Helpful Websites

Baby Center — [www.babycenter.com/baby/babyfinance/index](http://www.babycenter.com/baby/babyfinance/index)  
All sorts of helpful information from reliable sources.

Pregnancy Weekly — [www.pregnancyweekly.com/pregnancy\\_information/baby\\_costs.htm](http://www.pregnancyweekly.com/pregnancy_information/baby_costs.htm)  
Learn what raising a child really costs, and practical steps you can take now to prepare.

Miserly Moms — [www.miserlymoms.com](http://www.miserlymoms.com)

Jonni McCoy went from Silicon Valley executive to stay-at-home mom, successfully running her home on half of their pre-baby income. Now she shares her tips.

Work at Home Moms — [www.wahm.com](http://www.wahm.com)

Wonder whether there are real opportunities to earn a paycheck at home? You'll find advice and discussions here.

Tightwad Central — [www.tightwad.com](http://www.tightwad.com)

If you're the kind of person that delights in saving a dime wherever you can, this may be your home away from home.

Principal Health News — [www.principalhealthnews.com/topic/pregfinances](http://www.principalhealthnews.com/topic/pregfinances)

Another great source of information on the real cost of child-rearing.

### Money-Saving Websites

Cool Savings — [www.coolsavings.com](http://www.coolsavings.com)

An online source for great coupons and special offers.

Start Sampling — [www.startsampling.com](http://www.startsampling.com)

If you enjoy sampling new products, here's a site where you can sign up for more, and express your opinions after you've tried them.

1-800-Diapers — [www.1800diapers.com](http://www.1800diapers.com)

Looking for an easier way to buy diapers and other supplies? Order here and have them delivered.

Disney Family — [www.family.com](http://www.family.com)

Disney knows families, and they've gathered a wealth of helpful information into this site.

Gerber Coupons — [www.gerber.com/coupons](http://www.gerber.com/coupons)

Money-saving offers from one of America's favorite brands.

### Books

*1000 Best Baby Bargains* by Kimberly Danger

*I Wish I Had Known That! World's Greatest Money & Time Saving Baby Secrets Revealed!* by Nicole Rae Painter

*Miserly Moms: Living on One Income in a Two-Income Economy* by Jonni McCoy

*Money Doesn't Grow On Trees: A Parent's Guide to Raising Financially Responsible Children* by Neale S. Godfrey, Carolina Edwards, and Tad Richards

*Worry Free Family Finances* by Bill Staton