

How to future-proof your finances as a parent

A momentous event that can change every aspect of your financial stability

The coronavirus (COVID-19) pandemic has had a shattering effect on the country. Future-proofing your finances can help you feel more secure about what lies ahead – whether that's preparing for big life milestones, such as starting a family, or navigating difficult periods, such as unemployment or poor health.

One of the areas that tends to cause some anxiety is managing household finances with the additional cost of each child. Starting a family is one of the most momentous events in the life of a couple and it can change every aspect of your financial stability. Although you don't need to be financially well off to start a family, it is essential that you plan and budget for it.

The estimated minimum cost of bringing up a child from birth to their 18th birthday, excluding rent and childcare costs, is £153,000 over 18 years for the child of a couple and £185,000 for the child of a lone parent^[1]. The lone parent figure is higher because certain fixed costs of having children are offset by greater adult savings for the couple. Most notably in the case of transport, since the cost of having a car is offset by greater savings on public transport fares when there are two adults rather than one.

Whoever said the best things in life are free obviously didn't have children. Let's face it: kids are expensive. But, of course, they're worth every penny. Here are some areas to consider for new parents.

CREATE A BUDGET

A good first step in reducing anxiety about general expenses is to know what you're spending. You're less likely to be overwhelmed by a bigger-than-

expected bill if you know it's coming. If you don't have one already, starting a budget is essential.

If you haven't done so already, grab your calculator, bank statements and bills and draw up a household budget. Go back over the last few months and review your income (salary, overtime, benefits and any other income sources) and spending.

Create categories for spending, such as 'debts', 'bills', 'groceries', 'entertainment', et cetera and mark them as 'essential' or 'non-essential' so you can identify any areas where you can cut back. If you're spending more on certain categories than you expected, set a realistic goal for how much you'd like to bring that spending down.

SET FINANCIAL GOALS

Now that you know where you stand financially, you can plan where you'd like to be in the future. Consider what you want to achieve, and then commit to it. Set SMART (specific, measurable, attainable, relevant and time-bound) goals that motivate you and write them down to make them feel tangible. Then plan the steps you must take to realise your goals, and cross off each one as you work through them.

Be specific about what's most important to you. One of the big 'hidden' costs of having children may be the need for more space. For example, your

highest priority might be saving for a larger home for your children to grow up in.

Or you might be saving to send your children to a particular school. Be accurate about how much you'll need for these goals and break that down into a monthly saving schedule.

UNDERSTAND YOUR ENTITLEMENTS

Most people are entitled to financial support when starting a family, such as maternity and paternity pay and child benefit.

- Statutory Maternity Pay is paid at 90% of your average weekly earnings for 6 weeks and then £151.97 (or 90% of your average weekly earnings if this is lower) for 33 weeks.
- If you are not entitled to Statutory Maternity Pay you may be able to claim Maternity Allowance at up to £151.97 a week for 39 weeks.
- If you already receive certain benefits and this is your first child, you may be entitled to a one-off payment of £500, called the Sure Start Maternity Grant.
- Depending on your circumstances, you may be entitled to child benefit, tax credits or child disability benefit.

PROTECT YOUR FAMILY AND LIFESTYLE

Even if you have sufficient cash savings to cover emergencies or periods of lost income, you also need to consider different types of insurance that would pay out in these instances. You need to ensure you are properly protected should you find yourself out of work due to an accident or sickness, or if you were to die prematurely. Parents with young families need protection the most.

Parents considering cancelling insurance such as life cover or income protection as a way of saving money need to think long-term. It could have catastrophic implications on the family's finances if either you, your spouse or partner became unable to work or were no longer around.

- Income protection insurance – provides a regular income in case you are not able to work due to illness or injury.
- Critical illness cover – provides a tax-free lump sum payment if you're diagnosed with certain specified serious illnesses.
- Life insurance – provides either a lump sum or regular income for your family if you're no longer here.

PLAN FOR RETIREMENT

Your retirement may seem a long way off and a low priority compared to the financial needs of your young family now. But it's important to stay on track with your pension contributions through your twenties and thirties, as it's the investments you make now that have the best opportunity to grow.

Look at how much you're contributing and obtain professional financial advice to see how much income this might provide in retirement. If you're paying into an employer's pension scheme, a small increase in contributions might make a bigger difference than you think. Often, your contributions will be matched by your employer, and you'll also receive tax relief, which provides an instant boost to your savings and helps the fund to grow faster than other kinds of investment.

SEEK PROFESSIONAL ADVICE

Of all the things that cross your mind in the run-up to having children, it's fair to say that the impact on your finances will not be the thing you wish to dwell on. But how you plan to manage your money both before and after the patter of tiny feet should be a consideration once you've decided you'd like to start a family.

Creating a budget, choosing protection insurance and planning for retirement can all be difficult to

manage alone. Seeking professional financial advice will enable you to benefit from expert opinion and make you feel confident about your family's finances. ■

PLANNING FOR YOUR CHILD'S FUTURE

The cost of raising a child won't always be the first thing parents think about when deciding to have a family, and regardless of the cost, people wouldn't change having children for the world. Staying on top of everything while also planning for your child's future can be challenging. To discuss how we can help you plan for the retirement you want, please contact us.

Source data:

[1] Child Poverty Action Group – *The Cost Of A Child In*
2020 - October 2020

