

## **ADVICE FOR NEW PARENTS**

**Question:** I am a new parent. What financial planning advice do you have to offer me?

**Answer:** Parenthood affects almost every aspect of a family's financial plan. Therefore, financial planners should be ready to deal with credit management issues, taxes and estate planning for new parents.

**Credit management** - Clients who see their time at home as only temporary will have set aside enough money to remain on an even keel while on maternity leave. Where survival includes the use of credit, it's important that they use the least expensive form of credit to get them through the crunch.

**Saving** is even more of an important issue for families with dependents. Emergency funds that may have been considered unnecessary will now become essential. And if parents have great aspirations for their children, they'll want to start saving for their children's futures using a registered education savings plan (RESP), an in-trust account or a combination of the two.

**Registered retirement savings plan (RRSP) contributions** - Initially, retirement savings should take a back seat to educational savings and home ownership. You'll need to continue to make RRSP contributions, even if you contribute less. Maternity leave also provides an opportunity to give some tax-smart advice on RRSP deductions. Just because you have made an RRSP contribution, doesn't mean you must claim the deduction in the same year. Planning when to take the deduction is an important tax-reduction strategy.

**Life & Disability insurance** - The arrival of a child brings many added responsibilities. One major responsibility is to ensure that the child can be cared for in the event of a catastrophe, such as death or disability.

You need to answer the following questions: if you or your spouse were to die tomorrow, would there be enough money available to raise your child to maturity? Would there be enough for food, clothing, a roof over his or her head? Would the child be able to take piano lessons, travel, get a university education? Or would the child be dependent on the kindness of family and friends or, worse yet, strangers?

Now is the time to buy protection for children. Dealing with the loss of one or both parents is difficult enough; dealing with the repercussions of not having any money is too much for any child. This can be extremely hard for a single spouse to deal with, as well. The stress can wreak havoc on family life.

How much life insurance should a client have? The most straightforward approach is to buy enough insurance to provide the level of income the family will need until all dependents are on their own.

**Deductions and tax credits** - A recent government report says it can cost upward of \$150,000 to raise a child. Parents need to claim all the deductions and credits they can. In the early years, the major deduction is child-care costs. Expenses can be claimed for children up to the age of 15. Receipts don't have to be included with the return, but must be kept in case they are requested by Canada Revenue Agency for verification. Claims can be made for payments up to Dec. 31.

Remember that the money you receive through the child tax benefit is considered to be the child's for income tax purposes. By depositing that money into a bank account in the child's name, the income earned will be taxed in the child's hands.

**Wills** - Although a Will is important at every point in your life, at no point is it more important when you have children. You need to be aware of the rules surrounding guardianship and the importance of making a guardianship appointment.

Once you find out your family is about to expand, a smart step is to begin preparing financially for interruption of the family income. This means saving every extra cent. Having been through it, I know you'll have your hands full and that includes keeping up with the emotional challenges.

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