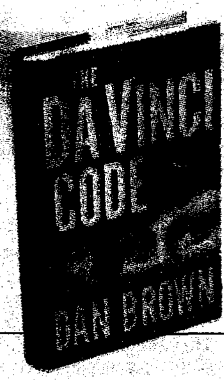

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ʼTEMBER 23, 2004 www.dailyrecord.com DAILY RECORD, MORRIS COUNTY

BY LARRY CLOW

DAILY RECORD

Joe Rasa has two pieces of advice for new parents. The first: Get used to sleepless nights. The second: Sit down with a financial adviser and start planning for the future.

When his daughter, Alexandria, was born five years ago, the Pompton Plains attorney said he and his wife didn't have a solid financial plan in place for his daughter.

"We weren't really earmarking any money for her. We were more investing in what was the most advantageous vehicle for all of us, and that happened to be real estate," he said. "Had we had a plan, we maybe would have done a little better than we fared."

As he prepared for the arrival of his son, Joseph, seven months ago, Rasa sat down with a financial planner and got organized.

"Without that, you really are doing it haphazardly," he said.

Planning financially for a baby seems like a daunting task. After all, there are many expenses to consider, from formula and diapers to college plans and life insurance. Then there's estate planning, cribs, clothes, hospital bills — a new baby is expensive.

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5 great tips

PLANNING FOR BABY

- Buy adequate life insurance. Term life insurance has cheaper premiums, but runs out at the end of the term. Whole life is more expensive but provides indefinite coverage.
- Develop an estate plan that includes wills, guardians for your child and appointing a friend or family member with power of attorney.
- Budget. List expenses and figure out how to trim them. Plan for expenses like formula, diapers, food, clothes and other essentials.
- Save for college. A financial adviser can help determine the best plan for your family.
- Get disability insurance for both parents.

It's never too early to be

BY LARRY CLOW
DAILY RECORD

While college may be years away for your new baby, parents should start thinking about paying for tuition, books and dorm rooms while they're still changing diapers. Costs for both public and private universities will more than double over the next two decades, according to Franklin Templeton Investments.

"Saving for college can be overwhelming, especially when you see those numbers," said Marnie Aznar, a financial adviser and mother of a 2 1/2-year-old daughter.

The two principal college savings plans available to parents are 529 accounts and UGMA accounts, according to Peter Neuberg, a Parsippany financial adviser.

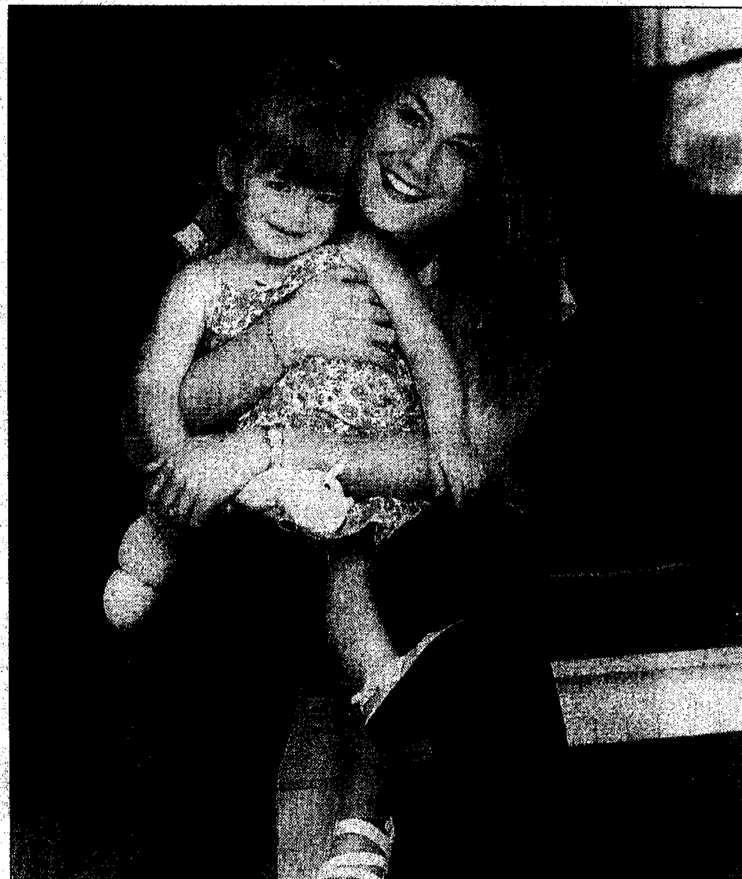
UGMA accounts, short for the Uniformed Gift to Minors Act, essentially are a pre-fabricated trust fund. Money placed by parents and relatives in a UGMA account is taxed at the child's tax bracket, which means the tax rate is very low. Individuals can put up to $11,000 a year, or $22,000 per couple, into such accounts. However, UGMA accounts give complete control of the money to the child once they reach the age of maturity, which is a drawback to some parents.

"You have no idea if, at age 18, they're going to decide to blow it all or if they're going to be a responsible adult," Aznar said.

Many parents instead are utilizing 529 savings plans. Under a 529 plan, parents retain control of the account and money saved can be used only for education after high school. And, because the account is in a parent's name, the money is not counted against any possible financial aid the child may be eligible for. The money is never taxable and can be used for any form of higher education, including college, graduate school or trade schools.

Chris Herring of Madison set up a 529 plan for his son, Matthew, last year. He deposits gifts and expense checks from his job, as well as money his wife receives from an inheritance.

"When you sit down and look at the growth of a couple thousand dollars over 18 years ... you're surprised at how much it can grow," he said.



COURTESY OF MARNIE AZNAR

Marnie Aznar, a Morris Plains financial adviser, holds her daughter Chloe, 2 1/2, at her home office.

Saving for College — Tips

College costs are climbing. Here's how to start saving for your future graduate:

■ Set up a savings plan. The two most popular plans are 529 plans and UGMA accounts. Parents retain control of the money in 529 plans, which can be used only for post-secondary education. Children gain control of UGMA accounts at age 18.

■ Start saving early, even if you can only afford $50 a month. As your income increases, save more. It's easier to save money over the course of 18 years than over the course of 10 years.

■ Some colleges offer pre-paid tuition plans, where you can pay for four years of school at current tuition rates.

■ Find creative ways to save. Keep all your loose change in a jar and deposit it at the end of the month, or put monetary gifts your child receives directly into their college fund.

■ Don't lose sight of planning for your retirement while saving money for college. Your child can take out student loans for school, but you can't take out loans for retirement.

Another college savings trip: keep that loose change. Herring said he's cashed in his loose change jar about three or four times since his son was born.

"It's always over $100," he said. "You're never going to miss (that money)."

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gin saving for college

Finances

CONTINUED FROM / E1

Parents can expect to spend between $130,290 and $261,270 raising a child from birth to age 17, according to a 2003 U.S. Department of Agriculture study.

But with a little self control, some long-term goals and the help of a good financial adviser, planning financially for a new baby can be a lot easier.

The basics

A baby is the biggest financial transition new parents will encounter, according to Peter Neuberg, a financial planner in Parsippany.

Life insurance and estate planning are the top priorities expectant parents should address, Neuberg said.

He recommends that both parents have a life insurance policy, even if one parent stays at home with the child. The type of plan you select is determined by your economic situation. Universal life insurance plans are permanent but monthly premiums are expensive. Term life insurance plans expire after a pre-determined length of time but have cheaper monthly premiums.

"If you're young and a nonsmoker ... term insurance can be very inexpensive," Neuberg said. "You can get a lot of coverage for a very low premium."

Neuberg recommends a 20- to 25-year term because it typically takes that long for a child to become financially self-sufficient. However, when the term expires, the parents will need to find a new policy. Universal plans can be anywhere from four to eight times more expensive than a term life plan, but provide permanent coverage and offer flexible payment plans.

"Term insurance is pretty competitive these days," Rasa said. He and his wife purchased 20-year terms when they had their first child. Since the birth of their second child, Rasa said he is considering extending the terms so policies will cover his children into their 20s.

It's also important for new parents to take care of estate planning. That includes preparing a will, naming several possible guardians for the child and granting power of attorney to a spouse or family member.

"It's often difficult because (parents) have never had that discussion before," said Greg Grasso, a Florham Park attorney specializing in estate planning. "A lot of the times, the parents don't have power of attorney set up."

Some parents ignore estate planning until "a sense of urgency sets in," according to Marnie Aznar, a financial planner. Aznar has a 2½-year-old daughter, Chloe.

"It can be a very difficult decision to make," Aznar said. She named one of her brothers as a guardian in her will. Aznar's brother already has one child and, she said, she may reconsider if either one of them have more children.

"You want to think about what kind of responsibility you're putting on this potential guardian," she said.

Having good disability insurance coverage also is important, Aznar said.

"Everyone thinks about the worst happening," she said. "But there's a much bigger issue, which is the possibility of losing the ability to earn an income."

Most disability insurance plans have two premium options. Parents can pay the premiums before they're taxed, which means the premium will cost less but the benefit will be taxable. The second option is for parents to pay the premium after taxes are added, which means the benefits will be tax-free. Aznar recommends the second option because it yields more money in the long term.

All the little things

While life insurance premiums and estate plans are major considerations in planning for a new baby, new parents also have to take little things, like diapers, formula, and clothes, into account.

"Formula is really expensive and diapers are very expensive," said Aznar. "If it's convenient and you're going to be home with the baby, nursing can save a lot of money."

Passing up name-brand diapers in favor of generic brands also helps.

"The store brand works just as well and, ultimately ... it really isn't that important to have a name brand diaper on the baby," she said.

Medical bills also add unexpected costs for new parents.

"I don't think baby food or diapers or clothes make that much of a difference," said Chris Herring, a Madison father. Herring's son, Matthew, is 1 year old and was recently hospitalized. "The healthcare related stuff — you get these bills six months later and you suddenly owe the hospital $1,000 that you completely forgot about."

For parents who work, childcare also is an added expense.

Joe Rasa and his wife hired a live-in nanny for their two children. He said childcare was the largest financial burden he had to consider.

"We looked at daycare, and the cost for daycare for one child is little less than a live-in nanny," he said. "But the cost of daycare for two children is a little more than a live in nanny. What you do have with a live-in nanny is convenience and ... peace of mind."

After their child's bout with illness, Herring's wife decided to leave the workforce and stay home.

"We sat down and really looked at our budget and figured out if we could swing it," he said. "It's a tight swing, but the emotional and time management benefits of having one of us home ... I can't imagine doing it any other way."

Being debt-free before your child's birth also helps, he said.

"When you get rid of that permanently, it makes a huge difference," Herring said.

In preparation for their son's birth, Herring and his wife also looked for expenses they could cut from their regular budgets. They stopped going out to dinner and trimmed other expenses. Herring said being a one-car household also helped save money.

"One of the big benefits of being able to be a parent is to somehow have your child be better off than you are," he said. "The only way to do that is to start early."

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Setting up an estate is crucial

BY LARRY CLOW
DAILY RECORD

Estate planning may be the last thing new parents want to think about, but it is perhaps the most important, according to financial advisers. Setting up a will, naming guardians and giving a spouse or relative durable power of attorney can ensure that both spouses and children are taken care of in the event of an unexpected death.

"You have to have a frank discussion. Nobody wants to talk about mortality," said Jim Hourihan of Wyckoff. Hourihan and his wife, Christine, have two children. "But for planning purposes and to protect your children, you must."

A will and possible guardians for the child are the two most important things for parents to have planned, said Greg Grasso, a Florham Park attorney specializing in estate planning.

"Parents, most of the time, have done nothing for the child," Grasso said.

"If they don't set up a will and one parent dies — let's say it's the husband — the assets don't go directly to the wife," he said. In that case, Grasso said, the wife would have to go to court to get control of the assets.

Parents also should discuss early on potential guardians for their child.

"You want to think about what kind of responsibility you're putting on this potential guardian," said Marnie Aznar, a Morris Plains financial adviser.

According to Aznar, many people name their child's grandparents as guardians but forget to amend the will as grandparents age or decline in health. Aznar named her brother as guardian for her 2½-year-old daughter, Chloe. Her brother already has one child and Aznar said , as her family and her brother's family grows, she may change her will.

It takes about a week to set up a basic will and plan who has durable power of attorney, Grasso said. The cost is usually under $1,000, he said.

Parents of children with special needs or medical problems also must take care in preparing their wills. Hourihan's 3-month old son, William, was born with Down syndrome. According to Hourihan, if a child with special needs is named as a direct beneficiary in a will, he may lose state and federal financial assistance. That's due to regulations that say the child can only have a maximum of $2,200 in his name before losing eligibility for benefits like Medicaid, Hourihan said.

"Not only does my will have to change, but so do (the wills) of my parents or in-laws," he said. "It has a huge impact— not just on us, but the whole family."

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Estate Planning — Tips

Estate planning can be daunting and difficult to consider. The basics:

- Both parents should set up a will, determining how assets are disbursed to children and relatives.
- Appoint potential guardians for your child.
- Give a friend or relative durable power of attorney.
- Update your will every year, taking into account new assets, the size of your family, and the family situations of the potential guardians you've named.
- If you have a child with special needs, make sure your will, as well as the wills of your relatives, reflect the financial needs of your child.