

By William J. Goldsmith

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Tough Choices For A Family With Young Children

From a financial planning perspective, when is your family at greatest risk? It is when you have young children.

As I discussed in a previous article, the reason for this is that all the years of caring for young children still lie ahead. In addition, most parents with young children have not accumulated sufficient assets to provide for their families financially if something should happen to either parent, whether it be a death or disability. In fact, according to a study commissioned by Bankrate and conducted by Princeton Research Associates International in December 2015, most Americans (63%) do not have sufficient savings to cover an unexpected emergency expense such as a \$500 car repair or a \$1,000 hospital emergency, let alone three to six months of expenses if the family's income stopped because of a death or disability in the family.

In order to build a solid financial plan for a family with young children, you must start with a solid foundation, one that will protect them from the catastrophic losses – a loss that can forever change the way the family members live and their ability to provide for themselves financially. You can never eliminate the emotional loss in this situation. But, you can avoid making the situation worse by eliminating additional financial pressures for the surviving spouse and children.

But, how do you eliminate the financial concerns? You make certain that you have adequate life insurance and disability insurance. The next question might be “Well, how much insurance should I have?” The answer is “It depends.” It depends on your goals and the needs of your family. That said, most of my clients know they want to pay off their mortgage or have sufficient funds set aside to pay it monthly. They also know that they want to provide some amount of money for their children's education beyond high school. But, here is where we start to see some differences of opinion. Some clients want to provide for four years of college at a state school while others want to provide for eight years of college at any school, public or private. And, it only gets more complex from here.

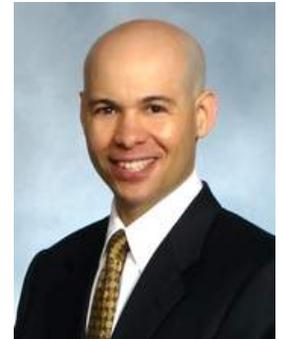
Some clients never think about their biggest asset which is their income. Others recognize that they need to replace their income but drastically underestimate what is needed to fully replace it. Almost none of my clients think about the impact on the surviving spouse's income should something happen to them. Let me explain. My wife Lisa and I have two children, ages 6 and 3. We both work. After we pick up the kids from school and daycare, its dinner, homework, playtime, reading stories, getting ready for bed and bedtime (finally!). Most of the people I know share some sort of similar nighttime routine. Now, that does not include the practice sessions during the week, games on the weekend and other fun-filled kids' activities we have almost every week. So, as you can see, life is hectic for parents with young children. But, what happens to the family if one parent were to die or become disabled? Most couples I know share the responsibilities listed above. If one of them were to die or become disabled, then all of these responsibilities fall to the surviving spouse. So, how does one spouse maintain all of these responsibilities in addition to providing for the family with one income where before there were two? Something has to give.

Does the surviving spouse keep the great job in Boston if he or she needs or prefers to spend more time with their children? Often times, when a spouse dies, the surviving spouse feels a strong desire to be there for their children to be an emotional support, to help cope with their own loss and to compensate for the loss of the other parent. For these reasons, the surviving spouse may prefer a lower income job closer to home with more flexibility. As a result, this needs to be taken into account when doing their planning.

We all hope to never be in this situation. But, almost all of us know someone who has been in this situation. While it is not a pleasant topic of conversation, I would much rather have you think about it now while you are able to make changes to your situation than to not think about and face the consequences of inaction or ignorance. Your family's well-being is too important.

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