I’m a first-time parent—how should I change the way I manage money?

Managing your own financial future can be a scary and overwhelming process. For many people, becoming a parent adds a new layer of complexity and anxiety to the process. Our guest, a 36-year-old first time father living in Austin, Texas, is struggling to find balance in his financial planning with the added expenses and time commitments of raising a baby with his wife. For help, host Stefanie O'Connell Rodriguez: O’Connell Rodriguez speaks with Dasha Kennedy, founder of financial education platform, TheBrokeBlackGirl.com, about how she found her footing raising a child while managing her finances.

Betsy: I finally after 11 years have gotten to the point where I can support a one-person household with the quality of life that I love. And if I were to add a kid into the mix, I just, I don't know that I could do that.

Stefanie O'Connell Rodriguez: This is Money Confidential, a podcast from Real Simple about our money stories, struggles and secrets. I’m your host, Stefanie O’Connell Rodriguez. And today our guest is 36-year-old first-time father living in Austin, Texas, who we’re calling Nicholas—not his real name.

Nicholas: My relationship with money is one that it's taken me a long time to feel like it's a comfortable one. I was pushing 30 already and still felt like I was drowning in debt. And then I was able to get a job that paid me better. And with my salary increases, I was able to pay down all of my student loans, and then credit card debt I finally was able to get out from under.

So now I feel like without that pressure of being in debt, I've been able to actually focus on goals that I have set for myself. I hate comparing myself to others and I don't know generally how others are doing in terms of their savings, but it always feels like I'm not where I want to be.

I still can always do better, but I honestly feel like for the first time we're on solid footing and it's kind of a weird feeling but I also know that it can all go away with a really high, unexpected expense. So I feel like I'm at that place, but it also feels a little shaky at the same time.

Stefanie O'Connell Rodriguez: Just as Nicholas has started to feel like he’s finding his financial footing, he’s also become a first time father. So he and his wife are now learning to balance their financial planning, with the added expenses and time commitments of raising a baby.

Nicholas: So my wife actually went back to work and she's no longer able to work from home, which has been a, little bit of a challenge but thankfully, my wife's mom moved in with us and she's been helping out tremendously. But we pay her obviously, cause she uprooted her life in Utah to come live with us so that she can take care of our baby, which I think we would have preferred over having to try to find daycare. Childcare is wildly expensive in most of the country, but especially in big cities and even in Austin, it can be like a second mortgage for a lot of people.

Stefanie O'Connell Rodriguez: US Families spend an average of $8,255 per year per child on child care, and oftentimes, much more—especially in higher cost of living and high growth cities like Austin.

Nicholas: So now we have to think about how do we ensure that we can continue planning our own retirement and our own future, but to make sure that she feels that when she is of age and when she decides that she wants to go to college or whatever it is that she wants to decide to do that she feels like she's in a good place too.

But yeah, I think having a child changes the dynamic entirely because it does come with a lot of expenses. It's a lot of things that you have to buy but it's not until you actually have the baby there with you, then you're like, oh my God, we're low on diapers. We're going to need diapers again. Are we going to need more wipes or we're going to need more food or whatever it might be.

So there's a lot of expenses that you know are coming because it's obvious, but then they're still kind of tough to plan for it.

Stefanie O'Connell Rodriguez: I'm curious how you feel your budget has changed.

Nicholas: I was putting in 9 percent of my income into my 401k and my employer matches it up to 5 percent. But then during the first couple of months of having our baby, I realized that towards the end of my pay periods, it was getting a little bit tighter and that was kind of worrying me a bit.

So then I told myself and I told my wife, let me try something for a couple of months to see if it makes a big difference of lowering my contribution to my 401k.

So we're trying to move things around so that we don't feel like we're falling too far behind in our retirement and our future thinking, but that we're also planning for the coming months in the coming years, too, which is, a fine line to walk.

I really wanted to focus now that I had a job that was paying me more to put as much money as I absolutely could into my retirement fund.

And I was able to for a couple of years. So I think that gave us a good space to start. But then I go onto YouTube or like, I'll go onto Google and I'll look into how much retirement funds you should have by a certain age.

And it always feels like it's never enough. And I always feel like I'm behind. So then having to lower my contributions felt like a little bit of a back step. But I know that it was the right move for us. And I also know that I'm at least continuing to put in as much as my employers are matching, which is what I wanted to ensure that I was doing so that I didn't feel like I was leaving that money on the table.

Stefanie O'Connell Rodriguez: Not to mention you've already paid off the big debts.

Nicholas: I do try to see it in that way that I paid off all of my debt, which was huge for me, but now I'm so terrified of touching any money.

Even now, we bought a new house, but we do want to make some updates to it. And I keep telling myself, and I tell my wife, well, let me save up a little bit more so that we know that we still have at least the amount that we have now.

So I feel like I'm just hoarding all this savings and I'm like, I don't want to touch it, I don't want to touch it.

Nicholas: One of the things that I do worry about is having such a mentality of thinking 30 years down the road that you don't fully embrace the moment that you're in. And try to ensure that you still have, I want to say fun but at least do the things that matter to you, even if it costs a little bit of money.

Like we have money saved that we could take a good vacation if we wanted to, but are we willing to dip into our savings so that we do that? And sometimes I think like, yeah, let's go on a great vacation. Let's take baby girl once she's old enough to somewhere that's incredible, and we'll have a great time and maybe we'll have to take some out of our savings, but at least, you know, it was worth it in that moment.

So that's another thing that I'm now grappling with is how do we plan for the future without losing sight of the moment?

Stefanie O'Connell Rodriguez: I think one thing that's been helpful for me is when I think about my savings in buckets. And I physically separate them. It's really, really hard when your emergency savings and your short term savings and your vacation savings and your baby emergency savings, that's all in the same place, because then it does feel like, oh, if I'm taking money out of that account, I'm taking it from my baby.

But if it's a separate savings account. It has its own name Aruba 2022, whatever it is then it's like a psychological thing. That’s what that money is for. Why wouldn’t I spend it? I also think part of this is identifying, what are the things that make you feel secure?

So if the savings alone isn't making you feel secure, okay. Maybe we need to look at the bigger financial picture. Maybe we need to talk about insurance. You have life insurance, disability insurance. Do we want to talk about maybe some of the broader picture things that if there is a worst case scenario that there's still a safety net that you've put in place for yourself?

Nicholas: Yeah. And that's another thing too, that I haven't considered is life insurance, which I know I absolutely need now, especially as a father.

I don't know if this is because my parents are immigrants, but they never had like a savings account. They never had a 401k. My dad was self-employed for a very long time and he did pretty well for himself, but he just never really thought of the point when he would no longer be working.

So now it really bums me out to see them having to still work. My mom has a daycare out of our home in El Paso and they're both well into their seventies. And now I see them without much savings to really rely on or much of a retirement account. I do worry about what it's going to be like for them.

And I think that's added pressure to me on what my retirement situation is going to be like for myself and for my wife. And now obviously with a three-month-old baby that also adds a little bit more pressure.

So. I think to make a long answer long, it's always been a tenuous relationship with money. but I honestly feel like for the first time we're on solid footing and it's kind of a weird feeling. But I also know that it can all go away with a really high, unexpected expense or like the loss of a job, so you try to do the best that you can to ensure that even if something like that happens, you feel like you're in a good place. So I feel like I'm at that place, but it also feels a little shaky at the same time.

Stefanie O'Connell Rodriguez: There's so much to consider when it comes to first-time parenting, and the implications for our finances are no exception. For Nicholas, who has already set himself up with a strong financial foundation by paying off his debts and building up his emergency savings and retirement accounts, it's understandable that this new life stage kicks off new questions and concerns around what's next. So that's what we'll be diving into—after the break.

Dasha Kennedy: I had my children very young, and I did not have a plan. A lot of it, I figured out on the way.

Stefanie O'Connell Rodriguez: That's Dasha Kennedy, founder of financial education platform, TheBrokeBlackGirl.com.

Dasha Kennedy: I was honestly 19 when I had my first child. So now being 33 and looking back, there was a lot of things that I wish I would have considered much earlier, that I didn't.

Stefanie O'Connell Rodriguez: So what was that turning point for you?

Dasha Kennedy: Understanding how important financial security is for my children and that it doesn't start once they turn 18. It really starts the day that they were born. And for me, I realized around when my oldest son was nine, that I was nine years behind in preparing him for his financial security as an adult.

By the time I was 25, I went through a divorce. I had two children at that time and I realized that a lot of my financial planning was still solely centered around me as an individual.

Stefanie O'Connell Rodriguez: And so what was the first step for you in starting to put a financial plan in place?

Dasha Kennedy: What was important for me was accounting for all of the money that I had coming in and all of the money I had going out and using a budgeting system called zero based budgeting. That is a budgeting system that I recommend to all parents, because it gives every single dollar that you make a job to do.

You're keeping your money busy. You're telling it where to go, when and why. So let's say for an example, you list all of your expenses.

You list all of your income, you calculate those and at the end you have $500 leftover. So with the zero-based budget, it's saying, now, what am I supposed to do with this $500? Is it all going to go towards savings, am I going to put it towards school tuition? Am I going to make extra debt payments? It’s counting out all of your money until it equals zero.

Now that doesn't mean that you're going to have $0 in the bank. It just means that every dollar that you have coming in now has a job to do.

Stefanie O'Connell Rodriguez: One of the things I see people struggle with a lot, myself included, is there's a lot of jobs I have for that $500. For example you know after I meet my monthly expenses, whatever's leftover—there is emergency fund savings, there's short term savings, saving for kids college, investing—I mean there's so many competing priorities. So how do you think about how to manage all of those competing priorities—especially as a parent?

Dasha Kennedy: One of the things that I think that is not discussed enough when it comes to prioritizing finances as a parent, is that a lot of us are heavily focused on when our child turns 18, when our child turns 21, when our children goes off to college, that we don't do enough planning simply for tomorrow. Some things we may have to put off and revisit those when we have the extra money or when we're in a better financial situation. But we have to make sure that we are able to get through tomorrow.

So if that means that right now, I have to prioritize that $500 towards an emergency fund, or I have to pay off debt right now so that we can have a better tomorrow, then I have to shift my priorities. And I know that sometimes that's tough, especially when we live in a land where you see people are paying off hundreds of thousands of debt, people are buying their first home. They're paying for college in full for their children. A lot of that is enticing and sometimes it can get discouraging if you feel like you're not there. But what becomes priority, especially for me as a parent, is making sure that yes, I have a plan for the future, but I'm not overlooking how important it is to get my children through tomorrow financially.

One of the things that I had to talk to my children about when I did go through a divorce was instant gratification and how important delayed gratification is. Yes, there are some things that I really want to do when I would love to do those things right now. But delayed gratification is my saving grace.

Stefanie O'Connell Rodriguez: How did you have that conversation with your children?

Dasha Kennedy: I have two boys, my boys, they love video games. So I am an advocate of meeting children where they are. So my children at the time, this early in a divorce, they wanted a new video game. I could not afford that. So I talked to them about waiting for things and how important it is to wait for things. And I let them know that the video game that I could afford was something that would have been used. It would have been very basic. It would not have been up to their liking. Or they can give me a few months to save the money up and purchase it when I can afford it without having to take from other areas or cheat them out of something they really wanted.

So I met my children exactly where they were at, and I had a conversation with them based on what they could understand. Of course they wanted the better thing. They just had to wait and they took the option to wait. One of the things too that I really want to say is teaching children about money—It is 10 percent education, 90 percent imitation. So I can say anything to them, but they are going to repeat exactly what they see me do. So I talk a lot about wanting a new car. I would love to get a new car right now, but I still have a car that I'm paying off. So I talked to my children about that. I'm going to wait until I paid this car off.

It's completely paid off in full. I want them to see me practice that so that they in turn will do the exact same thing.

Stefanie O'Connell Rodriguez: The other thing I really like about your approach is that it's not saying I can't afford it, and that's the end of a conversation. It's about framing it into, how are we going to afford the things we want?

Dasha Kennedy: I think it's very important to include children in financial planning, because you will learn that the children are eager to do what's best for the family, if they feel included in those conversations. So for an example If my son wants a new video game, and right now I think the average cost is around $600 for the new video game system.

I can sit my son down and say, okay, this costs $600. This is still going to be relatively new, extremely popular six months from now. So instead of me paying $600 at one time out of the money that I have now, how about we spend the next six months putting $100 to the side each month, so that six months from now we can afford this.

And I create a tracking system. I'm tracking it with my son. I'm letting him see the money grow and it build up. He's getting excited. He's involved in this whole scenario. He's learning the importance of delayed gratification. Saving money, doing what's best for the family as a unit, and in the end, still getting exactly what he wanted.

I grew up in a time where children were not included in financial conversations. That was mostly a conversation between adults. By the time I was 15, my mom hadn't taught me about money. My dad hadn't taught me about money, so I got my first job. And so now other teenagers who knew less than what I knew were teaching me about money. So I developed these bad financial habits at 15,16 years old that followed me over into adulthood. If it wasn't for me getting a grip on that, those same habits that I had at 15 would've followed me forever.

And it was because my family did not include me in financial conversations or teach me anything about money. So I think we will learn that if we just include our children in those conversations and they know that in the end, this is what's best for the family. We would really be surprised at how eager they are to get on ball with personal finance.

Stefanie O'Connell Rodriguez: I think one of the reasons parents maybe have trouble having conversations with their kids in this kind of open and transparent way is that they themselves feel so ashamed and feeling like they're behind or that they don't know what they're doing themselves. So if you can't have the conversation with yourself, it's hard to have the conversation with your kids or your spouse, or your parents, or whoever.

Dasha Kennedy: Well, first we have to recognize it, those emotions, those are real. And I think that it's important that we normalize feeling inadequate when it comes to financial literacy or just understanding personal finance as a whole.

It's okay to not understand it. It's okay to be a beginner. It's okay to not feel like you're not where you should be. Especially when you see so much stuff online that says by 33, you should have saved XYZ. Some of those things are so discouraging, but it's okay to be a beginner. And I think that would be the one thing that I would want parents to understand that it's okay if you really do not know what you are doing. Self-awareness really is a lot of our saving grace to say, I don't know what I'm doing. I don't know what's the next step, and find a community that you will be able to work in, or you will feel okay with getting the help that you need.

And a lot of it comes down to being okay with asking questions. If I can push myself to ask that one question, this may be something that sends my son to college. This may be something that gets me out of bed so that I can buy my son his first car. This may be something that helps me purchase a home for my children. So that's what pushes me to be okay to be a beginner, to ask questions that I don't understand, because I know this one question really may catapult my children's life.

Sometimes it is very discouraging when it's just you and your notebook and you're shuffling through all of the different—this is how you create a budget. This is how you invest. They say, well, you're looking at all of these things online and it's still not making sense, but then you sit down in a community of people, of your peers and they were saying, ‘Hey I know this is all what you're seeing online but this is how it made sense to me.’

When you give it to someone in a relevant way, and they're surrounded around people who can hold them accountable, who've been where they have been, that really is the push start that a lot of people need—just knowing that they're not alone.

Stefanie O'Connell Rodriguez: I would love to have you talk through some of the real logistical things you can do to prepare for that journey. Say you're expecting or you're trying to adopt. What are some of the tangible things you should be doing in your financial life to start that long-term change?

Dasha Kennedy: Before we can start accounting for someone else, we do have to have a major grip on our own personal finances, what it means to budget, what it means to pay off debt.

What does that plan actually look like to get that done? Then when you account for children, that personal finance plan that you have for yourself, a lot of it is going to change because your interest in insurance is going to change. You're going to want to adjust some of your contributions to whether it's your 401k, if it's your HSA.

You're going to think about new things like health insurance plans, saving for college. A lot of it is going to change. And the biggest thing that anyone can do that is going to have children is to start preparing for those things now.

Pace yourself, understand that it is a lifelong journey that you have to not only financially prepare your children, but guide them once they're able to go off on their own.

And plans change—but if I have an idea of what to expect or what to do when things happen, I'm not going to freak out. I'm not going to panic. I'm not going to feel like it's the end of the world. Why? Because I have a plan. Let me go back to my plan. Okay. I have accounted for these things.

I didn't plan to have a child when I was 19 years old. But I did, plans changed. Now I have to adjust the plan. I didn't plan to get divorced when I was 24, but I did. Now I have to adjust the plan, but it was easier for me to adjust the plan because I already had one. And it wasn't a foolproof plan.

It was just: Okay, this is what my money looks like coming in. This is what I have going out. This is some of the things that I want to do in the future. This is what I have going on right now. This is how I plan to obtain those things. So when life happened, and life happens all the time, I knew how to just go in, adjust the plan a little bit and get right back on track.

You don't have to feel guilty when things change because they are going to change. But if you have something that acts as a guide, it is so much easier to recover from those things, when those obstacles come up, because you already have something that you've been working towards.

Stefanie O'Connell Rodriguez: One thing that came up with this listener was how all of these years he has become so responsible with money to the point that it's hard for him to spend any of it.

And sometimes it gets so caught up on, what do I need to do to save and pay off debt and invest, that the relationship to being able to spend in alignment with our values, our joys, our priorities, which for most people intersects with their children—It's like, we don't even know how to do it when the time comes, because we've been hoarding our money to deal with everything else for so long.

Dasha Kennedy: Yeah and that's real. And that happens a lot and I still struggle with it and I struggled with it because it's a direct response to having everything go very badly for you financially.

It's a direct response to having to go without, as children or watching my mom and my dad struggle for certain things. It's a trauma response.

If a lot of things is happening at once, I will clam up when it's time to spend money on things that I know that I actually can afford, because my mind starts to go, well, what if something happens? What if my money slows down? What if my child needs something? I can't spend this money because then I'm going to feel bad that I spent it on some food when now my son needs XYZ. Like we play all of the scenarios in our mind and some of them never happen.

So it does take time to work through that. And I don't want any parents to feel bad about that because sometimes we overprepare and we can't make, even at times the right decision, because we're so concerned about making the wrong decision. And this is why I'm such a stickler for creating plans that you can actually see, because that calms me. If I can go and I can look at my financial plan and I can see what's actually happening with my money in real time to see it as say, okay, Dasha, it's okay to spend this because you're going to be okay. You've allocated your money to the side for these things. It's okay. Sometimes we need their reassurance and sometimes having a physical plan gives you that.

Stefanie O'Connell Rodriguez: I do wonder if there are certain financial things you can have in place to help assuage some of those feelings.

Dasha Kennedy: I think one of the most overlooked things that a person can have is a budget.

And I know that sounds so cliche. We hear that all the time about how important budgets are, but it really is because in real time, you get to see where your money is going. Especially if you're into using things like budgeting apps or Excel spreadsheets that connect to your bank account in real time, you're getting the calculations of what is going on with your money. If you have the wiggle room to indulge in certain things or spend money in certain areas. But it is to me, a saving grace for a parent because I can look and I can see what's happening with my money. Did I account for paying my bills? Did I account for any expenses that I have? So now that I have some money left over money that I put into a savings account, or maybe you even have a line item in the budget, that's just for frivolous expenses. I have that because it stops me from overspending.

It's a saving grace for me. So when I am out and spending money I know that I've done everything prior to actually making that purchase to make sure that we were okay in every area so that I can spend money without the stress of, did I pay the light bill? Did I pay the mortgage? Did this money come out of my debt payments? I can spend money without that on my back because I know that I followed my budget thoroughly.

And I am a huge advocate for life insurance, because your children solely do depend on your income. So if something happens, you want to make sure that in your absence, they are still cared for. Consider life insurance as the last love letter that you will be able to write your child that says in my death, I give you what I probably could not have given you while I was here. Now, granted, sometimes having conversations about life insurance and death is very uncomfortable.

When I sat down and got a life insurance policy, I cried majority of the entire time having to plan what their life will look like financially if I was no longer here. I cried during that moment, but I sleep so much better at night knowing that if anything was to ever happen to me, my children are secured and their children are secure while I'm no longer here.

So I know sometimes again, life insurance can be a little tough to discuss, but as parents having that tough conversation for 30 minutes to an hour, to make sure that my children were financially secure forever. It was worth it.

Stefanie O'Connell Rodriguez: At just about every life stage there's one constant—the importance and value of mapping out or revisiting our financial plans to account for whatever new goals, realities and priorities have come up.

And because of that constant change, it's totally normal to have anxieties and feel overwhelmed, as each change can introduce a new consideration or challenge that we've potentially never dealt with before, no matter how old we get. So leaning on financial professionals, resources and a community of people with whom you can share and ask questions is critical. Because, as Dasha mentioned, being brave enough to reach out and get the help you need to better navigate your next steps, might be the thing that enables you to send your kids to college, or purchase a home for your family, or to be the provider you hope to be for both yourself and the people you love.

This has been Money Confidential from Real Simple. If, like Nicholas you have a money story or question to share, you can send me an email at money dot confidential at real simple dot com. You can also leave us a voicemail at (929) 352-4106.

Come back next week when we'll be talking about home repairs and renovations—and how much is too much to spend when it comes to a starter home we don't plan to live in for the long-term.

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