

Father's Day 2024: Why the birth of a child calls for an overhaul of financial plans and how to go about it

Even before the child is born, fathers should start reviewing the family's household budget, enhance the emergency corpus, make an investment plan for children's education goals and buy adequate insurance cover for the family, including the child.



To build an investment corpus for the child, a father should adopt a diversified strategy focusing on long-term growth.

When 35-year-old Nirav Shah was blessed with a baby boy, Shivam, in May 2024, he immediately decided to put a financial plan in place to create a corpus for his higher education.

"Becoming a father is a significant milestone that comes along with financial responsibilities. I am aware that in absolute terms, the corpus for my son's education goal could be a couple of crores to begin with considering inflation and various other factors," says Shah.

However, many do not follow this financial discipline. "A lot of individuals after attaining fatherhood don't look at reworking their financial plans, which is one of the worst financial mistakes," says Vivek Banka, co-founder, Goalteller, a financial planning platform.

Budgeting for a growing family

While welcoming a new family member, it is important to adjust your budget to account for increased expenses, boost savings for future needs and prioritise essential spending. "It's important to expand the [emergency corpus](#) to cover any additional costs, ensuring financial resilience and security for your growing family," says Krishan Mishra, CEO, FPSB India, the local arm of the US-based Financial Planning Standards Board Ltd.

Like Shah, Mumbai resident Bhavin Zaveri, 43, father of 10-month-old son Vihaan Zaveri, also wants to put a foolproof financial plan in place from the get-go. He believes an early start will make all the difference in securing his son's education goal. For instance, he scrutinises every expense and identifies areas where he can cut back. He has also decided to boost his current emergency corpus.

"Ideally, it should cover 6-12 months of living expenses to tide over unforeseen situations," says Nehal Mota, co-founder and CEO, Finnovate, a holistic financial planning and wealth advisory platform. The investments for emergency funds should be in liquid or highly liquidatable investments.

Zaveri has already set up a [systematic investment plan \(SIP\) in mutual funds](#) and insurance-cum-investment instruments. "This ensures consistent saving and helps you avoid the temptation to splurge," says Mota.

"A check on discretionary spending and any form of additional savings could be routed towards the goal of securing the financial future of your newborn," says Mayank Bhatnagar, co-founder and COO, FinEdge, an investment platform.

Also read | [This Father's Day, show Papa you care: Here are 5 financial gifts for your Dad](#)

Investment strategy for a child's future

Among other things, Shah is, as stated earlier, clear that he doesn't want to stint when it comes to his child's scholarship journey, whether in India or abroad. "Raising a child today is expensive with rising education costs," he says. However, the goal can be achieved by having a financial plan in place and meticulously adhering to it.

On his part, Shah started creating an investment portfolio soon after his marriage. His investments now encompass mutual funds, direct investments in stocks, fixed deposits, [sovereign gold bonds \(SGBs\)](#) and [real estate investment trusts \(REITs\)](#).

"It is important to create an education fund for your newborn as planning early for the education will go a long way to achieving this goal," says Bhatnagar.

A back-of-the-envelope calculation will show that an SIP of Rs 15,000 linked to your child's education goal could over 18 years potentially create a corpus of approximately Rs 1.25 crore (assuming 13 percent annualised return in an equity fund).

Also read | [If you're a father, you're old enough to start saving for your kid's education](#)

Deploy your funds wisely

To build an investment corpus for the child, a father should adopt a diversified strategy focusing on long-term growth. "Equities and fixed income are great asset classes with the tilt towards equity as over long periods equities would provide the best returns," says Banka.

Mishra recommends investments in options such as the [Public Provident Fund \(PPF\)](#) and [Sukanya Samriddhi Yojana \(SSY\)](#). The latter is meant only for girls. PPF and SSY provide tax benefits that are designed to help build a corpus over a long period.

Zaveri has already decided to open a PPF account for his son and will invest Rs 50,000 annually when he turns one in August. This investment is for his son's higher education goal. He is also planning to invest in SGBs and diversify investments for his son's education goal.

"Investing in gold provides some hedge against inflation but shouldn't be the primary investment," Mota warns.

Then, there are other popular, yet unsuitable, instruments to avoid. For instance, Zaveri has purchased a 10-year traditional endowment policy, which entails a monthly premium of Rs 2,500.

However, as Bhatnagar cautions, "Insurance as a form of investment to secure your child's future should be avoided at all costs."

With a long-term yield of 5-6 percent, insurance serves as a sub-optimal tool for achieving these goals, he adds. The difference between a 13 percent annualised return in an equity fund versus a 5 percent annualised return in an insurance policy over a period of 15 years can be substantial. Taking informed risk is critical to investment success.

SMART FINANCIAL TIPS FOR FATHERS

Make a budget accounting
expenses of a child

Expand the emergency cor

Avoid the temptation to sp

Set up SIPs in mutual fund

Build a diversified investme

Avoid investing in tradition
investment plans

Increase the term insuranc

Buy a family floater insurance with an adequate sum assured

Write a will to protect your family in case of an untimely demise



Get adequate life, health insurance

With the birth of a child, opting for a term insurance plan should be top priority to secure your family. "Review and potentially increase the term insurance coverage by 50 percent to 100 percent of your existing cover or buy a new policy and ensure that family is financially secure even if you are not around," says Mota.

Shah already has a [term insurance](#) cover of Rs 1 crore and is planning to buy a new term policy of Rs 50 lakh in the near term. On the other hand, Zaveri doesn't have a term insurance plan but knowing the importance of having a life cover in place, he has started enquiring with the insurance companies about a term policy.

Review your [health insurance](#) cover and ensure that your new-born is also covered. "Considering the birth of a child, it is critical that the cover value of the family floater is increased," says Bhatnagar. Shah has a standalone health insurance policy of Rs 10 lakh. But now he is planning to buy a family floater plan and include his child as well as spouse in the policy. He has decided to buy a higher cover of Rs 20 lakh which is essential for the family.

Have a will in place

A will is a legal document to protect your family's future in case of an untimely demise. It will avoid any fake claims on your assets and ensure that your spouse and child have a secure future.

"An individual who passes away without [writing a will](#) is considered to have died intestate and assets of the deceased in such cases will be distributed in accordance with the decedent's personal laws (which may result in disputes between the deceased's legal heirs) and not as per the wishes of the deceased," says Anuradha Shah, CEO and managing director at Warmond Fiduciary Services.