

be a better parent

how much does it really cost to have a baby?

A lot more than you think, according to results from our survey of parents and parents-to-be. Here's how to be truly prepared. by Pamela Paul

87%

of expectant parents in our survey anticipate that expenses for their baby will increase their stress level.



Everybody knows that having a child puts a dent in your family finances, but not everybody plans for it. What's worse, even those who do plan have lots of misperceptions about just how big an impact a little baby can have, according to a survey of 1,000 new and expectant parents commissioned by REDBOOK and VISA. And in this case, what you don't know *can* hurt you: Financial strain only compounds the emotional challenges a newborn brings to a household. "The smartest thing you can do is sit down before you have your baby and map out a financial plan," says Rosetta Jones, a vice president at VISA USA, which provides a baby budgeting calculator at practicalmoneyskills.com. Unfortunately, fewer than half of expectant parents surveyed even bothered to create a new budget that includes expenses for their baby.

Read on to learn about other money mistakes new parents make the most—and what you can do to avoid them. ►

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WHERE'D ALL THE MONEY GO?

76% of expectant parents say they feel financially prepared for having a baby—but **41%** of new parents admit that, in hindsight, they were not as financially prepared as they thought.

Why the huge discrepancy? It turns out there's a major financial roadblock that expectant parents often fail to account for: hospital bills. One in four new parents ended up spending more than \$2,000 on out-of-pocket costs for services associated with a normal delivery—costs that they thought would be covered by insurance. On average, expectant parents are allotting just \$776 to cover out-of-pocket delivery costs.

Call your insurance company to find out exactly what will be covered for your delivery. And make sure you have the right idea about post-delivery costs too: Log on to the Internet to see what you could be paying for day care, a crib, a car seat, a stroller—even baby wipes, formula, and diapers (at eight a day for newborns, they add up fast!). Then tally up what your costs will likely be, factoring in your family's lost income due to maternity and paternity leave. But don't forget—you'll have new savings, too, since you'll be going out a lot less once the baby arrives! "New parents don't spend on personal indulgences the way they used to," says Brette McWhorter Sember, author of *Your Practical Pregnancy Planner*. "These savings bring some balance to the enormous new costs."

HEY, BIG SPENDER!

Nearly half of new parents say they spent more money than necessary on a car seat; **36%** overspent on strollers; about **25%** went overboard on baby photos, a crib, and clothing.

All new parents say they won't lavish their child with toys and clothes. But many respondents to our survey did just that. And you can't really blame them. "There's been a huge surge in luxury items for babies," says Tamara Draut, author of *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*. "No matter what a couple's financial

status is, they feel pressure to buy these things—the bar has been raised for everybody."

How can you fight the urge to splurge? Let someone else do it for you. If you've really got to have that \$300 stroller, put it on your gift registry. Expectant parents in our survey were counting on their friends and family to buy 46 percent of their baby's first year of clothes, 40 percent of toys, and 39 percent of baby-care items as gifts. Another alternative: Hit thrift stores or eBay to find what you want, albeit used. Miriam Nunberg, a 41-year-old mother of two from Brooklyn, scours yard sales for toys and tricycles. "People get rid of this stuff when their babies grow out of them and you can buy them for almost nothing," she says. Another tactic: Borrow. Ask your friends and family for hand-me-down clothes, used toys, and gear. ►

baby budgeting, then & now

Surprise—the prices on many baby items have gone *down* in the last decade. (1994 prices have been adjusted for inflation.)

diapers

1994: Huggies 100 count Step 1 diapers at Costco, **\$19.58**

2005: Huggies 100 count Step 1 diapers at Costco, **\$13**

wipes

1994: 336 count Pampers Baby Fresh Wipes at Sam's Club, **\$10.22**

2005: 336 count name-brand wipes at Costco, **\$7.70**

formula

1994: 16 oz can of name-brand formula at grocery store, **\$10.17**

2005: 16 oz can of name-brand formula at grocery store, **\$17.60**

crib

1994: average, **\$196**

2005: average, **\$220**

clothes

1994: average cost of first year's layette, **\$653**

2005: average cost of first year's layette, **\$500**

Source: babybargains.com



HOW THEY MANAGE: THE BARGAIN HUNTERS

■ Kam Aures, 31, a stay-at-home mom, and T.J. Aures, 29, a corrections officer, Boulder Junction, WI

■ Parents of Cayden, 18 months

Kam and T.J. were both raised by stay-at-home moms and wanted the same experience for Cayden. So they saved for months before Kam even got pregnant. Once she did, she combed library sales for books and garage sales for clothing. "I've found Ralph Lauren outfits for a dollar," she says. Kam nursed Cayden for about nine months, then got three months of free formula by using coupons. The Aureses have kept their daily expenses low, so they can afford to splurge now and then. "Sometimes there's a really cute outfit that you just can't pass up," says Kam.



HOW THEY MANAGE: CAUGHT OFF GUARD

■ Lisa Hazen, 34, a Web designer, and Shawn Hazen, 32, an art director, Oakland

■ Parents of Finn, 4 months

The Hazens knew a baby meant all kinds of new expenses, but they were still surprised: "Living in the San Francisco Bay area, I've been shocked by how expensive everything is for a baby," Lisa says. "Child care is going to cost \$1,000 a month, even with me going back to work only three days a week." The Hazens have curtailed dinners out and other expenses, but they're still just scraping by. "We're trying to cut *wherever* we can," says Lisa.



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SWEATING THE SMALL STUFF

48% of expectant parents think that managing everyday expenses will be their biggest financial worry, but only a third of new parents feel the same way.

Even though expectant parents tend to underestimate the overall financial impact of having a baby, they also *overestimate* the cost of daily expenses. Expectant parents figure on spending an average of \$120 a month on diapers; new parents actually spend half that. What gives? New parents are savvy shoppers: Three-fourths of them shop for baby items at discount retailers, compared with only half of expectant parents. It makes sense: A *Consumer Reports* comparison recently found that some store-brand diapers work just as well as brand-name ones, and cost a lot less—assuming you change six diapers a day, you'd save about \$220 a year.


The best news about basic baby costs: "Daily baby expenses, such as for food, diapers, and wipes, actually haven't gone up dramatically over the years," says Alan Fields, coauthor of the shopping guide *Baby Bargains*. (See "Baby Budgeting, Then & Now" on page 148 for price comparisons.)

AND BABY MAKES STRESS

36% of expectant parents anticipate that tension in their relationship will increase after their baby's birth. Watch out: Nearly half of new parents found that to be the case.

Of course, not getting any sleep and dealing with a crying baby don't help

matters, but the added financial responsibilities also put a lot of added strain on relationships: Most new parents say baby expenses have increased their stress level, and the majority of expectant parents predict that they'll be in the same boat. In addition to the simple strain of all the new costs, there's uncertainty and disagreement as to what's really necessary—a sure formula for conflict. And once the baby arrives, couples tend to work together less on their finances. In our survey, the percentage of couples who split their family's financial management equally dropped from 44 percent before the baby was born to 32 percent after the baby's arrival. Who's taking on the added responsibility? Mom! Half of new mothers report that they handle the family money, up from 37 percent prior to the baby's birth.

"The combination of having a kid and all the financial pressures that involves, especially when one parent stays home for a while, naturally leads to relationship stress," says David Bach, author of *Smart Couples Finish Rich*. What can you do to cut down on the stress? Richard Ryan, a psychology professor at the University of Rochester, advises couples to keep one concept in mind: teamwork. Whether it's a big-impact issue like a budget or a small one like buying a toy, keep each other in the loop and discuss concerns openly. "The goal is to focus on agreement," says Ryan. That's not easy to do, but according to our survey, couples believe they can make it work: The majority of new and expectant parents say they are prepared to tackle any challenge. And that mutual optimism is money in the bank. 



HOW THEY MANAGE: SMARTER WITH THE SECOND

■ Caroline Morris, 35, a communications manager, and Andrew Morris, 38, a management consultant, Atlanta

■ Parents of Lindsay, 3, and Claire, 7 months

The Morrises spent hundreds of dollars on high chairs, bouncy seats, and other gear for Lindsay. "When you're a first-time mom, you just don't know what will work when you have a screaming baby," says Caroline. But once she realized that every toy looked battered within a few days, Caroline decided to shop at consignment stores. With Claire, the Morrises were money-conscious from the get-go, shopping at Costco for store-brand diapers. Says Caroline, "The child doesn't know the difference and it's usually just as good."



HOW THEY MANAGE: FACING A SCARY SURPRISE

■ Devona Burt, 30, a stay-at-home mom and student, and Charlie Burt, 34, a construction manager, Houston, TX

■ Parents of Byron, 15 months

Devona and Charlie Burt thought they were financially prepared for their baby—they even had \$4,000 saved for baby-related expenses. But Byron was delivered prematurely, and the Burts were hit with, among other bills, \$200 in monthly insurance co-payments and \$45 a week for hospital parking. "Our savings were completely wiped out," says Devona. Byron's health is improving, she says, a blessing that offsets any financial setback.

the 10-year plan

Here's what you can expect your annual kid expenses to be through your child's 10th birthday, depending on your income.

child's age

household income

Less than \$41,700 \$41,700 to \$70,200 \$70,201 or more

<1	\$7,040	\$9,840	\$14,620
1	7,250	10,140	15,070
3	7,890	11,070	16,370
5	8,380	11,760	17,380
10	9,750	13,380	19,540

