Million

Dollar Baby

By Brette McWhorter Sember

You probably wouldn't trade your baby for a million dollars, but did you know that you may spend half that to raise him? According to the U.S. Department of Agriculture, it costs almost half a million dollars to raise a child from birth through college. While this number may seem astronomical, there are ways to control and manage the costs that confront you as a new parent.

The best way to get a grip on your expenses is by using a budget. "Have a budget that's accurate, review it monthly and eliminate the hundreds of dollars wasted every month," recommends Mary Staton, CEO of the Staton Institute and co-author of *Worry-Free Family Finances*. Many people are uncomfortable with the notion of a budget. It almost sounds like a diet, but a budget is the best tool you can use to get a grip on how much you're currently spending and where you can make cuts to save money.

Create an accurate budget to see what your pre-baby costs are and look for ways to trim your expenditures before the baby comes. "The earlier you get used to spending less, the easier the transition will be when junior comes along," points out Bard Malovany, certified financial planner at Financial Council, Inc. in Annandale, VA.

Before you give birth, get a grip on how much your baby is going to add to your monthly budget. "The best and most simple way to prepare for a new addition to the family is to plan ahead," says Sheri Provost, co-author of *The Guide to Financial Freedom at Any Age*. "Identify what additional expenses you will incur with the new baby."

But how do you know what expenses your new baby will bring to your family? "Talk to your friends to find out what their monthly baby expenses are," suggests Dave Ramsey, author of *The Total Money Makeover*. Price out the actual cost of items such as diapers, formula and baby food in the

"I am new to this SAHM [stay at home mom] thing. My baby isn't even here yet, but it's already taken a toll on our finances. We stopped going out to eat. I get take-out about once a week, but other than that I cook. We also have to buy cheaper stuff at the grocery [store]. You just have to make a budget and stick to it. No extras for us — I don't even buy clothes. But people have helped out a lot with the things we need for our baby... I hated staying home at first, but I love it now. I am actually here to take care of my family instead of gone when they need me the most." – SarahBear

stores. Estimate how much you will use per month. Add in costs for clothing and toys. Margaret Helmstetter of Sierra Vista, AZ, remembers her surprise at how expensive her children were. "I knew it was expensive, but jiminy crickets — new shoes every 3 months?"

Plan for the larger costs as well, such as a crib and high chair, by saving money in advance to pay for those purchases. While these large items may seem like they'll hit you the hardest, many parents find that isn't the case. "The big costs didn't surprise me; I'd researched those," says Michele St. Martin of Willmar, MN. "It was the little ones. Diapers and clothes are expensive."

Think about Spending Differently

While most expectant mothers daydream of a picture-perfect nursery and a baby dressed in the cutest clothes, thinking about these expenses realistically can help keep your costs in check. "It's really easy for expectant parents to get wrapped up in cradles and bottle warmers, when infancy only lasts a little while. If I could do it over, I would save the money we spent on frills for the later years," says Hilary Evans of Fort Dodge, IA.

"Kids can be very expensive if parents purchase brand new, top-notch everything for them. I think parents can manage the costs by saying no to some of the high-priced toys and purchasing baby furniture, equipment and clothes second hand," suggests Brigitte Thompson of Williston, VT.

A frugal approach will continue to work as your child ages, as well. "Children's interests and abilities change so quickly. It doesn't make sense to buy a lot of things or pay top dollar for things that they will only use for a short time," offers Elise Monroe of Trenton, NJ.

Consignment and secondhand stores offer great buys on high-quality, lightly used items. Careful comparison shopping will allow you to get good prices for items you buy new. If you start to develop a habit of spending wisely, you will not only be able to control costs throughout your children's lives, but will also set an excellent example for them.

However, managing the expense of a child requires more than careful spending. "New families should save systematically. That is, they should pay themselves first by putting 10% (at least) each month into a savings program," suggest Eric Aafedt, president of MarketFN.com. A forced savings plan, where money is deducted directly from your paycheck and placed into a savings account or investment program, is the best way to make sure you are meeting your savings goals. Savings must be a priority and should be like a bill you pay every month.

Creating a healthy savings account can seem impossible if you can't shave much off your budget, but you can save more than you think. "As a child moves through life stages and their associated costs, don't pocket the savings on diapers, daycare, formula, etc. Rather, accumulate the former weekly diaper money and place it away in a savings plan," recommends Brice Harrington, director of 529 plans at MFS Investment Management.

Other ways to build savings include putting away money given to children as gifts, asking relatives to contribute to a child's savings account or college account instead of buying gifts and saving money you receive as rebates or tax refunds. Even a small savings plan that allows you to save $10 or $20 a week can add up to over $1,000 a year.

Use Debt Wisely

Your family's total debt-to-income ratio should remain under 20%, with 10% being optimal. But be careful about what debt you incur. "There is good debt and bad debt," says Bob Waters, chief economist for Quicken Loans. Good debt is debt that gets your family something, like a home or a car. Bad debt is debt that continues to grow unchecked without providing you with anything of substance, like credit card debt. New families should use good debt to move ahead and avoid bad debt whenever possible.

Some new families find they need to add a home addition to make room for baby. "A home equity loan [HELOC] is the best way to finance a home improvement project. With a HELOC, individuals have the flexibility to draw money as they need it, and the interest is only applied to the amount drawn, not the entire credit line," says Walters. The interest is tax deductible as well, helping to make it a good debt.

There are hidden dangers to taking out a home equity loan, though. "A home equity loan may be tempting to tap into for unexpected expenses for the new bundle of joy, but be careful. If, for some reason, you miss some payments, you risk losing your home," warns Sandra Salter, co-owner of American Express Financial Advisors branch office in Newark, NJ.

Planning for the Future

When thinking about the expenses you incur with a child, most people immediately think of college as the largest and most difficult expense to meet. "New parents or expectant parents should start thinking about college expenses now. The sooner they do, the more time they have for their money to grow for them," says Malovny.

There are several methods to help you start saving for college. "The 529 college savings plan allows the most money to be socked away with significant tax benefits, yet the parents still control the money," says Staton. Kevin Neal, a certified financial planner with the McDonald-Neal Group in Coral Springs, FL, recommends using an Educational Savings Account (ESA). "The ESA allows for a maximum contribution of $2,000 [per year]... The child has until the age of 30 to use these funds for educational needs. And... the funds may be used for the educational expenses of K through 12."

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"I quit my job last June and plan to stay at home until the baby is about 6-9 months old, then take up a nannying position that will allow me to bring the baby with me to work (I have 9 years prior nannying experience). I'm not going to lie; it's not easy, especially living in expensive New England. We recently took out a loan on DH's [dear husband's] 401K so we'll be able to pay our credit card bills for the next year or so without worrying about it. DH makes about $50,000, and I made about $30,000 when I worked, so it's a big difference, especially since we have $20,000 in credit card debt alone — forget about car payments, insurance, rent. Luckily we rent from my MIL [mother-in-law], so we get a really good deal. We put off buying a house until we can afford it without struggling.

"I plan to breastfeed exclusively until I go back to work. I will also make my own baby food. I'm not above going to eBay to buy baby clothes (actually, sometimes on eBay you'll find like 100 outfits, name brands, for maybe $150)... I will never put my kid in daycare; it wouldn't save enough money to be worth missing out on my kid's life... I will GLADLY struggle a little for a few years if it means being the primary caregiver of my child. I've given up expensive clothes, vacations, restaurants and things for a while. There's time for all that in the future. When I worked we could have all those things and more. We will have it again someday. Right now, I don't even care." – bri276

But college is not the only big expense new families need to think about and plan for. "As important as college is, there are a few things parents need to do first for the family before they save for college," says Ramsey. "Save $1,000 immediately for small emergencies. Pay off all your debts except for the house, smallest to largest. Save 3-6 months of expenses for life's big emergencies. Maximize your retirement investing."

Also remember that while college is important for your children, you shouldn't neglect your impending retirement to pay for it. "Keep in mind, though, that the kids can get loans for college, but you can't borrow for retirement," says Monroe.

While saving for college and for the future are important moves, Michael Sullivan, director of education at Take Charge America, believes there are important things to spend money on while your child is young. "It is not wise to skimp on preschool education or life enrichment activities such as travel just to save for college. The younger years will have more impact than the years from 18-22."

About the author: Brette McWhorter Sember is a mother of two, a former attorney and the author of twelve books.

Financial Help

If you have still have questions or need help getting on the right track to achieve your financial goals, there are many online resources you can look to. Here are just a few that can help you calculate your budget, figure out college savings plans and more:

- To create your household budget, use the form located at principal.com/planahead/images/budget_worksheet.pdf.
- Find out more about saving for college at SavingforCollege.com.
- Learn more about debt-to-income ratio at Credit.About.com/cs/economics101/a/031203.htm.