

# BABY FINANCIAL PLANNING



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# INTRODUCTION

**H**aving a baby might be the most exciting experience of your life. Waiting for a baby to arrive is a lot like waiting for Santa Claus when you're a child – you're full of anticipation!

However, this time can also be a source of stress and confusion about the financial considerations.

There are a lot of things to consider: medical costs, day care, clothing, college, insurance, tax changes, and more. If you weren't nervous before, you might be now. No sweat! You're going to find out a lot of what you need to know right here.

Let's get started.

*"Babies control and bring up their families as much as they are controlled by them; in fact the family brings up baby by being brought up by him."*

**-Erik H. Erikson**

# HOW TO SAVE MONEY ON MEDICAL COSTS: PRENATAL AND DELIVERY

Medical costs have been skyrocketing for many years, but there are things you can do to help minimize the cost of your prenatal care and delivery.

## **Consider these cost-saving options:**

### **1. If you have insurance, find out what it covers and doesn't cover.**

Know ahead of time how much you can expect to pay. Get specific details. Don't accept, "Oh, everything is covered" as an answer.

- ➡ How much is the deductible? Does the baby have a separate deductible?
- ➡ What tests and procedures are covered during pregnancy? How about at birth?

### **2. Start stockpiling money in a Health Savings Account.** These are savings accounts that allow you to accumulate money, pre-tax, for health expenses. Avoid contributing more money than you expect to spend for

medical purposes. ***These can really create a lot of savings by avoiding taxes on that income.***

3. **Shop around.** Call a variety of hospitals and doctors. If you're going to be paying out of pocket, many offer prenatal care and birth packages. See how much you can save by prepaying for much of the expected expense. It's not unusual to get a discount for paying cash ahead of time or using a particular hospital or birth center.
4. **Ask questions.** Many medical tests are unnecessary and are only done to protect the hospital and/or your doctor from potential lawsuits.
  - ➡ Ask about the purpose of the test
  - ➡ Ask about the cost of the test
  - ➡ Ask if the test is really necessary
  - ➡ You might be surprised at the answers you get. Never be afraid to ask!
5. **Save money on prenatal vitamins.** You might or might not want to get a prescription for your prenatal vitamins. Ask your doctor if you can just use the over the counter version. You'll save a lot of money if you're the one paying for your vitamins.
  - ➡ In some cases, it might be less expensive to get a prescription. For example, if your insurance plan has a low co-payment for prescriptions, you might pay less by getting them prescribed. Also, if you've met your deductible and your plan is now paying for your

prescriptions at 80 or 100%, you might want to opt for the prescription.

6. **Check your hospital bill.** Hospitals frequently make mistakes on the bill. Double charging for procedures and medications is common. Get an itemized bill and go over it.
7. **Consider an alternative to a doctor.** Midwives have excellent reputations and only see women with low-risk pregnancies. ***Midwives are only the fraction of the cost of a physician.*** Your doctor's office might even have a midwife on their staff. Some insurance plans cover the cost of a midwife and some don't, so see what your insurance will cover.
8. **Look into hospital alternatives, too.** Having a baby in a birthing center or at home can be much less expensive than using a hospital. Birthing centers will usually send the mother and baby home after 6 hours to minimize the costs. Check with your insurance to see if they cover the costs of labor and delivery with these options.
9. **Utilize the services of a doula.** A doula is a birthing coach that can potentially decrease the need for pain medications. Doulas are not typically covered by insurance plans, but the cost is quite small and many women feel they are worth the expense.

Don't be afraid to ask questions! Many people are hesitant to possibly offend doctors by asking questions. It's your money, your baby, and your body – ***you have the right to have all your questions answered.***

*"But at the same time that the experience is pulling you apart,  
it's also bonding you. You have this joint venture!  
You both made this baby. And that's the thing I still can't get over."*

***-Paul Reiser***

## DAYCARE VS. STAYING HOME WITH THE BABY

There is a lot of argument over which is better for the baby, but financially it really comes down to how much money the potential stay at home parent would earn if they worked. But it's not always as cut and dry as it seems.

Let's take an imaginary parent that makes \$35,000/year.

**Here are some of the expenses associated with working:**

1. **Gas:** Driving to and from work plus driving to and from the daycare provider.

➡ 50 miles total travel per day x 20 days per month = 1000 miles.

➡ 25 miles per gallon = 40 gallons of gasoline.

➡ 40 gallons x \$3.75/gallon = **\$150 / month**

2. **Clothing specific to work:** This will vary with the type of job, but let's assume business casual in an office environment.

➡ \$1,000 year / 12 months = approximately **\$80 / month**

3. **Eating out for lunch:** Though some people take their lunch, most do not. Let's assume a modest, but not fast food lunch each day.

➡ \$8/day x 20 days = **\$160/month.**

4. **Cost of daycare:** The average cost of daycare in the United States is **\$972/month**

**That's a total of \$1,362/month.** This is the amount of money that it costs to go to work and use daycare.



*"Having a baby is one of the most wonderful things in your life  
as well as the hardest thing in your life."*

**-Nuno Bettencourt**

So how much is our imaginary worker really making by using daycare instead of staying at home?

1. **Taxes:** This person might make \$35,000/year gross, but he doesn't take home \$35,000/year.

➡ Take home pay is about \$30,000/year = **\$2,500/month.**

2. **Actual take home:**  $\$2,500 - 1,362 = \textbf{\$1,138/month.}$

3. **Pay per hour:** How much is our imaginary parent really making per hour?

➡ Driving time: Let's assume that the drive is 25 minutes to and from work and 10 minutes to and from daycare. That's 70 minutes x 20 days = 1400 minutes = **23 hours/month.**

- ➡ At work/lunch: With a regular 8 to 5 schedule, it is **180 hours/month** out of the home for work.
- ➡ So let's see, that's 203 hours total for \$1,138 of take-home pay. **That's \$5.60/hour.** Is it really worth it? It may very well be worth it, but now you might have a different perspective.

Some parents might be in the position to decide that the amount of money they're actually making isn't worth the hassle and the time away from the baby.

*"I couldn't wait to look at someone  
who shared my genes. I thought my baby was  
going to provide a decoder key to my past.  
But then I looked at Pippa and realized,  
no, she's actually the key to my future."*

**-Emily Procter**

There is no cut and dry answer of whether daycare or continuing to work makes the most financial sense. But it's easy to see that, at some point, it's not going to be worth it to some people. You might find that you can do a simple, at home job and make the same money.

Some simple computer work during spare moments and while the baby is sleeping might be all that you need to replace your actual income. Consider the possibilities.

## CLOTHING AND SUPPLIES

Babies are expensive. Diapers might as well be made out of gold and the little gals/guys go through a lot of them. Then there is the cost of food and clothes. Sometimes they grow out of the clothes before they ever get to wear them. They need toys, a crib, changing table, swing, bottles, and more. The IRS tax deduction isn't enough.

**Use these tips to save money on your baby's clothing and supplies:**

1. **Don't buy new clothing if it can be avoided.** Baby clothes can last a long time. Babies don't do a whole lot and they don't wear any particular piece of clothing for long.
  - ➡ Buy used clothing. There's a lot of used baby clothing available. You can find it at thrift stores like Goodwill, yard sales, and baby-specific stores. Give it a good wash and sell it back when your baby outgrows it.

➡ Get clothing from friends/co-workers/family. Many people have baby clothes at home that aren't being used anymore. ***People love to give this stuff away if they're not planning on having any more kids.***

2. **Breastfeed, if possible.** Baby formula is quite expensive. Plus, breast milk is great for the baby if you're able to breastfeed. Consult your doctor or lactation specialist for help in making the decision that's best for you and your baby regarding breastfeeding versus formula.
3. **Don't purchase new toys or furniture.** There is no predicting what toys a baby will and will not enjoy. Just as with the clothes, see if someone you know still has some unused baby toys lying at home. The yard sales are full of them, too. The same goes for cribs, swings, playpens, and more, ***just ensure they are recent and adhere to the latest safety guidelines.***  
  
➡ ***It's best not to buy a used car seat, however, as the safety of your baby could be compromised.***
4. **Cloth diapers can save you some money.** You might want to consider purchasing cloth diapers. It's more hassle, time, and mess, but you'll save some money. Of course, diapers can be much cheaper if purchased in larger amounts and with coupons.
5. **Make your own baby food.** You can use a blender or food processor and puree your own fruits and vegetables. Look at the cost and decide for yourself. What you can make at home is healthier, too.

Don't be afraid to purchase used items because babies grow and change so quickly. Children aren't cheap, but they don't have to be outrageously expensive either.

*"Children wish fathers looked but with their eyes;  
fathers that children with their judgment looked;  
and either may be wrong."*

**- William Shakespeare**

## TAXES AND KIDS

Having children does have certain advantages. The government understands that kids are a significant expense. Ensure you're using all the tax advantages that are available to you. See your tax professional if you have questions.

**There are 4 main tax deductions and credits available to parents:**

1. **Dependent deduction:** As long as you can claim your child as a dependent, you can deduct \$3,700 from your income at tax time. At this time, this is not income dependent. That means that anyone with a qualifying child can claim this deduction. There is talk of phasing this deduction out at certain income levels in the future.
2. **The child tax credit is \$1,000.** There are income limits on this that are subject to change. To get the credit, you need a combined household income less than \$110,000. If filing single, you must earn less than \$55,000. The maximum income allowed is \$75,000, if filing as head of household.
3. **Childcare credit:** A portion of the money spent on childcare expenses can be taken as a tax credit. The percentage varies between 35% and 20%. The maximum amount allowed is \$3,000. So, at best, a parent could get a tax credit of \$1,050; most will get less than that. But it's a great credit.
4. **Earned income tax credit:** This tax credit is meant to offset the burden of social security taxes for those of more modest incomes. It is available to those without children, but having a child makes it easier to qualify.
  - ➡ With one child, the income maximum is \$36,052 (\$41,132 filing jointly). The maximum credit would be \$3,092. The numbers change depending on the number of children in the household. The amount of the credit is also income dependent.

You won't be able to claim your kids never did anything for you! They provide you with some tax relief.

Does that relief totally offset the cost of raising a child? Nope. But money is money, so reduce your taxes as much as possible by taking advantage of these 4 tax deductions.

*"Our most basic common link is that  
we all inhabit this planet. We all breathe the same air.  
We all cherish our children's future. And we are all mortal."*

**- John F. Kennedy**

# FINANCIAL PLANNING BEFORE HAVING A BABY

Planning is always best. Ideally, the planning would start long before having the baby, but any planning is better than no planning! The tips below will

give you a good start on your way to being financially comfortable before your bundle of joy arrives.

1. **Predict your expenses.** Consider the following items:

- ➡ Medical expenses: This isn't just the cost of delivery and pre-natal care. This is the cost of adding your child to your health insurance and their medical expenses until they leave the nest. How much of the delivery costs will your insurance cover? For a vaginal birth in a hospital without complications, the average cost is almost \$10,000.
- ➡ Childcare, food, toys, clothes, and supplies. You can easily figure out what these things cost with some research.
- ➡ Higher education: Granted, this is a long way off, but you might want to get started ASAP. Higher education has become very expensive. Time is very important when it comes to saving money.

2. **Look at your budget.** Now is the time to pull out the family budget and re-evaluate. Babies and young children require a lot of time, so you might have expenses and activities that won't make sense after the baby is here. There are lots of great budgeting resources available online and at the bookstore to help you determine your budget.



3. **Eliminate unnecessary expenses.** Depending on your income, it might be time to tighten your belt and minimize as many expenses as possible. Only keep the stuff you really need or love. Consider the following items:
- ➡ **Food:** Are you eating out a lot? Do you buy lunch every day? Food is a major expense! There's almost always some cutting back that you can do in this area without going hungry at all.
  - ➡ **Cell phone/Cable:** Do you really need the plans that you currently have? Could you cut back to a lesser plan?
  - ➡ **Car:** Many of us have much nicer and more expensive car than we really need. Could you make do with less?
  - ➡ **Insurance:** Every year, you should shop around and get insurance quotes. It can make a big difference.
  - ➡ **Entertainment:** Movies and movie food are expensive. A rental and a pizza is only a fraction of the cost.
  - ➡ Look at every expense you have and look for ways to minimize it.
4. **Start saving now.** Save regularly. After you've adjusted your budget, you should have even more money available to you now. Save it.

5. **Talk to your financial advisor.** If you don't have an advisor, get one. If that doesn't make sense for you then you'll have to educate yourself. For example, you could start stockpiling money in a health savings account (HSA) in anticipation of the medical costs associated with pre-natal care and delivery.
6. **Consider increasing your income. *Now might be the time to start that sideline business or ask for a raise.*** It might also be a good time to start looking for a better job. The best raise you'll ever get is usually by starting a new job.

So your planning will include predicting your new expenses, minimizing your current expenses, and then looking ahead. Start saving for the future and increase your income, if possible.

*"Your children will see what you're all about by  
what you live rather than what you say."*

**- Wayne Dyer**

# SAVING FOR COLLEGE

It's never too early to start. Tuition, room, and board at a public 4-year college average \$15,014/year. At private schools, the number rises to \$32,790/year. Most of us cannot meet these costs unless we get started early. Let's look at the power of interest and compounding, then we'll take a look at some specific tools.

## The Power of Interest, Compounding and Time

It is shocking how much a small investment can add up to over time. ***The key ingredient is time.*** Let's look at two examples:

1. **\$100 a month at 10.5% return for 18 years:** \$67,500
2. **\$100 a month at 10.5% return for 9 years:** \$18,300

The first example is over 3.5 times as great as the second, yet only 2 times as much was invested. Time is valuable, get started as soon as possible. As you can see, it doesn't take a lot of money to get started and put a big dent in your child's cost of education. Even \$25 a month adds up over time.

**Here are some tools to make saving easier and more effective:**

1. **Set up automatic deposits.** If you never have the money in your possession, you'll hardly notice that it's gone. This method will also

prevent you from spending your money for savings on something else.

2. **When you retire any debt, shift the payment to your savings.** When that car loan or credit card balance finally reaches zero, keep making the payments – only now, you’ll be making them to yourself. You’ve been living without the money anyway. At the very least, shift a portion of the payment to savings.
3. **Use a 529 plan.** A 529 plan is a savings plan operated by a state or a university that allows families to save money for future educational expenses. The plans have significant tax benefits and professional money management.
  - ➡ **529 Plans are very flexible.** You could live in Texas, utilize a 529 plan in Florida, and send your child to school in Vermont. You’ll have to check out all the plans to see which one makes the most sense for your situation.
  - ➡ While your contributions are not tax-deductible, the capital gains aren’t taxed at any point.
  - ➡ You maintain control of the account. The money is always under your control; your child has no claim to the funds.
  - ➡ A 529 plan is very low maintenance. After the account is set up and you make a contribution, the money is managed by professionals. You

can take advantage of automatic deposits, too.

- ➡ Any money that is not spent on qualifying expenses is subject to income tax and a 10% penalty. ***This only applies to the earnings, not your contributions.*** Your contributions were taxed prior to deposit, so they're penalty-free and tax-free upon withdrawal.
- ➡ Each plan has several investment options from which to choose. You can reallocate your assets once every 12 months.
- ➡ These are the highlights. For further details, do some more research on your own and be sure to check out the 529 plans in all the states.

***The key is to get started saving money as early as possible.*** Nothing would be better than to start saving even prior to the pregnancy!

## K-12 EDUCATION: PRIVATE VS. PUBLIC

You'll surely want to do the best for your children when it comes to their education. If you dream of sending junior to private schooling, however, it will be expensive. The average, independent private school has a tuition cost

of close to \$12,000 a year. That's \$156,000 to cover 13 years and that doesn't take into account the inevitable increase in tuition over time.

Even if your child attends a private school, you're still on the hook for local and state taxes to support the public schools. However, it is becoming more common to receive state vouchers that you can apply to private schools. Research the possibility through your local or state government.

*"We find delight in the beauty and happiness of children  
that makes the heart too big for the body."*

**-Ralph Waldo Emerson**

## Relative Performance

The best private schools outshine the average public school, both in the amount of money spent per student and on standardized test scores. Elite private schools get the best teachers and coaches. For example, a private high school in Indianapolis has a basketball coach that coached for many years at the NBA and college level.

Overall, schools vary dramatically in quality. There are excellent and poor private schools. There are also excellent and poor public schools. You'll need to do your homework to determine the relative quality of your options.

## Affording Private Education

Keep in mind that tuition is really only paying for part of your child's private education. The school's costs are quite a bit higher, and the difference is paid for with grants, donations, and fund raising. There are a variety of ways to deal with your costs.

1. **Loans:** Approximately 30% of parents use educational loans to some degree to pay for high school. These loans are relatively high interest loans, around 10%. The payback periods can be as long as 20 years. Ask yourself if it's really worth it when a 'free' public school is right down the road.
2. **Financial aid:** There is frequently financial aid available at most private schools. The general rule is: ***If you need financial aid, ask.*** Most schools require requests be made by February for the next school year, so plan ahead.
3. **Work a second job.** Many parents with kids in private school work second jobs to cover the tuition.

4. **Make payments.** Most parents are not able to pay the tuition in a lump sum. To account for this, most schools offer payment plans that allow parents to pay the tuition over 9 to 12 months.

*"If children grew up according to early indications, we should have nothing but geniuses."*

**- Johann Wolfgang von Goethe**

Private education can be worth considering, especially if the public schools in the area are less than spectacular. One thing many parents appreciate is the moral/religious guidance private schools can offer that public schools cannot. ***Only you can decide if private school is the best choice for your child.***

If you're unable to send your child to private school, don't be too upset. Many of the world's greatest people went to public schools. One possibility is to do some research on the public schools in your area and move to the school district with the best schools. It's unlikely that your child is going to suffer in any way.



# INSURANCE

Adding a child to your life is a significant lifestyle change. With any change, you should take a second look at your insurance coverage. This includes your life and health insurance.

Be sure you have sufficient life insurance coverage on you and your partner to provide for the child in event of an untimely death. Figure out what it will take to replace your incomes for 22 years and pay for college. Talk to your insurance agent for assistance.

Adding your child to your health insurance should be a snap. Just give your human resources department a call and let them know that you have a baby on the way. They'll let you know what needs to be done.

If you don't have health insurance, in most states you can still get a policy for just your child. Other states require that a parent also be on the policy.

Many states have government-funded insurance for pregnant women and children in low-income situations. ***If you think your family might qualify for such a program, look into it.*** It may be able to save you a lot of money.

***Keep in mind that most financial experts agree that life insurance for a child doesn't make a lot of sense.*** The primary purpose of life insurance is

to replace lost income. Unless your child is doing commercials or has another significant income, skip the life insurance.

*"Never have more children than you have car windows."*

**-Erma Bombeck**

## CONCLUSION

Welcoming a child into your life is a time of great excitement, but there's also a great amount of responsibility. From a financial standpoint, there are many things to consider. You'll have a whole new set of expenses. Your child will need food, clothes, and insurance, just like you.

Someone will have to care for the child. That likely either means childcare of some sort or a parent staying home in lieu of working. It might make financial sense to stay home with the baby and pick up some part-time work, especially if that work can be done at home.

Reduce your current expenses and start saving now. Unless you examine your expenses every year, there is always something that can be minimized

or eliminated. ***The earlier you start saving for the delivery and for college, the more you're going to be able to save.***

Medical costs can be reduced most dramatically by delivering outside the hospital. This option isn't the right choice for everyone, but it is a viable solution for some. Talk to your doctor and do some research on the details.

Set up a 529 plan soon and start using it. You might want to mention it to all your relatives. You never know who might decide to make a contribution.

Take advantage of all the tax code that is kind to parents. There are four primary deductions and credits available and even more when your child starts college.

Finally, don't be afraid to take advantage of used baby items. Babies don't wear things out. Your friends, family, and co-workers might have everything you'll ever need.

Take action today to prepare financially for your new bundle of joy, so, when your baby comes, you'll also enjoy the security of knowing that you've taken care of the financial details.