

Managing Your Money

Every Friday

You and me and baby makes \$197,700

10 tips to child-proof your finances from staggering costs

By Kathy Chu
USA TODAY

The emotional rewards of new parenthood can be joyous. The financial toll tends to be rather less blissful. Shall we count the ways?

Figure \$100 a month for diapers. Budget \$125 for baby formula. Count on \$175 a month for new baby clothes.

You'll also lose pay if you take time off from work beyond any paid leave your job provides. Don't forget the years of day care costs you'll incur if both you and your spouse continue to work.

A middle-income family with a child born in 2006 will spend, on average, \$197,700 to raise him or her from birth through age 17, according to government data. That figure doesn't even include the soaring cost of college.

How to plan for a little one without wrecking the family finances? Shrink debt and build up savings as early as possible — ideally, long before starting a family — so your budget can weather the baby costs.

Realize, though, that you won't be able to anticipate every cost. You might need to travel more often than you think to introduce the baby to friends and relatives. Health costs, too, are hard to project.

"There will be times when everything goes wrong at once, and you'll swear you're on the fast track to financial ruin," says Ann Douglas, author of *The Mother of All Baby Books*. "It's called parenthood."

Here are 10 tips to baby-proof your finances:

1. Review health coverage. Check to see whether routine doctor visits, medicines and serious medical conditions are covered. If you plan to have a child within a year or two, consider upgrading to a more generous health plan, recommends Natalie Michalek, a financial planner in Dallas.

Like most parents, Raj and Anita Nijer, of Scottsdale, Ariz., had reviewed their health insurance before having their first child last year. But "We just looked at the basic stuff, like vaccinations, medicine. We didn't look into, 'What if he had this issue, what if he had that issue?'" says Raj, 29.

They started worrying about their coverage when their son, Kabir, was born two months prematurely. The baby spent his first few months in a neonatal intensive care unit, racking up \$198,000 in bills.

Fortunately, the couple's insurance plan covered all the costs, but many people have less-generous medical coverage.

2. Get rid of credit card debt. Paying off high-interest card debt will free up cash for baby expenses.

"There are all these unforeseen circumstances that come up," when you have a baby, says Eric Fishlein, a financial planner in Milford, Conn. "If you're already stressed by all the payments you need to make, it's going to get worse."

3. Build up an emergency fund. Planners generally recommend putting away three to six months' worth of expenses in a cash account in case of an emergency, such as a job loss.

But if you're having a baby, don't stop there. The more you can save, the more financially secure you'll feel once the baby arrives. You'll also have financial flexibility to hire a babysitter when you need a break.

4. Revise your budget. That adorable baby can dent any budget you've established for your other household expenses. It'll take a few months to figure out exactly how much diapers, toys and clothes will cost. Once you know, factor those expenses into your budget. Then see where you can cut back.

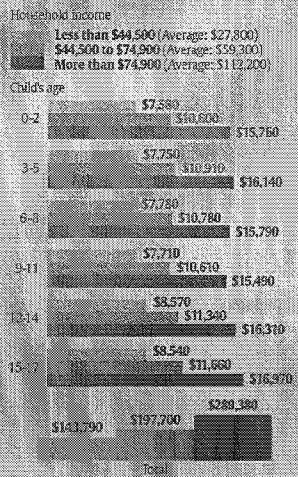
Babycenter.com has a calculator that will estimate the long-term cost of raising your child, depending on your family's circumstances. Also check out Visa's baby-budgeting tool at practicalmoneyskills.com. It will provide the average retail cost of baby expenses.



New parents, Anita and Raj Nijer of Scottsdale, Ariz., play with their 7-month-old son, Kabir. Raj works for an internet company, and Anita is a financial analyst. I was born two months prematurely, racking up almost \$200,000 in medical bills. Fortunately, their insurance covered it, but many people have less-generous coverage.

Cost of raising a child

A middle-income family will spend nearly \$198,000 to raise a child from birth through age 17, the higher your income, the more you tend to spend on your child. Estimated annual expenditures for a child raised by husband-wife families in the USA in 2006.



Source: Department of the Interior, Bureau of Economic Analysis, Expenditures on Children by Families, 2006.

By Ann Douglas, USA TODAY

5. Update your will and life insurance. If you have a will, it may include a generic provision that says your "offspring" will inherit assets. But after your baby is born, you should revise the will to name him or her as beneficiary. Also, consider naming a guardian for your child if you and your spouse die.

You'll likely need to increase your life insurance coverage.

6. Show fiscal restraint. Michalek, the financial planner in Dallas, says the temptation to buy your child — especially your first — every new baby contraption can be overwhelming.

She, herself, went overboard, she says, when her

Costs of babysitters vs. day care

The costs of raising a baby vary widely across the USA. Manhattan ranks among the most expensive for a variety of expenses.

Babysitter

Per hour, average hourly rate for one child, age 4 years, evening, before midnight (teenager in your home):

Most expensive	New York City	\$14.89
	Lower Fairfield County, Conn.	\$11.75
	Boston	\$11.62
	Manchester, N.H.	\$10.60
	San Francisco	\$9.75
	San Antonio	\$9.17
	San Jose, Calif.	\$9.08
	Boise	\$8.87
Least expensive	Portland, Ore.	\$8.95
	Salt Lake City	\$8.04
Average		\$6.83

Day care

Price for one month of day care for a child age 3, five days a week, about eight hours a day:

Most expensive	Manhattan	\$1,187.32
	Westchester County, N.Y.	\$1,111.57
	Boston	\$1,091.80
	Long Island, N.Y.	\$1,013.08
	Lower Fairfield County, Conn.	\$999.37
	San Juan, Puerto Rico	\$284.17
	San Antonio	\$246.67
Least expensive	Jackson, Miss.	\$164.00
	Miami	\$181.67
	Bilings, Mont.	\$156.33
Average		\$293.27

Source: Bureau of Economic Analysis

son, Tyler, was born three years ago.

"We bought this swing thing, a buzzing bassinet and a Baby Papasan," which is a musical bouncing chair, Michalek says. "The only thing he ended up liking was the baby Papasan. I know that if I had (another) one today, I would get him one thing. If he hates it, then we'll return it and get something else."

7. Weigh the cost of staying at home vs. working. The percentage of two-income married couples rose steadily from the late 1970s to the late 1990s, according to the Bureau of Labor Statistics. In 1999, the percentage of two-income families began slipping. It's now starting to climb again.

For many two-income families, day care is an expensive option. On average, putting a 3-year-old child

into day care for five days a week, eight hours costs \$653.37 each month, up 7% from the previous year, according to Runzheimer International, a consulting firm.

Weigh the costs of a shared day care facility hiring a nanny or having one parent stay home. Consider the emotional costs, too, of whatever you do. Also check to see if your employer will offer flexible four-day schedule, rather than a five-day workweek. If you don't want your pay to drop, you might have to work 10, rather than eight, hours. But you'd also have one less day of child care, so likely more time with the baby.

Hiring a friend as a caregiver can be cost-effective. That's what Chris and Liz Lucas of Indianapolis do when she returns to work part time in September. The Lucases will have Liz's college friend their now 4-week-old son two days a week. Things will be substantial. Chris estimates they'll pay just \$30 a week to Liz's friend.

8. Open a tax-advantaged workplace savings account. Most large employers offer another care flexible spending account, or a dependent care flexible spending account. Both let you set money on a pretax basis, reducing your tax bill. Health care FSAs let you pay for out-of-pocket costs, from aspirin to doctor visits. Dependent FSAs let you pay for such costs as babysitting and day care.

9. Exploit tax breaks. See whether you qualify for child and dependent care tax credits or an income tax credit. You should also adjust your withholding to reflect a dependent child; this way you'll get a larger paycheck, which will help cover your baby expenses.

10. Save for college. Considering the skyrocketing costs — tuition, fees, room and board have surged in the past decade at public four-year colleges — \$12,796 a year, and 28% at out-of-state private universities to \$30,367, the College Board says — it's not too early to start saving for college.

One of the most attractive ways is through a sponsored 529 plan. You can invest after-tax money and then later withdraw your contributions tax-free for education, for qualified expenses: tuition and books. Many states provide their own breaks for contributing to these plans.

Don't save for your child's education, though, at the expense of your own nest egg. Your child can get a loan for college. You can't get one for retirement.

"We all want to sacrifice for our children, but not to take care of yourself as well," says Peter Feld, a planner in Denver.

The problem with real estate funds? They're pricey

Still, REITs tend to have decent fundamentals behind them

If you're seeing vultures on top of the "For Sale" signs in your neighborhood, you're not alone. Home prices have fallen so hard in some areas that sellers

Cream of the REIT fund crop

Top-performing real estate funds over the past five years:

Fund ticker	Total return*	5 years
CCIM Realty CGMIX	20.3%	401%
Alpine International Real Estate MFEU BX	1% \$2	356%

Blackstone Group, a private-equity firm. Zell's sale can be seen as an example of smart selling before a decline.

Nevertheless, REITs still have decent fundamentals behind them. Many of them are still reasonably priced, if you look at their prices compared with their

Savers' Scoreboard

Highest CD yields this week
6-month

Bank	Phone
Bank of America	800-435-6262
Bank of America	800-435-6262
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Bank of America	800-435-6262
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