

Nine Financial Shocks for New Parents

According to a recent study by the U.S. Department of Agriculture, it costs a middle-income family \$250,000 to raise a child from birth to age 17. And that doesn't include the cost of a college education.

In the first year alone, the costs of a baby can reach between \$9,000 and \$11,000, and most new and expectant parents don't realize the size of the financial burden they are taking on.

"Most people are more focused on the schedule disruptions and the exhaustion they will be facing," says Brette McWhorter Sember, a retired lawyer and author of "Your Practical Pregnancy Planner: Everything You Need to Know About the Financial and Legal Aspects of Preparing for Your New Baby" (McGraw-Hill, 2005).

So where does the money go? Here are the top nine financial shocks that parents face when they add a child to their family.

1. Medical expenses: Medical care for mother and child is a potentially significant expense facing new parents. The cost of delivering a new baby can range from \$5,000 to \$8,000 for a vaginal delivery to more than \$12,000 for a cesarean delivery. If there are complications, those costs can increase dramatically. Even if your child is in perfect health, new babies require numerous well-visit checkups and immunizations.

"If you don't have insurance or have a rather pricey co-pay, you'll be shocked at how much it costs every time you take your baby to the doctor for shots, well-care and sick visits," says Jeannette Moninger, the mother of twin boys in Greenwood, Ind.

Be sure to check the terms of your health insurance coverage carefully so that there are no surprises when it comes to who is responsible for paying for what portions of your and your baby's medical care. Because many health plans penalize you for using doctors that aren't on the health plan's approved list, confirm that your obstetrician (including the hospital at which you plan to deliver) and pediatrician are "in network." An often overlooked expense is the additional cost to add a child to your health insurance.

After reviewing your health insurance coverage, check to see if your employer offers a health care flexible spending account. These accounts can significantly reduce the burden of out-of-pocket medical expenses by allowing you to pay for qualifying expenses with pretax dollars.

2. Maternity leave: Although most short-term disability insurance policies cover the time Mom is out of work due to recovery from child birth (or complications during pregnancy), the average policy only pays a portion of your gross income for a set number

of weeks (usually four to eight) after birth. If your maternity leave extends beyond the stipulated time, or if Dad decides to take advantage of the Family and Medical Leave Act (FMLA), it will be at no pay unless you use vacation or sick leave.

To cover the cost of that lost income, Deborah A. Wilburn, author of "For Richer, Not Poorer: The Newlyweds' Financial Survival Guide" (Perigee, 2005), suggests some advance planning. "Couples should try saving one of their salaries for several months leading up to the delivery date," says Wilburn.

3. Child care: If both parents work outside of the home, they need to be prepared for probably the biggest financial shock facing new parents -- the cost of child care. Depending upon where you live, child care expenses can range from \$5,000 per year for family day care to more than \$20,000 per year for a live-out nanny.

Check out day care options during the pregnancy and choose one that you are comfortable with and that you can afford. Check with your employer to see if they offer a dependent care spending account. Similar to health care flexible spending accounts, these accounts enable you to pay for qualifying child care expenses with pretax dollars. You may also be able to claim a child care credit on your federal income tax return, although, if available, a dependent-care spending account is often more advantageous financially.

4. Diapers and wipes: The average baby goes through 10 diapers a day. If you use disposable diapers, that'll cost you about \$2,000 by the time your little one is potty-trained! The cost of cleaning their little bottom with a wet wipe or two at each diaper change will add about \$100 to your monthly grocery bill. Even cloth diapers can be expensive if you use a diaper service.

To save money in this area, you can use cloth diapers and launder them yourself. Jennifer Herrin of Tulsa, Okla., found it easy to use cloth diapers with her children.

"These days you can buy them with Velcro or snaps and elasticized leg openings so they fit just as snugly as the expensive disposable diapers," Herrin says. She washed them at home and saved a bundle.

5. Formula and/or breast-feeding expenses: The cost of formula shocks just about every new parent. The general rule of thumb is that a baby needs about 2.5 ounces of formula per pound of body weight per day.

Breast-feeding can certainly minimize that expense, but there are some hidden costs associated with breastfed babies. For example, you may need to purchase or rent a breast pump, an essential for moms who work outside the home. Nursing bras, breast pads, nursing tops, lanolin ointment and a breast-feeding pillow are also common expenditures.

6. Baby gear: Many new parents don't realize just how much "baby gear" is required to care for and entertain an infant. Crib? Changing table? Rocker or glider? Car seat? Stroller? Baby swing? Monitor? Bouncer seat? Doorway jumper?

Most of these items, with the exception of a car seat, can be purchased used. "Baby furniture, such as a changing table, gets very little wear and tear and can be purchased second-hand," advises Wilburn.

7. Clothing and shoes: Lisa Collier Cool of Pelham, N.Y., was surprised by how much she spent just dressing her children.

"Babies outgrow clothing at an amazing rate, so they need a new wardrobe every few months," Collier Cool says. "Plus, they never get to wear some of the gifts you get because by the time they get to be the right size, it's the wrong season for the clothes!"

Shopping at consignment stores and yard sales or swapping baby clothes with friends can save a lot of money. Buying clothes on sale at the end of the season (in a larger size so your child can wear the clothes next year) also helps cut expenses.

8. Baby food: Once babies reach 4 to 6 months of age, they start eating baby food in addition to drinking breast milk or formula.

Although it can be time consuming, puréeing your own food rather than buying baby food in jars can be a money-saver.

9. Life insurance premiums and attorney fees: Wilburn advises couples to review their life insurance policies and increase them so that each spouse has adequate funds to raise each child to age 21, should something happen to one of them.

"In addition, they should have wills written, naming a guardian for the baby," Wilburn says. "If there is no will and the two of you perish together, do you want a judge to decide who will raise your child without the benefit of your opinion?"

There's no way to get around the attorney's fees for setting up a will and taking care of your insurance and estate planning, but doing some comparison shopping may help. Ask friends and family members who they used and find legal and financial representation that is reasonably priced.

There's no doubt about it, having a baby is expensive. McWhorter Sember advises parents to put together a family budget that includes these expenses.

"A lot of families don't start thinking seriously about money until after they are parents, so you are not alone if you haven't considered these types of expenditures," she says.