Financing a New Baby: The Cost of Parenthood

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–Amy E. Buttell and Elaine Floyd, CFP®

Whether you are a parent or a grandparent, your new little bundle of joy will be "dear" in more ways than one. Here's how to plan for the financial to-dos and priorities of new (grand) parenthood.

Births, deaths, marriages, and divorces are significant life events that require financial resources and planning. Of all of these, a new baby is one of the most joyful, as parents and grandparents share their hopes and dreams as the birth comes closer.

When planning for the financial aspects of parenthood, it's wise to be as proactive as possible. There are many expenses to consider, so take some time to consider the long-term implications of parenthood and put together a budget that will allow saving for future expenses.

Besides medical costs related to the pregnancy and delivery and equipping the nursery, there are also increased insurance needs, building an emergency fund, budgeting for expenses in the first few years, putting together and executing an estate plan, and starting a college fund while saving for retirement.

Here's an overview of some spending priorities and financial tasks to tackle before the baby arrives:

Health insurance

Has the couple determined how much having this baby will cost? They should review their health insurance policy and find out about deductibles, co-pays, and policy limits. Call the insurance company once you've decided on a doctor and a hospital to find out what is covered and what the final bill is likely to be. Hospitals can also provide this information.

Potential costs on the final bill for labor and delivery can include expenses such as deductibles for mother and baby, out-of-pocket hospitalization costs, and co-pays for doctor's visits and lab tests such as ultrasounds and amniocenteses. The website What to Expect.com predicts that the average woman could pay about $2,700 in out-of-pocket costs, even with insurance.

In *One Year to an Organized Life with Baby: From Pregnancy to Parenthood, the Week-By-Week Guide to Getting Ready for Baby and Keeping Your Family* Regina Leeds and Meagan Francis offers information and checklists that help parents figure out what a policy will cover and what other health and pregnancy related costs are likely to be.

Life and disability insurance

With a baby in the picture, the health and ability to work of each parent is even more critical to family finances.

Consider everyone's contribution to the household as well as what would happen if an accident or illness rendered one of the parents disabled or unable to work.

Check your employers' policies to see what coverage is available there. Discuss your benefit options with your financial advisor to see if there is a need for additional disability above and beyond any employer disability insurance.

In terms of life insurance, each wage earner should have life insurance equal to six or seven times their annual income. A stay-at-home parent should have insurance to cover the cost of hiring someone to do the childcare, cleaning, and other services so the surviving parent can work.

Emergency fund

A prudent rule of thumb for an emergency fund is three to six months living expenses to protect against layoff or disability or some other financial disaster. If you don't have an emergency fund, start accumulating one right away.

First-year expenses

According to a 2015 USDA report, a middle income family spends more than $12,000 the first year, both on ongoing expenses such as baby food and diapers and on one-time expenses to equip a nursery, etc. That excludes childcare expenses, which vary widely depending on the type of childcare and location.

Cost to raise a child to age 18

Every year, the U.S. Department of Agriculture publishes a report "Expenditures on Children and Families" that reveals what it costs a middle-income family to raise a child through the age of 17.

The latest report, published in 2015, projects a cost of $284,570 when inflation costs are factored in. That's the amount that middle-income family — with an income between $59,200 to $107,400 — would spend.

The USDA projects that a high-income family, one with an income of more than $107,400, would spend $454,770.

Work or stay home?

A big issue for many expectant parents is whether both parents should work or one should stay home with the baby. Clearly, this goes beyond financial considerations. It's a big decision with important implications for the young family's future.

Your financial advisor can crunch the numbers to see how much it would cost for the second parent to work. But you might be surprised that once you factor in child care, transportation, taxes and – for exhausted working parents – a cleaning lady and meals out, how little income is left. One parent at home might just pay off.

On the other hand, making that choice could compromise the future career prospects of the at-home parent, making it more difficult to secure employment commensurate with skills and education at a later date, so consider all the trade-offs.

College

According to the latest figures from the College Board, the average cost to attend a four-year private college during the 2017-18 school year was $34,740 inlcuding housing and meals. Even if your child chooses an in-state public school, tuition and fees average $9, 970.

Of course, your new baby won't be entering college for another 18 years and few can forecast what college will cost so far out. There are a number of different ways to save for college and your financial advisor can help you explore the options and set a budget that can help the family — including grandparents — prepare for the expense.

Estate planning

At a minimum, consult an estate-planning attorney to create a will to name a guardian for the child. If extenuating circumstances exist – if the parents aren't married or there are children from a previous marriage—more elaborate estate planning measures might be necessary.

Retirement Planning

Don't sacrifice your own financial security for the baby. Keep those retirement plan contributions rolling in, even it if means cutting back on college savings. Financial aid is available to college students — not retirees.

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