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What is the price of parenthood?

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Estimates on how much it costs to raise a child vary widely. What's important is that you help your clients to prepare for these expenses, to try to begin saving early and to set up an RESP as soon as possible after the child is born

By Catherine Harris | November 2013

Having a child is a major financial commitment. Yet, the decision to have children tends to be based on emotions and lifestyle goals rather than on financial objectives.
Much has been written about the cost of raising children, with annual estimates varying widely. Understanding how much that baby is likely to cost your clients over the coming years can assist you in helping those clients plan for this life-changing event.

"I've never had a client ask how much raising a child would cost," says Brad Brain, president of ***Brad Brain Financial Planning Inc.*** in Fort St. John, B.C.

Brain, who works in a community with the average age of 28, has many clients who are starting families.

Barb Garbens, president of ***B L Garbens & Associates Inc.*** in Toronto, agrees that finances usually aren't a major consideration for prospective parents.

"I don't think people make the decision to have their first child or even a second one based on finances," Garbens says, "although they may do so when it comes to deciding on a third or more kids."

However, there are exceptions. Ryan Shoemaker, financial consultant with ***Investors Group Inc.*** in Toronto, has had at least a dozen clients consult him as they make this decision. But these are high-income earners - the average household income of his client base is $300,000 - who think in terms of accumulating assets and consulting a financial advisor before acting.

There is little consensus on the cost of raising a child. A recent study from the Fraser Institute in Vancouver suggests it can be as low as $3,000-$4,000 a year per child. But many people think that's much too low.

A frequently quoted figure of $13,000 a year comes from an August 2011 article in *MoneySense* magazine. Advisors interviewed by *Investment Executive* for this article, on the other hand, believe the annual cost is $15,000 and could be as high as $20,000 - without private school, which would add another $20,000 annually.

The wide divergence in estimated costs is not surprising. The Fraser Institute's study, for example, looks at only the marginal increase in the basic costs of raising a child. The criteria didn't include extracurricular activities, daycare or purchasing a larger home or car. The point of that study was that low-income families or immigrants should not be discouraged from having children, as the cost is not high.

The *MoneySense* article attempted to estimate the costs for an "average" family, considering the median household income in Canada in 2010 was $69,860. The figures used in this estimate do include the costs of daycare and extracurricular activities but not of a bigger house or car. The article also notes that money spent on raising a child or children is related to income - the higher the income, the more is spent.

This assumption is reflected in the federal government's guidelines for child-care support. For 2011, the latest year for which these figures are available, annual expenses were around $4,200 for one child of parents with taxable income of $20,000 each. For parents earning $70,000 each, annual expenses are around $14,250; and where both parents make $150,000, they are $31,300.

The cost of raising a first child is around 10% of household income. There are some economies of scale with additional children, but they are not extreme. That is, the percentage of taxable income going to child support for someone earning $70,000 is 10.2% for one child and 17.1% for two children, which works out to 8.5% per child. It's 22.6% for three children, or 7.5% per child; and 27.1% for four children, or 6.8% per child.

There are many potential expenses. The biggest items tend to be child care. This category of expenses could include daycare or a nanny, plus summer camps in the summer. Other expenses to consider are upgrading to a house that has a backyard and is near a good school, as well as a larger, more expensive car.

There also are equipment and accessories to consider, such as diapers when the child is small; clothing and footwear, which children grow out of quickly; and fees and equipment for sports activities; and saving for post-secondary education.

Some parents feel strongly about feeding their children only organic food and using organic cleaning supplies, both of which add to costs.

In addition, parents usually experience a drop in income in the year after the birth due to maternity or paternity leave.

But there are offsets. People with children go out less often, particularly when the child is young. Shoemaker estimates that this can cut spending by as much as 30% - at least, for his high- income clients.

Nevertheless, expenses will be higher once a child is born, so it's a good idea for your clients to consider these expenses in advance and put aside savings to help meet them.

Shoemaker suggests that as soon as your clients learn they are expecting their first child, they live as if they were earning the income they will get during the child's first year. This will provide savings that can be used after the child is born.

Blair Corkum, financial advisor and chartered accountant with ***Corkum & Arsenault Chartered Accountants*** in Charlottetown, suggests that clients start saving when they have decided that they will want a family. Furthermore, he recommends that this money be invested in safe, fixed-income investments, such as a portfolio of guaranteed investment certificates, within seven to 10 years of needing the funds. To help figure out how much will be needed, Corkum works with clients on a budget for after the child is born and for any additional children.

But budgets aren't for everyone. Adrian Mastracci, president and financial advisor with ***KCM Wealth Management Inc.*** in Vancouver, says you can get lost if you do too much nickel-and-diming, and his clients usually resist doing budgets. So, he tells his clients (who generally are high-income) that it will cost them about $20,000 a year per child and $40,000 or more if they decide on private school.

Brain also thinks budgets have limited use, particularly when there are children. "It's the unpredictable $20 expenditures that are the problem," he says. "such as taking the kids out for a treat when they are cranky."

The one topic about which most questions come, Brain says, is saving for post-secondary education. He, like most advisors, urges parents to establish a registered education savings plan (RESP) as soon as possible after the birth of a child, and that contributions be spaced out to maximize the government grant.

Brain tells his clients to "pay themselves first" with deposits into RESPs and other savings tools, then make do with what's left.

Corkum considers RESPs to be so important that he would advise clients with cash-flow constraints to contribute to a child's RESP rather than their own RRSP if they can't do both. He points out that clients can get the maximum government RESP grants only if they contribute annually for 17 years, while RRSP room accumulates annually.

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