BMO Harris Financial Advisors

The Cost of Raising Kids Today

Every year, the U.S. Department of Agriculture (USDA) tallies how much families spend on children and estimates the cost of raising them to college age. The latest report found that middle-class parents of a child born in 2010 can expect to spend $226,900 in the child's first 18 years. That's up nearly 40 percent, or more than $60,000, from just 10 years ago.

According to the USDA, housing, food, child care and education are the most significant costs for most families, accounting for nearly two-thirds of the cost of children from birth to age 18. Of course, those expenses change as children grow.

Child care expenses are replaced with higher food costs (growing kids eat more), the need for more expensive clothing, and higher health care costs, which means the annual cost of raising a child gets steeper with every passing year — and that doesn't include the cost of college. Not surprisingly, many parents feel overwhelmed, especially when faced with having to save for their own retirement at the same time tuition bills are looming.

So which is more important: your retirement or your child's college education?

While it may seem selfish to put yourself first, diverting savings to pay for college can significantly jeopardize your financial security in retirement. Here's why.

Begin With the End in Mind

When just starting out, many people tend to tackle one challenge at a time. Get a car, buy a house, start a family, educate the children, then think about retirement. But putting off saving for retirement comes with a lost opportunity; there's not enough time to let the power of compounding benefit fully work on your behalf.

Consider this example. Karen is 30 years old and a new mother. Let's say she earns $50,000 a year and starts saving 6 percent of her salary for retirement at the birth of her first child. By the time she retires at age 67, Karen could have $565,124 assuming her account earns an annual 7 percent return — and that doesn't take into account any matching contributions from her employer or any raises she may earn along the way.

What if Karen waits until her child is finished with college to begin saving for retirement? Instead of $565,124, her nest egg would be worth only $97,532. With not enough saved for the future, Karen may be forced to have a lower standard of living at retirement or turn to her child for support.

Tough Decisions

In the past, many parents tapped their home equity to help meet tuition costs. But falling home equity values and a tighter credit market have families eyeing their retirement accounts to fund college. In fact, the number of parents who withdrew or took a loan from their 401(k) plans more than doubled last year, according to a recent Sallie Mae and Gallup Study.[1] And that doesn't reflect people who either reduced or stopped their retirement contributions altogether.

Using retirement savings to fund college can be a costly choice. That's because any distributions you take from your plan prior to age 59½ will be subject to income tax and a possible 10 percent IRS penalty. Halting 401(k) contributions also means that you will lose the benefit of a company match. As a result, experts suggest that your retirement savings should be used for college only as a last resort, if at all.

Fortunately, there are lots of ways to pay for college without sacrificing your retirement. Consider the following suggestions.

- **Explore financial aid options.** Regardless of your income, don't assume your family isn't eligible for financial aid, which can include grants, scholarships and work-study programs. To find out if you qualify, complete the Free Application for Federal Student Aid (FAFSA). As part of your application, you'll need to determine your estimated expected family contribution (EFC). The College Board offers an easy-to-use online EFC calculator at www.collegeboard.com that can help you get started.

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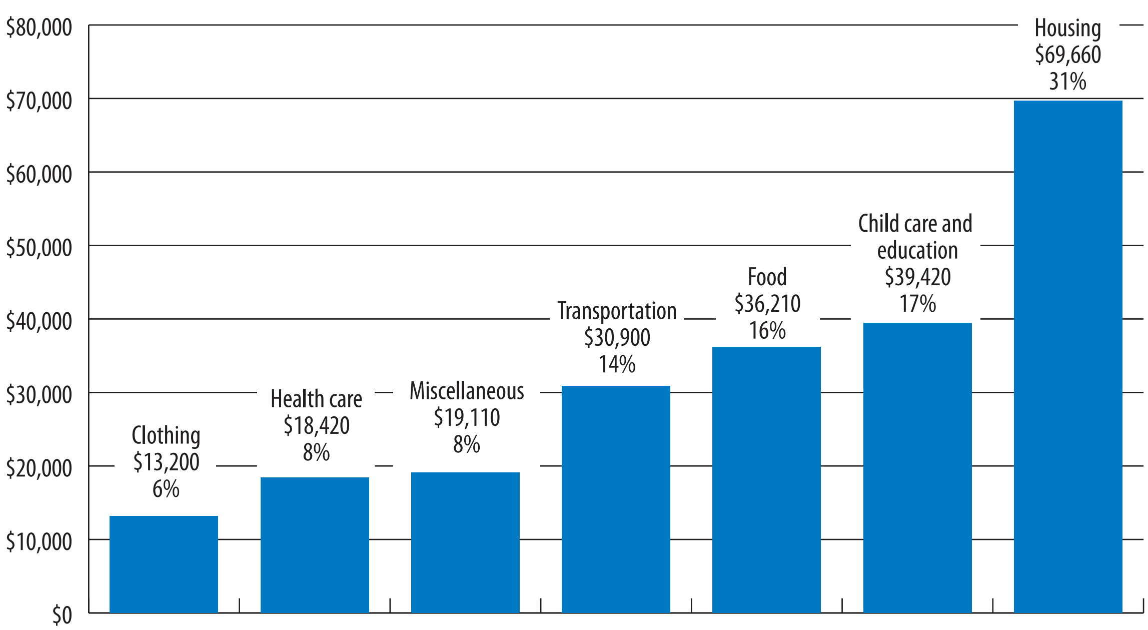
- **Think about scholarships.** Your child doesn't have to be top of his or her class to receive a scholarship. Many are targeted to a field of study, career path, community involvement, or even ethnic background. The College Board has a free online search tool that can help you locate scholarship opportunities that may meet your child's needs.
- **Explore tax breaks.** Depending on your income, you may be eligible for certain tax deductions and credits toward tuition, fees and student-loan interest.
- **Go public.** On average, private colleges cost $16,000 more per year than state schools for tuition and fees.[2] Yet public universities can offer the same high-quality education as their private counterparts. The key is finding a school that meets your child's specific needs and interests.
- **Think community.** To save on sticker shock, consider starting your child at a community college. Then, after two years of earning good grades, he or she can transfer to an elite public or private university. You'll save money along the way and your child will graduate with a diploma from a top four-year school.

Juggling the demands of retirement and saving for your child's education isn't easy. But with a little planning, you can create education opportunities for your child while protecting your future financial security. To learn more about investing for college, retirement, or both, please contact your BMO Harris Financial Advisor.

What Kids Cost



For each category, the expense represents the average for a child from age 0 to 18 in a two-child, two-parent family.

Source: U.S. Department of Agriculture, 2011.

[1] Dugas, Christine. *Paying for Your Kids' College vs. Your Own Retirement.* www.usatoday, August 23, 2011.
[2] *What It Costs to Go to College.* www.collegeboard.com, 2011.