

## Part 1: Million Dollar Baby

### The Real Cost of Staying Home with Baby

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Staying home with the kids may sound fulfilling, but is it worth a million dollars? Because that's what it could cost you if you don't have a way to squirrel away money into your retirement account. Truly. A cool million, even if you're not stepping out of a big-bucks job. Don't believe us? Let's do the math.

#### Five Years -- A Million Bucks?

Say you're 25 and earning \$30,000 a year. You have a baby and decide to stay home until your little one starts kindergarten at age five, which means you give up that \$30,000 salary times five years, or \$150,000. That's just your salary loss; now let's look at the retirement account loss:

Because you're a mature and forward-thinking 25-year-old, your plan had been to put 10 percent each year into an aggressive retirement account earning 11 percent -- the S&P's historical rate of return over any 10-year period. (At this age you're in for the long haul, so you can afford to be aggressive.) On your \$30,000-a-year salary, that would be \$3,000 a year times five years, or \$15,000 that you would have put into your retirement savings and now won't.

What's amazing is that in the too-swift years between your child starting kindergarten and your own retirement, your small investment of \$15,000 with earnings would have blossomed into more than \$720,000. Add in the \$150,000 in lost wages, and you're at \$870,000. But we're not done yet.

Then there's the loss of the company match: Most employers who offer retirement plans also match some portion of your contributions. A common match for 401(k) plans, according to Deb Outlaw, chief financial officer for Perryman Financial Advisory, Inc., in Dallas, is 50 percent of the first six percent of an employee's salary. That would mean that you would have given up \$900 a year in free money from the boss, which would have grown to an additional \$216,000 by retirement. Add that to your salary loss and your retirement plan loss and the price tag just went up to \$1.08 million. And we're still not done.

#### Actually, It's More Than a Million Bucks

While you were at home reading *Go, Dog, Go*, your co-workers were getting raises. Figured at a conservative cost-of-living increase of 3 percent, they're now earning nearly \$34,800. Keeping to your same contribution amount of 10 percent of your salary, that would have been more money set aside in your retirement account and a bigger employer match. So add another \$126,492 in what you would have at retirement to that \$1.08 million for a grand total of more than \$1.1 million.

And odds are good (or bad, actually) that when you return to the workforce you won't be hired at the higher wage. Your skills are now stale and your entire network of bosses, mentors and colleagues has moved on. You're left starting five steps back from where you would have been if you hadn't taken time out of the workforce.

### **Going Back to Work Costs, Too**

Granted, if you go back to work a lot of your salary will melt away when you subtract childcare, work clothes, transportation and restaurant lunches.

According to Sharon C. Allen, President of Sterling Wealth Management, Inc., of Champlain, Illinois -- who is both a Certified Financial Planner and a Certified Trust and Financial Advisor -- the break-even point of staying home versus going back to work is a gross salary of \$30,000 - \$35,000 a year. This takes into account federal, state and Social Security taxes of about 40 percent, or \$18,000 a year, \$7,200 a year in childcare expenses and another \$9,000 a year in additional expenses that include lunches, gas and auto maintenance.

With a salary in this range, minus expenses, a woman would realize possibly \$1,800 in additional disposable income. And to some that may hardly seem worth it.

### **Don't Forget Those Out-of-Pocket Costs, Too**

Then there's the money you will have paid out-of-pocket for other benefits that are usually part of a good company's compensation package, like health, life and disability insurance, and pre-tax flex-spending plans for childcare and medical expenses. You also reduce what you can expect from Social Security in the future because your benefit will be based on the average of 30 years of your income. If five of those years are zeroes, and you re-enter the workforce at a lower wage, your benefits will drop.

### **Bottom Line**

Your babies are no doubt worth a million dollars, but so are you. Even if you step out of the workforce, keep investing in your retirement. Otherwise you're not going to have the money to spoil your grandchildren. In Part 2 of "Million Dollar Baby" we'll give you some strategies on how you can keep one foot in the work-a-day world and keep pace with your retirement savings.

*Janine Latus writes about money, travel and really cool characters from her home in Virginia, when she's not reading Go, Dog, Go.*

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