

Child Care

With today's high cost of living, there are more and more dual-income families with children. As a result, child care is a critical need. If you are, or plan to be, one of these families, the following information may help you prepare for the financial, and other, challenges ahead.

AFFORDABILITY

Out-of-home child care costs can be quite high. Depending on where you live and the quality of day care, costs can range from \$3,000 to \$15,000 a year (\$250 to \$1,250 monthly). That's more than many families will pay annually for college tuition.

If you are like many working people with children, you commonly pay for your child-care costs out of current cash flow, including income from salaries, tips, investments and other sources. Child care is part of your regular monthly expenses and generally cannot be avoided.

You and your spouse can more easily meet your child-care expenses by reducing costs. Some child-care providers allow parents to volunteer their services in exchange for a lower bill. Or, if possible, you and your spouse can work alternate work schedules so that at least one of you is home with your child for all or part of the day. This will allow you to pay for part-time day care or to fully avoid such costs.

Other alternatives include job sharing, where you and another person fill one full-time job, allowing more free time to spend at home; telecommuting, where you work some days at home; or a compressed work week, where you work four 10-hour shifts during the week and spend the fifth day at home. You might also consider working part-time for a few years until your child is in school. If you work part-time, you could try to create a child-care swap with other neighbors who work part-time. In addition, some companies provide up to three months of paid parental leave time, so take full advantage if this is available to you.

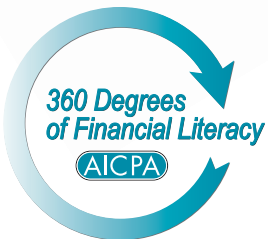
AVAILABILITY

Due to the increased number of two-income families, finding an opening in a conveniently located, affordable and reputable child care facility could be a challenge.

Only 25 percent of children whose parents are in the work force have licensed child care available to them; and only 4 percent of child care centers have care available during non-traditional hours.

The bottom line: don't wait until the last minute to plan for your child care needs. The sooner you can explore your options and get on waiting lists, the better for you and your children.

360 Degrees of Financial Literacy



QUALITY

Child care is different from baby-sitting. Most child care facilities offer some level of educational and social activities that help children learn and grow.

Quality child care has been shown to promote school-readiness. Participants in a longitudinal study of quality care had significantly higher high school grades, scored higher on literacy tests at age 19 and were more likely to earn a high school diploma.

TAX BREAKS FOR CARETAKERS

You may be able to reduce your federal and state income tax by claiming the credit for child and dependent care expenses on your tax return. This credit is available to people who, to work or look for work, have to pay for child care services for dependents under age 13. The credit is also available if you paid for care of a spouse or a dependent of any age who is physically or mentally incapable of self care.

Another method that may help you save on taxes as well as reduce day care costs is the flexible spending account (FSA). Your employer may include a designated FSA in its employee benefits package. You contribute pretax dollars, deducted from your paycheck, to a fund earmarked for dependent care expenses. You pay your day-care bills and are later reimbursed out of your tax-free FSA.

