When Your Family Grows

"Protecting Those You Love"

By: Doug Horn, CFP®

The excitement is contagious when the family is growing. Whether it is by the birth of a child or grandchild, the gift of love with adoption, sharing one's love through marriage or welcoming a new son or daughter-in-law, everyone is focused on the new addition to the family. Once the excitement fades, life goes on and the daily routines return often forgetting that a significant event has occurred.

Regardless of the age of the family and who was added, the addition of a new member often necessitates a change in financial planning needs. The event warrants the review of the estate planning documents or for some, the creation of these documents to avoid subjecting the estate to the State's intestacies law for others. When it is a child, all sorts of expenses become part of the future. Whether it is setting aside funds for child care, extra-curricular activities like band or sports, a car, wedding, or college, planning for these is always beneficial. Lastly, others are depending upon the income the family is earning, and in the event of a tragedy the loss of income can place a family in jeopardy. For most, the simple addition of adequate life insurance can avoid a financial nightmare.

Wills and Trusts are the required tools most use when transferring their belongings to their heirs. However, these documents often go years between reviews and during that time several changes may have occurred. Attorneys generally draft these documents anticipating many future events, but they also rely on the individual to stay in touch with their needs. A review each time the members of the family changes is good practice. Provisions in existing documents can accidently exclude or limit an heir which may no longer be required. Many documents often transfer significant values to heirs who are under the age of 30 with little or no guidance. I have discussed "*sudden wealth syndrome*" before and in my opinion, few young adults are ready to manage $100,000 or more. I cannot imagine any parent wanting their transfer of wealth to harm their heirs or have their heirs make poor financial decisions that may lead to regret and the wasting of assets. Simple changes to the Will or Living Trust could benefit your heirs for decades and lead to growth of family assets rather than spending away the same assets.

Besides the obvious expenses, children also add some significant future expenditures. Whether it is their first car, a wedding, or their college education, the impact of these future costs can be mitigated with some planning. By balancing how current earnings are allocated, a small amount can be set aside for these future costs. Whether it is a *uniform gift to minors account* (UGMA) or a section 529 investment, part of the future cost can be paid by the profits of the investments rather than personal assets. UGMA accounts permit a tax savings for the parents since a portion of the income belonging to the child is taxed at the child's rate rather than the parent's. These funds, now belonging to the child, can be used to benefit the child but cannot be used to pay items the parent is generally obligated to pay like housing, food, or healthcare. However, these accounts can be used to purchase band or sporting equipment, a first car, or pay for summer camp. If the parents want to assist with college costs, then opening a section 529 account is a tax efficient and flexible way to help cover these future costs. These need to be open as early as possible to benefit from time value of money and have the maximum potential growth of the account.

There is not a day which goes by where a family is not impacted by the unexpected loss of a loved one. All losses are tragic and often can impact the family for months if not years. But when the member is one of its bread winners, the impact broadens and could become a financial tragedy as well. Life insurance when used is a simple and easy tool to protect the family and provide assets to replace lost

income or permit the surviving loved ones to take steps to benefit the family. When adding life coverage, the death benefit is the most important part. If this amount is not sufficient to replace the lost income for years or to provide for the family, then the financial crisis was only delayed, not avoided. It generally takes $120,000 of benefit to replace $10,000 of income for twenty years. A family relying on insurance provided by an employer and has two to four times their earnings, most likely is underinsured and the benefit will be gone within several years. Without this income, savings for retirement falls off, as does funds allocated to other future costs and families could face downsizing in their housing. In extreme cases, survivors could face bankruptcy if payments toward family debt was high before the loss. For most, the addition of term insurance is an inexpensive solution while other assets are being built.

Protecting your family is not automatic, but it is easy when the right steps are taken.

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