New grandparent essentials

What to expect when expecting a new grandchild

And how to prepare financially

Congratulations on becoming a new or expectant grandparent!

Many joys and pleasures of grandparenthood await. So does the opportunity to support the new parents in your life and help secure the future of this new arrival.

New parents are often highly motivated to take steps to get their financial house in order and plan for the unexpected. This may include creating or updating a will, updating beneficiaries on financial accounts and beginning to save for education. Grandparents can do likewise, and may be looking for other smart ways to provide financial guidance and meaningful support. Some of these strategies may become an important part of your estate plan.

This guide is designed to help identify important questions so that new grandparents can start making relevant decisions and take action.

If you encounter questions or concerns, talk to your financial advisor or attorney, who can help provide answers and guide you on next steps.

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To help ensure you're covering all the bases when it comes to preparing for the arrival of your grandchild, this guide covers four key areas. (We've also assembled a short reading list, a suggested mix of reflections and guidance on this exciting new life stage.)

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1 | Creating or updating your estate plan

Ensuring estate planning documents are in place and, where appropriate, adjusting them to account for the new arrival is a crucial step for grandparents and new parents.

Estate planning essentials

For most people, a handful of documents represent the foundation of a "basic" estate:

Will. The key document that dictates how a person's property will be distributed at death. It typically names the individual in charge of managing the distribution of property – the executor – and designates a guardian and lays out wishes for any minor children.

Revocable living trust. In many cases, it's important to have a revocable living trust in addition to a will. A key reason is that in states where probate is unusually expensive or burdensome, a properly funded living trust avoids the expense and delay of a probate proceeding. The living trust becomes the primary estate-planning document, dictating how property is distributed upon death and who manages the process (in this case, a trustee).

Financial power of attorney. A financial power of attorney names an individual as an agent who is authorized to act on your behalf with respect to your financial matters. The powers granted under a financial power of attorney can range from very narrow (e.g., granting authority to execute a specific transaction) to very broad (authority to take virtually any action with respect to your financial matters). Generally, a financial power of attorney applies only to your personally-titled assets and not assets held in a trust or other entity.

Health care directive and living will. These documents come in many forms but their objective is to appoint an agent to make health care and end-of-life decisions in the event you are unable to do so. When parents and grandparents have these documents in place, they may help relieve their children from confusion or disagreement over who will make health care decisions on their behalf.

Although your financial power of attorney will likely not be affected by the arrival of a grandchild, ensuring it and your health care directives and living will (see next paragraph) are up-to-date is essential to effective estate planning and, importantly, crucial guidance to share with new parents.

Questions/issues to consider include:

- Should I adjust my estate plan to reflect this new member of my family?
- Do I want a portion of my estate to go directly to grandchildren rather than flow through their parents?
- What are the parents' wishes when it comes to my estate and their children?
- Do I have an estate plan in place?

Represents specific concepts or terms you may want to discuss with your financial advisor or tax professional.

Updated beneficiary named accounts. This requires a review of existing accounts with named beneficiaries, such as 401(k) plans, Indvidual Retirement Accounts (IRAs) and insurance policies, etc. When it comes to these assets, the names on these accounts are as important as anything in the will. It's important to keep them updated over time.

Evaluate whether life insurance is needed

Because of the high cost of raising children today, another important way of providing for children's needs in the event of their parent's death is life insurance. As a grandparent, chances are you may have some life insurance in place, but new parents may not. You can help them take this important step. When evaluating life insurance options, there are two main types to consider:

Term insurance. Provides coverage for a set number of years and pays out a death benefit if the insured dies during the term. However, term insurance does not build cash value so if the policy is terminated prior to the death of the person insured, there is no pay out.

Permanent insurance. Includes an investment component meaning the policy can gain value over time and is usually structured to pay a death benefit no matter when the insured dies.

For the young and healthy, term insurance is a relatively cheap and effective way to provide an income-tax-free pool of money to help support surviving children.

As a new grandparent, you may wish to evaluate your own life insurance beneficiaries to ensure they are in line with the rest of your estate planning decisions.

The tax implications of insurance

A primary benefit of life insurance is that beneficiaries generally receive the proceeds free of income tax. That said, those with substantial net worth who purchase an insurance policy with a significant death benefit, might consider holding the policy in an irrevocable life insurance trust. If structured properly, an irrevocable life insurance trust ensures that any insurance proceeds received by the trust are sheltered from the estate tax at the insured's death.

Navigating the tax implications of life insurance can be complex so it's important to consult with a legal and/or tax advisor regarding your individual circumstances.

2 | Understanding the roles and responsibilities of ongoing care and guardianship

Wills and trusts designate individuals or entities to take on certain roles if parents die or become incapacitated. As a grandparent, you may be included in this decision or asked to fill one of these roles, so it's important to understand what each role entails.

The three key roles

Guardian. The guardian assumes responsibility for the physical and personal care of the minor children. Some states also appoint "guardians of the estate" to be responsible for assets left outright to a minor child, until the child reaches the age of majority.

Executor. The executor ensures the terms of a will are carried out in accord with the decedent's wishes.

Trustee. Trustees oversee the ongoing administration of trusts and the disposition of terminating trusts.

One common question is whether the same person should serve in multiple roles. There's no "right" answer but the roles do require different skill sets and commitments. In addition, separating the responsibilities creates checks and balances, and provides multiple perspectives. If the roles are split, coordination and collaboration are crucial.

Questions/issues for grandparents to consider:

- Have my grandchild(ren)'s parents established an estate plan? Are they willing to discuss with me who they are naming to different roles and why?
- When it comes to raising my grandchild(ren), what are the parents' most important considerations and highest priorities?
- What role (formal/informal) do my grandchild(ren)'s parents want me to play in the lives of my grandchild(ren)?

When filling these roles, parents must take into account some key factors. For example, a person's age, health and geographic location as well as their relationship to the child(ren) are all important considerations. Depending on these factors, grandparents may not always be the best fit. Estate plans are private and subject to change, so your children are under no obligation to share their planning with you. But an open family discussion of planning can be ideal when possible.

Providing for grandchildren born with special needs

When your new addition has extraordinary needs, there are options to help you save for their future. A **"special needs trust" (SNT)** is one option, another is the **Attainable Savings Plan** also known as an **ABLE Account**. Both offer ways to save for individuals with disabilities while aiming to preserve their eligibility for public benefits. Special needs planning is technical, varies by state and may be premature shortly after a grandchild's birth when future special needs may not be clear. Ask your advisor and tax professional about the benefits of various special needs planning options.

3 | Providing financial support for your grandchild(ren)

Depending on your goals, financial resources and the needs and preferences of the parents, there are many options for financially supporting your grandchildren. Three important areas to consider providing support include:

- Education funding
- Health funding
- Cash gifts and trust funding

Consider educational funding

Among the ways grandparents most commonly support grandchildren is by contributing to their education.

You may wish to help fund private primary schooling, shoulder college tuition costs or even help with grad school. Your advisor can help you identify an approach that maximizes the impact of your giving.

529 plans. 529 college savings plans are a common and easy way to contribute to your grandchild's education.

529 plans are a tax-advantaged way to save for college tuition and other qualified education expenses. Qualified education expenses also include tuition for an elementary or secondary private or religious school (kindergarten through 12th grade) up to a maximum of $10,000 incurred during the taxable year per beneficiary.

Withdrawals will be free from federal tax as long as they are used for qualified education expenses like room and board, tuition, and required books and supplies for higher education. Tax-advantaged treatment applies to savings used for qualified education expenses. State tax treatment varies.

If withdrawals are used for purposes other than qualified education expenses, the earnings will be subject to a 10% federal tax penalty in addition to federal and, if applicable, state income tax. States take different approaches to the income tax treatment of withdrawals. For example, withdrawals for K-12 expenses may not be exempt from state tax in certain states.

Questions/issues for grandparents to consider:

- What are the tax and financial aid implications of the different saving/investing vehicles?
- What are the parents' preferences when it comes to grammar school and high school? Public? Private? A mix?
- Which investment or savings vehicle(s) provides the most flexibility in terms of types of education covered and ability to potentially adjust beneficiaries down the road?

Grandparents' contributions are often made with annual cash gifts which, within certain limits, do not count against your lifetime gift tax exemption.

For 2025, you can contribute up to $19,000 ($38,000 for married couples) annually without gift tax consequences. Under a special election, you can contribute up to $95,000 ($190,000 for a married couple) at one time by accelerating five years' worth of contributions. Additional gifts made to that beneficiary over the next four years after the year in which the one-time gift is made may reduce the donor's lifetime gift and estate tax exemption. If the donor of an accelerated gift dies within the five-year period, a portion of the transferred amount will be included in the donor's estate for tax purposes. Consult with a tax advisor regarding your specific situation.

Direct payment. The most direct means of supporting your grandchildren's education costs is by paying them directly. Simply put, you can pay their tuition costs. In addition to sparing them very sizable expenses, direct payment reduces your taxable estate without counting against the lifetime annual gift tax exemption.

Consider health funding

You may wish to help with the cost of health insurance, doctors, medications or therapy for your grandchildren. Generally, you may pay qualified health expenses directly to the provider, and such payments can avoid treatment as a gift for tax purposes.

Consider cash gifts and trust funding

Many grandparents wish to set aside funds for their grandchildren while the grandchildren are young, to give the money the opportunity to be invested and grow. You may wish to give money that is not earmarked for a specific purpose like education or health care, but is flexible for whatever need arises.

Broader gifts to grandchildren may be made into minors' custodial accounts, which can be invested but become the grandchild's property between the ages of 18 and 25.

Gifts may also be made into irrevocable gift trusts for the benefit of grandchildren, usually designed to receive larger gifts and last beyond the grandchild's age of majority, sometimes even multiple generations.

Questions/issues for grandparents to consider:

- Have you set up a trust as part of your estate plan?
- Are there immediate financial needs or are you looking to support your grandchild over the long term?
- When do you want your grandchild to have access to the funds? And how much decision-making authority do you wish to give them or their parents?
- How do your goals square with the parents' needs, objectives and philosophy?
- Based on the answers, what's the best vehicle for gifting assets to benefit grandchildren?

4 | Additional considerations and resources

Implementing a multigenerational wealth strategy

In addition to your new role as a grandparent are your ongoing responsibilities as a parent. With multiple generations to consider, holistic and strategic wealth planning becomes even more important.

Once the new baby is sleeping through the night, it might be time to hold a family wealth briefing – a virtual or in-person gathering to discuss the ongoing management and governance of your family's wealth.

Facilitated by a financial advisor who can act as third-party mediator, family wealth briefings enable clear communication and promote transparency in areas such as:

- Financial education and responsible wealth management.
- Family mission and values.
- The "State of the family's" wealth including any gifts you may have already made to benefit your children or grandchildren.
- Ongoing roles, responsibilities and expectations for family members.

The well-read grandparent

Although nothing can adequately prepare you for the experience of welcoming a grandchild, insight and perspective from experts and fellow grandparents can provide glimpses of what awaits. Here are a few book recommendations – to help new grandparents prepare and have gifts at the ready.

Nanaville

by Anna Quindlen

Wisdom, wit and insight, celebrating the love and joy of being a grandmother, from the Pulitzer Prize–winning columnist and bestselling author.

Good to Be Grand: Making the Most of Your Grandchild's First Year

by Cheryl Harbour

A roadmap for today's grandparent, combining the latest information about infant care – from medical developments to equipment innovations to parenting practices – with honest, down-to-earth advice and anecdotes about grandparents' special role.

The Mindful Grandparent: The Art of Loving Our Children's Children

by Shirley Showalter and Marilyn McEntyre

Guidance on cultivating strong, meaningful relationships with the children we adore.

The Classic Treasury of Nursery Rhymes

From Little Miss Muffett to Jack and Jill, this book enables grandparents to share time honored stories with their little ones.

Teaching Your Children Values

by Linda and Richard Eyre

Helps families instill the gift of character, which can be essential when preparing future generations for the responsibilities of wealth.

Seven steps new or expectant grandparents can consider taking to support their children and grandchildren

1. Establish or update your own estate plan and support the parents of your grandchildren in establishing or reviewing their estate planning and life insurance needs.
2. Confirm whether you wish to be considered as guardian, executor and/or trustee in the event of a parent's death or incapacity.
3. For grandchildren with special needs, explore the vehicles designed specifically to financially support them over their lifetimes.
4. Consider 529 college savings plans to support your grandchildren's education needs.
5. Consider whether to directly pay tuition and/or health-related expenses for your grandchildren or their parents.
6. Consider whether to make annual cash gifts if you wish to help with other living expenses.
7. If you have additional surplus assets, consider funding irrevocable gift trusts to benefit your grandchildren and/or their parents.

Lit. No. MFGEBR-109-0625P Printed in USA CGD/TM/10767-S108765