Four financial documents to review when your family grows

By: Liz Olech 7/14/2023

As your family adds new members, make sure these important financial documents stay up to date.

It's a joyful occasion when your family grows, whether you're having a baby or blending families through marriage and stepchildren. These huge life events are also substantial financial events — and not just in regard to your day-to-day budget as you pay for things like diapers or groceries. Big life events should also trigger changes to your long-term plan — including your estate plan, retirement plan, and more.

"Whether you're preparing for your first baby or having a third child, your plan should be reviewed," says Lisa Hutar, senior trust advisor at Wells Fargo Bank. "It isn't realistic to follow a plan that was done during a time in your life when you had a whole different set of life circumstances and expenses."

Hutar says a good rule of thumb is to review important documents after any big life event, such as marriage, divorce, moving, or adding a new child to the family. No big life event? Review those plans every three to five years.

Below, Hutar shares the important plans to review after a life event and what to consider changing if you're adding a new child, grandchild, spouse, or stepchildren.

Estate plan: Establish guardianship and power of attorney

An estate plan can be important for every adult, but especially once you start growing your family. A basic plan includes a will, trust, financial power of attorney, and advanced health care directive.

These documents can help establish care plans for your minor children, as well as appoint people to manage financial assets until the children are old enough to access them (age 18 in most states).

If your marriage status changes, your estate plan should be revised. For example, if you divorce and remarry, you'll want your current spouse to be named as agent under your health care power of attorney (not your ex). You'll also need to decide how to plan for new stepchildren. "Many people kick the can down the road when updating their trust because they're not sure how to include stepchildren," Hutar says. "If you're not 100% certain as to how to plan, I advise clients to put together their best guess as to what works *now*. A living trust is just that: It's living, it can be changed, and you have time to change it. But get something on paper that fits what you would want to happen if you died tomorrow."

The same goes for grandparents, who may want to review their living trusts to ensure they include grandchildren if that is their wish.

Life insurance: Adjust beneficiaries

When it comes to life insurance, Hutar says policy beneficiary information can be one of the most critical things to review after a big life event.

"Years ago, one of my clients died and his will stated that his wife was the beneficiary of his life insurance policy," Hutar explains. "Unfortunately, he hadn't changed the beneficiary on his actual policy, where he listed his sibling. The sibling received the life insurance proceeds because the beneficiary named on the life insurance policy determines who receives the benefit."

Grandparents who want to name grandchildren as beneficiaries might set up an irrevocable life insurance trust, which lets them list multiple beneficiaries and direct how and when each can receive money. Without a trust, if grandchildren are listed as beneficiaries on a life insurance policy, the death benefit could end up being supervised by the court if the children are minors when their grandparents die.

Retirement accounts: Check beneficiaries here too

As with life insurance policies, it's important to review the beneficiaries on your retirement accounts when a new spouse, baby, or stepchild comes into your life.

The new spouse often becomes the primary beneficiary, with children as secondary. But stepchildren may also be named as secondary beneficiaries. "I've had clients say, 'I'm going to give my children 60% and my stepchildren 40% of my retirement plan,'" Hutar says. "It's important not only to chat with a new spouse about your estate plan to ensure that both of you consider all alternatives; I also believe that it makes sense to discuss the plan with your children and stepchildren as they grow older so they understand why you chose to set up your estate plan in the way that you did."

Gifting strategy and education savings: Know your limits

In 2023, the annual gift limit[1] is $17,000 — meaning each parent can give up to $17,000 to each child or grandchild without having to pay federal gift tax or report the gift to the IRS. Additionally, the estate/gift tax exemption is $12.9 million per person. Some people choose to make major gifts during their lifetime, and others wait to leave large sums to their children after their death. The size of your gift might change as you add children or grandchildren, so it's important to review your gifting strategy as your family grows.

And whether you're a parent, grandparent, or stepparent, starting to save for college expenses early can be key — for example, 529 plans allow funds to grow on a tax-free basis, and withdrawals are tax-free when used for qualified higher education expenses. Many parents opt to establish these savings accounts when their children are born so the accounts have as long as possible to grow.

Individuals can contribute up to $17,000 per year to 529 plans — keep in mind that this is considered a gift, so you can't contribute the full amount to a 529 plan and also gift $17,000 to that child in the same year.

Hutar says some parents or grandparents may want to consider a "superfunding" technique. "You can contribute five years of annual gifts at $17,000 a year, which would be equal to $85,000, at one time," she explains. "If you superfund the 529 plan when the child is born, you've got $85,000 growing tax-free until the child needs it."

Another perk of a 529 plan is that it can be transferred from one beneficiary to another, offering flexibility for families with multiple children. However, a 529 plan can have only one beneficiary at a time — so, for example, if you have six grandchildren, including three in college, only one can use the withdrawals to pay for their education. This means you may want to open multiple 529 plans or change the beneficiary as your grandchildren graduate.

Adjusting your plan is an important step to take as your family grows, and it doesn't have to be complicated. Your advisor can help guide you through the process.

"Remember that these plans are just a snapshot in time," says Hutar. By making sure your plans reflect your current circumstances, you can support the people you love, transition assets correctly, and build a legacy.

1. https://www.irs.gov/businesses/small-businesses-self-employed/gift-tax

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