AMG National Trust
A Better Way To Wealth

SPECIAL REPORT:

9 Financial Planning "Baby Steps" to Consider When Starting a Family

Taking these planning steps can help provide financial security and peace of mind before the sleep deprivation kicks in.

When you become a parent (or a grandparent), your life changes overnight. Welcoming a baby is a key milestone that, without preparation, may lead to anxiety as financial needs and priorities necessarily change.

To set your family up for success and allay financial fears, we recommend you reassess your financial life plan in the context of four key pillars:

At AMG we start by asking a lot of questions about your values and goals, both personal and financial. After we discuss these sometimes-tough questions, we can prepare a financial security analysis that considers your income and expenses so that we are better able to help you direct cashflows to execute your tailored plan.

In some cases, you may not be able to fund everything you want immediately, but we can help you prioritize.

Protect What You're Building

1. Designate an Emergency Fund

No matter how much you prepare, there's always something you cannot account for. If you haven't started a savings account for emergencies, preparing for a baby's arrival is the time to do so. And if you do have one, it may be time to increase that amount. Kids tend to have unexpected illnesses and accidents.

Typically, we believe it prudent to be able to cover 12-24 months of expenses with steady cashflow and liquid, conservative investments. As you get a handle on all the changes that are happening in your life and spending patterns, you can adjust the absolute dollar amount.

2. Assign Powers of Attorney (POAs)

Considering your wishes before you head to the hospital can be difficult. But you'd rather be doing it clearheaded and in a quiet place in advance of the big event.

- **Healthcare Power of Attorney** — A healthcare power of attorney (HCPOA) designates another person to make important healthcare decisions on your behalf should you not be able to do so. Typically, this is a spouse, partner, or family member, individuals who know you and your wishes and whom you trust literally with making life decisions. You and your spouse or partner can set up reciprocal HCPOAs and designate another trusted person, preferably someone who resides near you and is therefore accessible to deal with issues quickly. Make sure that any power holder has a copy of the POA document.

- **Durable Power of Attorney** — A durable power of attorney (POA) is important to draft and keep on file in case you need someone to act on your behalf should you not be able to do so yourself. Otherwise, a court may make decisions about matters that don't align with your values and wishes. You and your spouse or partner can set up reciprocal POAs and designate another trusted person as back up. Make sure that any power holder has a copy of the POA document.

3. Reassess Your Insurance Policies

On that note, no one wants to think about worst-case scenarios, especially during an exciting time. But making sure your loved ones are taken care of should something happen to you or your spouse or partner is important. Unexpected loss of income can cause big lifestyle changes. Life insurance and disability insurance are important tools to protect the lives you want your survivors to live.

An AMG financial security analysis can help evaluate the cashflows available for premium payments considering your new cash needs for your expanded family, e.g., the payments on your mortgage or for your child's schooling.

If you have employer-sponsored insurance options, look beyond the default amounts. These programs often offer the ability to purchase add-on coverage at reasonable premiums without needing to go through additional underwriting with a medical exam. Many choose to supplement with outside providers, or only have that option. Your own private policy has advantages as it avoids transferability issues when changing jobs or the need for underwriting later in life.

- **Term Life Insurance —** Life insurance is offered in term and permanent policy formats. For income replacement over a desired period, e.g., for the duration of a mortgage, term life insurance is the simplest and most often the cheapest. These policies provide a set amount of income-tax-free money to your beneficiaries upon your death. When the policy is owned and controlled by an irrevocable life insurance trust (ILIT), it can be free of estate taxes as well.

- **Disability Insurance —** While life insurance is meant to provide a financial safety net in the event of your death, disability insurance provides income replacement should you become sick or injured and cannot work. Most people think they won't need disability insurance, but long-term chronic conditions that affect your ability to work at substantively the same level are common. The last thing you want to be thinking about when battling cancer or an autoimmune disease or when recovering from a debilitating back injury or heart attack is how to pay the bills. Given that one in four working adults will claim a disability, it's worth considering supplementing employer-sponsored insurance to a higher replacement value.

Plan for Key Life Events

4. Fund Education

There's a cottage industry of baby Mozart sleep and bedtime tools, purporting to develop your child into the next Einstein. Their popularity attests to the high educational aspirations many parents have for their children.

According to the College Board, in 2023-2024 average annual estimated budgets (tuition and fees, room and board, allowances for books and supplies, transportation, and other personal expenses) for full-time undergraduate public four-year in-state students is $28,840. For public four-year out-of-state students, it's $46,730. And it's $60,420 for private nonprofit four-year students.[1]

Early funding of your child's future education can yield rewards through the power of compounding. A key decision to make is how much education you want to fund. This is a highly personal decision and values on this subject run the gamut. Ron Lieber, "Your Money" columnist for *The New York Times*, has written a helpful road map for making decisions in *The Price You Pay for College: An Entirely New Road Map for the Biggest Financial Decision Your Family Will Ever Make,* which may be a good first place to start your research.

And with the flexible 529 account, parents have a tax-advantaged way to save.

- **529 Account –** These are savings plans designed to help pay for qualified education expenses. Contributions are made after tax, yet earnings grow tax-free and are not taxed when they're withdrawn for qualified expenses. Contributions to 529 plans are not deductible on federal income tax returns, yet many states do offer a deduction as an incentive for residents to use their state's 529 plan. Even if your state offers this, it's still a good idea to understand the value of that deduction considering the quality of the state's 529 plan. You should shop around. When a state offers no deduction or a low deduction or the plan quality is poor, consider another state's plan. Utah's 529 plan is favored by many non-residents as it offers diverse investment options, low expenses, high contribution limits, and the website is very easy to use.

While 529 plans do not have annual contribution limits, contributions are considered completed gifts for federal tax purposes. In 2024, the annual gift exclusion is $18,000, so any person may gift up to that amount per donee without filing a gift tax return. Therefore, married couples may gift $36,000 per year to each child's 529 plan. It's also possible to accelerate five years of gifts ($180,000 for a married couple) into one year. Such gifts would require filing a gift tax return yet would not create a tax liability nor is it counted against the lifetime gift tax exemption.

When funding a 529 plan, consider the power of tax-free growth. If you have the cashflows to do so, we recommend front-loading contributions early in your child's life, so they have a chance to compound. Many people use end-of-year cash bonuses for this purpose. Or, given other priorities and cashflow needs, you may wish to set-and-forget a small monthly contribution. Lastly, once your account is established, let grandparents and other family members know how they can contribute for birthdays and holidays.

Maximize Career Earnings and Its Growth Potential

A key aspect to maximizing your career earnings and its growth potential is taking advantage of pre-tax benefits or tax credits, especially when having or adopting a baby qualifies you for new programs.

5. Update Your Healthcare Plan

Having or adopting a baby is a qualifying life event, which enables you and your spouse or partner to change your health plan elections. Typically, most plans require that you add a new child to a plan within 30-60 days after the event. If done in the time frame appropriate for your policy, your child should be covered retroactively.

If you and your spouse or partner have employer-sponsored options available to you, choose the one offering the most coverage for the least out-of-pocket expense. You may not want a high deductible plan in your baby's first year because of the potential for complications and unexpected office visits. However, a healthcare savings account (HSA) has compelling tax advantages and many employers provide a contribution match.

- **Health Saving Account (HSA) –** This account is only available to those purchasing a qualifying high-deductible plan. Contributions whether funded through payroll or via cash transfer are considered "above-the-line", deducted from adjusted gross income. Currently, you may contribute up to $8,300 for a family (plus $1,000 in catch-up contributions if age 55 or older), which, unlike an FSA, may be entirely rolled over from year to year. HSAs could be an effective tool to help you accumulate money for future medical expenses as they are triple-tax advantaged: contributions are pre-tax, balances may be invested and any gains are not taxed, and distributions are not taxed as long as they are used to pay for qualified medical expenses.

- **Healthcare Flexible Spending Account (HC FSA) –** This account may exclusively be offered by employers and is funded through employer contributions or employee pre-tax payroll contributions. For 2024, employed spouses may each contribute up to $3,200 dollars, of which $640 may be carried over to the following year if the employer plan permits. This is otherwise a "use it or lose it" account, so you may want to be conservative in assessing your qualifying medical expenses for the year.

6. Consider a Savings Account for Childcare Expenses (DC FSA)

Some employers offer an FSA that may be used for qualifying childcare expenses relating to children under the age of 13. These may be used to pay for services such as nannies, daycare, preschool, and before or after-school programs not sponsored by your employer.

- **Dependent Care FSA (DC FSA) –** This account is funded from a pre-tax payroll deduction. Currently, the contribution limit is a combined $5,000/year for single filers or for married couples filing jointly. Note that expenses reimbursed through a funded Dependent

Care FSA may not be claimed again as a [Child and Dependent Care Tax Credit,] which effectively reimburses up to $3,000 for one child or $6,000 for multiple children in eligible childcare expenses.

7. Reassess Your Retirement Contributions (Traditional vs. Roth)

With the demands on your current cashflow from new baby-related expenditures, it may be worth reassessing the tradeoffs between traditional IRA or 401(k) and Roth IRA or 401(k) contributions. It can be complicated to decide whether the pre-tax contribution to a traditional plan, which reduces your reported taxable income and therefore your calendar-year tax obligation, is better than an after-tax contribution to a Roth plan, which will require you to pay higher taxes today yet no taxes on future capital appreciation and distributions. We can help you assess what makes most sense for you. If you can contribute to an employer-sponsored plan with a company match, it makes sense to try to maximize it.

8. Assess the Child Tax Credit

Adding a child to your household can lower your tax liability. You or your spouse may start claiming a child tax credit of $2,000 per qualifying child, available in full to anyone earning under $200,000/year (if married filing separately) or $400,000/year (if married filing jointly), subject to a phaseout thereafter.

For the eligible self-employed, the ability to claim the child tax credit can lower your estimated tax payments, and therefore increase your current cashflows. For those on payroll, the W-4 form enables you to easily claim dependents in Step 3.

Those adopting may be eligible for a tax credit for qualified adoption expenses and an exclusion from income for any employer-provided adoption assistance. The credit and exclusion are subject to an income limitation and a dollar limitation.

Design Your Legacy

Often, we think of estate planning as something that happens late in life. But now that you're adding a new generation to your family tree, you need to consider how you want them cared for should something happen to you and/or your spouse or partner, as well as how you want your legacy to be passed down.

9. Create or Update Your Estate Plan

Even if you have not yet accumulated substantial assets, estate planning documents are important tools that help to make terrible events more manageable for the loved ones left behind and often tasked with making difficult decisions under stress. Think of these documents as your gift to them to ease their burden. Having a minor in your household increases the need for documentation that communicates your desires for how they should be raised and smooths the transition of financial support. Components of a typical estate plan include:

- **Will or Revocable Trust with Pour-Over Will —** A will or a revocable trust with a pour-over will are essential documents that direct the distribution of assets and the care of your child in the way you wish. A revocable trust with a pour-over will has an advantage over a stand-alone will in that assets will be transferred to the named beneficiaries of the trust without having to go through probate court, which publicly discloses assets, can take time, and can incur fees. Revocable trusts are flexible and may be amended as needed, only converting to fixed, irrevocable trusts at the death of the grantor. Typically, spouses or partners name themselves and each other as the trustees of the trust with another family member as backup in the rare case something happens to both parents at the same time. It's important to designate the guardianship of minors, including successors. If you have complicated assets or instructions for the care of your child, you may wish to designate a corporate trustee who is a regulated fiduciary with extensive professional knowledge to efficiently carry out the terms of the trust until your child reaches the independence age you designate. AMG serves in such a capacity for many of our clients.
- **Estate Planning Letter of Intent —** This is not a legal document but a useful way to communicate your intentions to your loved ones and possibly to a probate judge, should your estate go through that process. Many choose to write down their wishes regarding how they want to be treated by the healthcare system,

instructions guiding the disposition of their remains and desired memorial service, and instructions regarding how they want the guardian named in their will to raise their child, e.g., schooling, activities, experiences, and financial support for purchasing a car or first home or starting a business. This document is a living and breathing expression of your desires which may be easily changed. It's a good idea to calendar a tickler to review and update it annually.

- **Update Beneficiaries —** It is also prudent to annually check your beneficiary and contingent beneficiary designations on all your financial accounts, e.g., banking, investments, insurance. You'll typically want to designate your spouse or partner or your revocable trust as primary beneficiary to avoid these assets passing through probate. At the same time, it's a good idea to regularly update a schedule of your property, policies, and financial accounts, with logins and passwords if they have them. See AMG's *Estate Organizer* and *List of User Names & Passwords/PINs*. Keep these in a secure location and tell your spouse or trustee where to find them.

Phew! We made it. Starting a family is an exciting time and we wish you much happiness. You'll have a lot on your plate with your new little one. Our goal in detailing these financial planning steps is to provide a road map of prudent measures to engender long-term ease and serenity.

If this sounds too complicated to tackle on your own, we're here to help. At AMG, we specialize in tailoring personalized financial life plans and acting as a trusted advisor to you as your circumstances change over time. Our integrated platform of financial counseling, investment, trust, tax, and banking services can also help you implement your plan holistically, with the least amount of friction, saving you time and money over the long run.

To schedule a free consultation with an AMG Wealth Advisor call 303.486.2959.

[1] "College Board Trends in College Pricing and Student Aid," 2023.

DISCLOSURES

As of January 2024. AMG's opinions are subject to change without notice, and this report may not be updated to reflect changes in opinion. Forecasts, estimates, and certain other information contained herein are based on proprietary research and should not be considered investment advice or a recommendation to buy, sell or hold any particular security, strategy, or investment product. Data contained herein was obtained from third-party sources believed to be reliable, but AMG does not guarantee the reliability of any information contained in this report.

AMG National Trust

A Better Way To Wealth

AMG helps executives, high net worth individuals, business owners, and institutions discover a better way to wealth. We work closely with you to develop integrated financial solutions customized to your unique goals and backed by our insightful research, thoughtful innovation, and decades of experience. Capitalize on your opportunities with a knowledgeable partner focused on your vision and your success.

Denver – *Corporate Headquarters*
6295 Greenwood Plaza Blvd.
Greenwood Village, CO 80111
800.999.2190
303.694.2190

Asheville – *Boys Arnold Office*
1272 Hendersonville Road
Asheville, NC 28803
800.286.8038
828.274.1542

Boulder – *Main Banking Office*
1155 Canyon Boulevard, Suite 310
Boulder, CO 80302
888.547.8877
303.447.8877

Cheyenne
Office hours by appointment only
1623 Central Avenue, Suite 106
Cheyenne, WY 82001
800.999.2190

Chicago
180 North LaSalle Street, Suite 2925
Chicago, IL 60601
877.662.8243
312.263.5235

Hilton Head – *Boys Arnold Office*
4 Dunmore Court, Suite 201
Hilton Head Island, SC 29926
866.422.1442
843.342.8800

Morristown
163 Madison Avenue, Suite 110
Morristown, NJ 07960
800.888.2777
973.455.0202

Virginia Beach
100 Constitution Drive, Suite 222
Virginia Beach, VA 23462
866.872.9578
757.368.4466

www.amgnational.com