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MARKET MATTERS: Financial tips for new grandparents

By Joseph Matthews

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One of the greatest joys of hitting that life stage known as “older” is the possibility of becoming a grandparent. How magical to welcome a new life into the family, and see a son or daughter successfully don the mantle of a parent. All the accompanying joys — cuddling a baby once again, passing on traditions to a new generation, and spending time with grandkids — are a sweet reward at this age.

Many new grandparents are happy to play an active role in the lives of their first grandchild and subsequent grandchildren. And, the ability to help them financially may be especially rewarding. It may be a powerful urge for new grandparents, but one that must be carefully structured as part of a greater financial plan.

Sending a check for a birthday or taking the grandkids to the local mall for a shopping spree is nice; but other vehicles may allow the money to work harder. If planned correctly, grandparents’ resources can help over a lifetime.

An initial step might be to open a savings account in the grandchild's name and fund it regularly. This might become the money with which a youngster makes a special coveted purchase or attends a long-awaited event in the future.

Establishing a trust in the grandchild's name is another possibility, potentially with restricted access based on the beneficiary's age and what the funds can be used for.

Consider a 529 college savings plan. Contributing monthly or annually to a 529 college savings plan is a true investment in a grandchild's future, and offers a tax break to both the contributor and the recipient; if grandparents fund the account, the earnings and capital gains within the account potentially can be tax free. When it comes time for college, any withdrawals for qualified education-related expenses (books, tuition, room and board, etc.) are untaxed.

Helping children with the skyrocketing cost of higher education is admirable, especially as the average cost per year of a four-year private college has reached a whopping \$47,000. And, a little-known benefit to the 529 plan is that if the beneficiary decides not to go to college, a grandparent can choose a different beneficiary of the funds.

Another avenue to explore is the gift of an investment. Shares of existing equities can be gifted. Or, instead of giving cash as a stocking stuffer or for a special occasion, think about buying new shares of stock. This can be an especially rewarding process if the youngster is involved in the selection of the investment. Is the child obsessed with electronic gadgets? Research investing in tech stock. Does he or she have an interest in outer space? Think about the aerospace industry. For budding athletes, the manufacturer of athletic gear might be of interest, just as a particular retailer might appeal to a budding fashionista.

Of course, use a good dose of common sense when letting grandchildren help in the decision-making when establishing a portfolio; because a portfolio that is built to last could benefit them through the years.

Along with investing, perhaps the most common vehicle to pass along wealth, grandparents also should remember to update their wills. Certain parameters might need specifying, such as at what age grandchildren might access their inheritance. Will they receive it in stages, or all at once?

Be pragmatic when it comes to passing wealth to grandchildren. While the impulse might be to shower the cuties with gifts, keep in mind your own retirement needs and financial goals. You certainly do not want to jeopardize these ... or your ability to leave money in your will.

There's one more piece of wealth you should remember to pass along to your grandchildren: the gift of your financial knowledge and experience. Giving your loved ones a solid financial education, with nuggets of your savvy advice and insight, might be the best gift of all, and one that will last a lifetime.

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