FINANCIAL INSIGHTS FOR MODERN FAMILIES

The reality of family life in America today is that the vast majority are non-traditional or “modern families.” Instead of the archetype of one woman, one man and two children that dominated previous generations, modern families come in many forms: singles, blended families, same-sex couples, multigenerational households and other types. Each type of family faces challenges that are as unique as their structures, requiring fresh perspectives on how to prepare for financial success. This report provides insights, guidance and resources that may help you achieve a secure financial future.
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Introduction

In recent decades, America has experienced a major demographic shift. What society once considered a traditional family—a man and woman, married, with one or two children—is now the exception more than the rule. Instead, the vast majority of today’s modern families are, by the standard definition, considered nontraditional. This is due to a variety of trends, including a higher divorce rate, longer life spans, legal sanctioning of same-sex marriage nationwide, and even workforce changes. Modern families today include divorced and remarried couples, often with blended families; single parents with children; multigenerational families sharing a home; same-sex couples; and other types of households.

The reality is that family life today creates new challenges for how people think about money and engage in short-term and long-term financial planning. How a family responds to its specific challenges can dictate the level of financial stress or confidence it experiences.

This report seeks to define the modern family in greater detail, explore issues specific to different family structures and suggest approaches to help move your particular family closer to your financial goals.

Four out of five households no longer fit the mold of mom, dad and 2.2 kids. They need fresh advice tailored to their needs, not an old-fashioned, one-size-fits-all financial plan.¹


At U.S. Bank, we believe that diversity and inclusion drive our purpose and mission: “We invest our hearts and minds to power human potential.”

The company is a proud supporter of the Human Rights Campaign, the nation’s largest lesbian, gay, bisexual, and transgender civil rights organizations and has consistently scored a perfect 100 on the annual Corporate Equality Index (CEI). This annual survey serves as the national benchmarking tool on corporate policies and practices pertinent to LGBTQ employees.
America’s modern families: The new normal

The differences between what have historically been considered “traditional” families and modern families grow more pronounced when we zoom in on generational factors. According to one report, the older generation that came of age during World War II is made up of 46 percent traditional families. That number drops to 37 percent with the succeeding generation of Baby Boomers and to just 25 percent with Millennial families. This clearly indicates a trend taking shape, with younger families looking less and less like their parents’ and grandparents’ households. So logically enough, traditional financial solutions and instruments that worked for older generations may not be as relevant to these emerging modern family structures.

MODERN FAMILIES REPRESENT THE MAJORITY

Traditionally structured families are now the minority. Modern families, with or without children, represent almost 70 percent of the U.S. population. The trend becomes more pronounced with Millennials.

Wide-ranging household types: A kaleidoscope of variations

The modern family is incredibly diverse and anything but static. As the members of these families go through life and work transitions, their households must change and shift in response, often quickly. They need social and financial structures that are flexible enough to support a rapid rate of change. Below is an illustration of just some of the variations on the modern family theme:

**Dynamic, Complex Situations, Rapid Changes**

Each modern family archetype faces distinct challenges and financial issues. For example, multigenerational families may need to simultaneously address a range of issues from financing college for children, to the costs of caring for elderly parents, to funding their own retirement. They may also face tensions between a desire to downsize their home against the possibility of housing extended family. Unmarried couples and blended families may need to make legacy arrangements that protect partners or offspring.

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Alternative arrangements:
Financial challenges

Your family’s structure and priorities can play a big role in your financial decision-making process. At the same time, all families share a common bond—significant events, including marriage, divorce, births and employment changes tend to be a reason to re-evaluate your financial position and long-term plans. Life changes can prompt revised financial decisions.

However, modern families may feel greater uncertainty about their financial path, precisely because their living situations can be more complicated. According to a recent study, only 30 percent of these families report strong feelings of financial security and confidence, compared with 41 percent of traditional families.¹ They’re also more likely to live paycheck to paycheck, while feeling less certain that long-term goals can be reached. Support from financial professionals can be critical to the financial security of modern families.

Evolving family structures: Relevant financial services

Every family has certain fundamental financial needs, such as establishing a budget that covers income and expenses, saving for education and retirement, legacy planning and basic insurance protection. Most financial planning services, however, are designed with the traditional family model in mind and are not designed to address the specific needs and complex structures of modern families.

The unique challenges facing modern families make financial planning all the more necessary. A good place to start is to take the time to write about your goals, establish a plan with the help of a financial professional, and review it at frequent intervals to make sure your decisions are consistent with any changes in your life, available benefit options, estate and legacy planning, current laws and other factors.

The following pages lay out several examples of modern family scenarios, describing the struggles, goals, and the unique solutions that can strengthen their financial confidence, step-by-step.

60 percent of same-sex couples say there is not enough financial guidance designed for their family type.²

7 out of 10 investors believe that financial advice and solutions are typically designed with only the traditional family in mind.¹

RESHAPING FINANCIAL GUIDANCE FOR NEW PATTERNS OF LIVING

Just as a square peg doesn’t fit in a round hole, classic financial planning strategies of yesterday require reshaping to better follow the new financial patterns of today’s modern family households.

¹Beyond the Picket Fence: Financial Challenges of the Modern American Family.” USB Investor Watch. 3Q 2015.
Same-sex and LGBTQ couples:
New law, new plans

The landmark 2015 Supreme Court ruling (Obergefell v. Hodges) extended legal marriage to same-sex couples nationwide and resolved many confusing financial issues; however, these families may continue to grapple with plenty of financial questions. Whether a couple prefers to marry or remain unwed, it’s important to understand how the new law affects each family. Couples who don’t marry cannot take advantage of survivor benefits, estate transfer rules, or other tax benefits after the death of a spouse. Nor can unmarried couples claim a deceased spouse’s Social Security benefits. Many employers still offer domestic partnership benefits such as health care to unmarried couples. However, now that same-sex marriage is legal, many companies must assess whether to continue offering benefits to non-married partners or allow those provisions to expire or be phased out over time.

For same-sex couples considering marriage, it can be helpful to fill out a mock 1040 tax return in order to understand what your family tax situation will look like after you wed. It is not unusual for married couples to have to pay more in yearly taxes. The tradeoff is that it opens the door to Social Security spousal benefits and estate transfer benefits after death. Consult with financial, tax and legal professionals to make sure your circumstances are managed in the most beneficial way.

Planning checklist
for same-sex couples, married or unmarried, with or without children:

- Create mock 1040 tax returns, filing both as singles and as a married couple filing jointly, to prepare for how marriage will affect your taxes.
- Review old estate planning documents that you may have put in place to protect your relationship, before same-sex marriage became legal. Some of these legal tools may no longer be relevant.
- Ask people you trust for a referral to a financial professional, experienced at working with same-sex couples.

UNDERSTAND NEW LEGAL IMPLICATIONS

Same-sex couples choosing to marry gain access to substantial rights and benefits under U.S. federal law. Make sure you’re fully informed about the impact on your financial and legacy plans.

SAME-SEX MARriage = NEW BENEFIT ACCESS

Survivor benefits
Estate transfer rules
Tax benefits
Social Security spousal benefits
Blended families: Competing priorities

Of all nontraditional families, blended families present the widest range and largest number of family households addressed here. These include widowed or divorced couples who have remarried and who may have children together, as well as from previous relationships. On average, 65 percent of remarried couples have children from previous relationships.¹

Along with children and former spouses, remarried spouses often bring financial responsibilities from a past relationship, affecting their approach to money and finances. If past and present familial responsibilities aren’t addressed, blended families can be a tinderbox of emotions and behaviors that negatively impact family finances and relationships. Determining how to manage financial responsibilities for children from previous relationships or dealing with former spouses who require significant financial support are situations that may call for the guidance of a financial professional.

Planning checklist for blended families—often living with children from previous relationships:

- Come to agreement on what the family budget looks like and who is in charge of paying bills and paying for kids’ expenses. Early and ongoing discussions can help avoid future conflict.
- Consider if a prenuptial agreement may be appropriate to arrange for a specific transfer of wealth or the care of children.
- Determine if additional estate planning is required to ensure appropriate transfer of wealth to heirs, including beneficiary arrangements and proper documentation of asset transfer in a will. This is especially important with children from past and present marriages living in the same household.

FAMILY DYNAMICS IMPACT FINANCES

By acknowledging your family’s complexity and taking the time to communicate with individual members, you strengthen relationships while creating a solid foundation for financial and legacy planning.

Multigenerational families: Maintaining the balance

Nearly half of American families live with a parent aged 65 or older, while raising children or supporting an adult child. The combination can add strain to household finances and professional life, not to mention other critical resources such as personal time. Financial professionals can help these families assess their unique challenges and arrive at workable solutions to achieve key financial goals.

Family members dealing with multiple generations under one roof should clearly communicate a plan for handling household expenses, building savings accounts for education and retirement and establishing wills, trusts and other estate planning instruments. They should also determine a strategy for the transfer of wealth between generations. Taking such steps will allow your family to enjoy the opportunities, as well as address the challenges of multigenerational family life.

Planning checklist for multigenerational families (three or more generations under one roof):

- Clarify expectations about how adult family members pool resources of income, skills, energy and time to keep the household running smoothly.

- Place a weekly or monthly meeting on the calendar, so everyone can check in and discuss obligations, challenges and rewards.

- Discuss each family member's goals and plans. How will family life change in the next year and the next five years? How will the family support individual goals, while still expecting individuals to support the family unit?

NEGOTIATING THE SQUEEZE

Sandwiched between the competing needs of grown children and aging parents, an increasing number of Baby Boomers struggle to balance demands on their time and money without jeopardizing their retirement goals. Research shows that 62 percent of family caregivers tap savings or retirement funds to help cover the costs of care.  

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Single adult households: 
A growing segment

With or without children in the picture, an expanding number of American households—approximately 25 percent—are headed by single adults, including divorcees or those who are widowed.\(^1\) Research also shows more people delaying marriage or staying single for the majority of their working years.

The reality is that singles lack economies of scale that married or partnered people enjoy. Living costs are approximately 20 percent less for singles, not 50 percent, as many assume. Nor do they have access to the same favorable tax breaks, such as filing jointly, using a spouse for an exemption or claiming a capital gains exemption of up to $500,000 when selling a house. (The IRS limits it to $250,000 for single homeowners.) Tax disadvantages increase for singles without dependent children, and in retirement they have fewer options for collecting Social Security benefits.

Consequently, singles may need to tuck away a larger percentage of income to stay on track for retirement and build an emergency fund. Long-term care insurance takes on heightened importance when there’s no spouse or adult children in the picture. A financial professional can provide targeted guidance, including legacy planning and tax-advantaged charitable giving.

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Older parents, young children: Time and energy issues

Because of various trends—couples marrying later in life, women delaying having children and multiple marriages—a growing segment of modern families include at least one parent who is age 35 or older when their first child is born. These families have to juggle contradictory financial goals, including paying the cost of childcare if both parents work outside the home or deciding whether one parent will stay home in mid-career. They may also be saving for college and retirement simultaneously, since for at least one parent both events may occur around the same time.

Careful planning can help older parents prepare realistically for what’s ahead. Having sufficient life insurance may be important in case one parent dies while the children are still under 18 or facing college expenses. Legacy planning is also essential, including contingency plans for guardianship of children if needed, and trusts to protect them financially. As parents draw closer to retirement, they may need to put more emphasis on saving for their own future rather than continuing to fund a college savings plan. Children can utilize financial aid and loans to help pay for college expenses, but retirees don’t have a comparable option.

The good news for older-parent families is that more than half (57 percent) see themselves as more financially established because they waited to have children.1 Because they want to be there for their children, they have added motivation to take care of their health and extend their productive working years.

Planning checklist for older parents with children under age 5:

— Estimate the cost of two parents working and using daycare versus one parent staying home. The financial impact of leaving the workplace in mid-career may be significantly greater than financing daycare, when long-term retirement and education funding is considered. Ultimately, the decision must reflect your overall priorities.

— You can take IRA account distributions before age 59½, without a 10 percent penalty, to pay for qualified education expenses. Weigh the potential impact on your long-term financial security.

— Carefully review insurance options such as life, disability, and long-term care coverage.

47 percent of older parents with young children say that saving for their children’s education motivates them to develop and execute a long-term financial plan.1

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Immigrant families: Balancing cultural and financial priorities

First- and second-generation immigrants now represent close to one-fourth of the U.S. population. They also make up a large, unique segment of modern families.¹ Although each family’s specific cultural background likely determines how finances and retirement planning are handled, most goals and needs parallel those of other American-born modern families.

These often involve multigenerational families living under one roof and supporting each other. Cultural values may dictate how money is allocated to care for family members. In some instances, immigrant families have the additional burden of providing financial support to extended family living abroad. This has implications for both tax planning and charitable giving. Families who come to the U.S. as refugees can often be skeptical about investment markets, since their trust in financial institutions may be low, or past experiences with inflation forced them to confine investing to real estate or tangible assets. Specialized advice is often required for those who want to follow religious principles that prohibit investment in alcohol, gambling or adult entertainment industries, for example.

Another aspect relevant to immigrant parents is that they often place more importance on financing their children’s education than on funding their own retirement. As with anybody else, immigrants need to be reminded of the challenges inherent in building adequate savings for a retirement that could last for an extended period of time.

Planning checklist for families (first or second generation):

— Ease concerns and strengthen financial literacy about typical financial practices in the U.S. Community organizations can typically offer classes and provide materials.

— Establish an emergency fund and take advantage of employer-sponsored retirement savings plans or open an IRA if an employer-sponsored plan is not available.

— Utilize government-provided interest-free loans to repay travel costs, a longtime policy of our government. The government also helps immigrant families build a credit rating, opening doors to housing and other opportunities.

Financial planning:
Four cornerstones for modern families

At U.S. Bancorp, financial planning is structured around four cornerstone objectives that anchor a comprehensive plan focused on working toward your goals. The first cornerstone starts with an emphasis on building a solid financial foundation with a focus on income, expenses and savings. The second goal is asset growth, critical to keeping pace with living expenses over the course of your life. The third is protection strategies that may reduce the impact of unexpected life events that can sidetrack even the best-laid plans. The fourth cornerstone is legacy planning, a strategy for what you will leave behind.

The financial professionals at U.S. Bank and U.S. Bancorp Investments work with you, offering the objectivity and insights you need as you fine-tune your plan over time and strive to achieve your family’s short- and long-term financial goals.

GIVE EACH CORNERSTONE ATTENTION

You can grow your family’s wealth, relax concerns about financial security, and build a strong legacy for the future by implementing these four cornerstones of financial planning.

**Income, Expenses, Savings**
**Goal:** Help balance your income, expenses, and savings to create a solid financial foundation.

**Asset Growth**
**Goal:** Maintain a long-term perspective and continue to invest to help ensure you’re ready for life’s important milestones.

**Protection Strategies**
**Goal:** Help protect your assets from unexpected events that can undermine your future plans.

**Legacy**
**Goal:** Establish a plan to help ensure your legacy intentions are fulfilled.
Income, Expenses, Savings: Set a solid foundation

Monthly expenses and rainy-day fund
It’s essential to discuss how income and expenses will be handled and to set up a sufficient emergency fund. Consider questions such as: who has the primary responsibility for making sure bills are paid? How will debt payments be made (from individual accounts or will joint payments be made)? Will you set up joint accounts? These and other matters affecting cash flow are extremely important for all families.

Think about income over the long term
While retirement may seem like a distant objective, it arrives sooner than you think, and you need to plan and save for it, starting now. Married couples have the advantage of combining resources in retirement. Singles need to identify potential sources of retirement income, in order to plan. A financial professional can help you estimate needs, locate sources starting with Social Security, and think your plan through.

Social Security options
All married couples, including same-sex married couples, now have access to spousal and survivor benefits, regardless of the “state of celebration.” In November 2015, new rules were enacted by Congress to alter some of the more advanced, strategic ways couples could claim their benefit. Regardless of income level, all singles and married couples need to examine their filing options, including delaying benefits and taking spousal income or widow benefits, etc. Divorced individuals (if married for ten years or more) may be able to tap into “spousal benefits” pertaining to a former spouse.
Asset Growth: Building your future

Putting money to work in a diversified portfolio of investments is a time-honored way to attempt to accumulate wealth for your family. Among the more common ways to pursue this is through employer-sponsored savings plans like 401(k)s and vehicles like IRAs, both tax-advantaged ways to help you build your nest egg for retirement. Since markets can be volatile, invest with an eye to the long-term, balancing riskier growth oriented stocks with more conservative choices and rebalancing periodically. Investing in a systematic way, through regular monthly installments, can also help you offset the volatility that is inherent in certain types of investments.

Saving and investing

For blended and multigenerational families, especially those who are remarried or entering new relationships, it is important to have a clear understanding of your partner’s assets—and just as importantly, liabilities—to prevent issues from arising after marriage. Remarried couples should reassess their savings strategy based on new circumstances; single individuals may need to save more money to ensure self-sufficiency in retirement. Same-sex couples now enjoy the same rights as heterosexual couples, including the ability to transfer a deceased spouse’s IRA into the survivor’s existing account. In that event, the money then continues to grow tax-free without withdrawal requirements.

Core values and major life events

All modern families should make sure investment practices reflect their goals and any cultural or religious values. No matter what your family structure is, any major life transitions including marriage, birth, divorce or death may require a reassessment of your financial goals and strategies to achieve those goals. By consulting regularly with a financial professional, families and singles can better navigate choices and ensure that all family issues are covered.
Asset Protection:  
Expect the unexpected

Life and disability insurance needs
Singles may not have a great need to carry life insurance, unless they’re responsible for children or caring for other loved ones, such as aging parents. However, they should assess their need for disability and long-term care coverage, and married couples may need all three types of insurance. Think about potential gaps in coverage. If there is an untimely death, will the survivor have enough income? Should term insurance be converted to permanent coverage that can continue throughout life and provide financial support in other ways? Any major life event may trigger a reassessment of coverage.

Liabilities
Upon marriage, the debt of one spouse becomes the debt of both spouses, so couples should discuss their assets and liabilities before their wedding day. This can be especially important for those who remarry and multigenerational families with complex financial circumstances from previous relationships.

Health care and Medicare expenses
Individuals and couples nearing retirement need to remember that full Medicare coverage comes with a cost, depending on your financial means. Higher premiums kick in for Parts B and D, for individuals and married couples with incomes of $85,000 and $170,000, respectively. Another significant expense for many older retirees is long-term care (such as in-home care, assisted living or nursing home care). These costs can significantly erode your savings, affecting not only your own financial security, but your legacy plan. Be sure to have a long-term care plan in place to address future health care needs, in addition to other expenses, to avoid surprises.

According to recent research, the average age when people retire is actually 62.  
As your wealth increases, so does the potential for risks, including the preservation of wealth due to unexpected death, health issues, accidents or disability. Having a risk management strategy can help protect you, your family and your assets against the unforeseen.

2 Medicare.gov, 2016.
**Legacy planning:**

**Establish intentions**

**Legal documents and avoiding probate**

For most modern families, it makes sense to put simple estate planning documentation in place to make sure that wishes are carried through when a member of the family dies. Create the necessary wills, power of attorney, and health care directive documents; provide financial professionals with copies as appropriate; and talk to key family members about your plans. Review the documents annually to ensure everything is current.

**Estate planning for modern families**

For all married couples, including newly married same-sex couples, it’s now possible to transfer property and assets when someone dies, without encumbrances. Survivors are first in line for estate transfer and can take advantage of unlimited spousal deductions. Blended and multigenerational families may need help from professionals to establish their estate plans and gifting wishes. In some cases, prenuptial agreements may make sense for couples who wish to marry and who have children from previous relationships.

Estate planning, however, is not just for couples. Singles should also consider wealth transfer and charitable intentions, whether through simple beneficiary planning or more advanced techniques, such as setting up educational accounts for nephews/nieces or drafting charitable trust documents. First- and second-generation immigrant families may also need to examine their charitable giving practices, especially if sending money to relatives in their country of origin.

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Two-thirds of blended families don’t know how they will divide up their wealth, physical assets or business interests, compared to half of those in traditional families.¹

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¹“Beyond the Picket Fence: Financial Challenges of the Modern American Family.” USB Investor Watch. 3Q 2015.
Today’s reality: Creating financial well-being

As a result of great shifts in American demographics, modern families now represent the majority. Blended, multigenerational, same-sex, and other families that have been considered nontraditional households have become the norm. Changes to family structure have also ushered in new realities for how families manage finances, deal with challenges, and make decisions based on their underlying values.

Modern families, because of their unique complexities, may have to cope with more challenges when it comes to their financial lives than do traditional families. At the same time, many doors have been opened to better financial opportunities for millions of families who previously faced more significant obstacles.

U.S. Bancorp’s proprietary approach to financial planning, through the RealSteps> goals-based planning process, can help all families and individuals take full advantage of their financial opportunities. The four financial objectives consist of foundational income, expenses and savings, asset growth, protection strategies and legacy. Together, they provide the basis for taking real steps towards building and fine-tuning your personal financial plan. The guidance of an experienced U.S. Bancorp financial professional is an excellent first step to gaining confidence and planning your financial future.

RealSteps> educational materials and resources are available to help you keep up-to-date on issues that affect your retirement.

Topics that may be of interest:
- Realities of Health Care in Retirement
- Retirement Realities for Women
- Social Security
- Estate Planning
- Navigating the Financial Aspects of Divorce
- Preparing for Money Matters in Marriage
RealSteps® is a comprehensive wealth planning process designed to help you with your most important financial goals. The RealSteps approach is rooted in fundamental principles of financial planning. It can play a vital role in helping you gain confidence about the progress you are making toward the financial goals that matter most in your life.

Real Understanding®
Your plan starts with gathering information, identifying goals and concerns, and uncovering gaps and challenges.

Real Answers™
Together we build a comprehensive financial plan for you, based on strategies around helping to generate cash flow, striving to grow and protect assets, and establish a legacy.

Real Progress®
Once your plan is in place, we continue to work with you, maintaining its dynamism to help keep pace with life's changes.