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Financial Planning Strategies

A Financial Planning Update

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When Your Spouse Dies: Taking the Helm

One of the most difficult experiences in life is the loss of a spouse. In addition to grieving the loss of your partner, you may also feel overwhelmed by the need to make important financial decisions that could have a lasting impact on your financial future. While no one can ever be completely prepared to deal with loss, especially when compounded by legal and financial concerns, there are steps you can take to ease the burden of additional stressors that you may encounter at this time.

Seeking Support

It is important to realize that grief affects everyone differently. Depending on your relationship with your spouse, whether you have children, your life experiences, your belief system, and many other factors, the grieving process can vary considerably from one person to another. There is no "right" way to grieve, and there is no time frame for recovery.

Some people find solace among others who have experienced a similar loss, such as a bereavement support group through a local hospital, place of worship, or community center. Others may find comfort and relief through work, exercise, a new hobby, or time spent with good friends. Reach out to those who have offered to help you. Whatever you do during this time, remember to take care of yourself and know that you are not alone.

Of course, certain matters will require your immediate attention, such as notifying family and friends; making funeral arrangements; and contacting your attorney to review the will and handle the legal aspects of your spouse's estate. Let your family, closest friends, and trusted advisors help you with these details and short-term decisions, but proceed cautiously with major financial decisions, such as selling your home, borrowing or lending money, investing, making major purchases, or career changes. Consider the following financial checklist:

- Obtain several certified copies of the death certificate. They will be needed when claiming death benefits from insurance companies, as well as from Social Security.
- Consult immediately with the family attorney, who will guide you through many of the legal and tax issues.
- File for death benefits. Call your local Social Security office, life insurance professional, and, if

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applicable, the Veterans Administration or the employee benefits manager at your spouse's employer.

- Find out about medical coverage. If you depend on your spouse's insurance, contact his or her employer and exercise your right to keep that policy in force. Learn the options for either converting or acquiring new coverage.
- Keep detailed records, tracking all of the money that comes in and goes out in the first month or two. This information will be needed to create a budget.
- Manage assets wisely. Postpone some financial decisions that are less important and can wait. Later, you may be in a better frame of mind to make additional decisions.
- Start with short-term financial goals, and then tackle the more complex decisions, such as whether or not to sell the home and how to manage assets over the long term.

Taking Charge of Your Finances

If your spouse was the primary breadwinner and managed the family finances, it may take time to assess your financial situation. Your attorney, financial professional, or even a family member or friend can help you sort through important papers and documents and create a financial strategy that will work for you. During the first few months, pay the outstanding bills and monitor cash flow and liquidity. Keep a running list of financial questions as they arise, and be sure to seek guidance and support.

As you begin to make decisions, there will be important issues that need to be addressed, such as determining your income needs, managing money on your own, re-evaluating insurance coverage, and continuing to meet the needs of your children. Some of your decisions will come easily, especially if they are based on financial need. Others may be based on what you feel is best for you and your family. Will you want or need to work? If you are currently employed, will you stay in the same position? If you have not worked for some time, will you need to acquire more education or enhance your technical skills? It may take time to feel comfortable making major decisions on your own, but you can consult with professionals for help determining the next steps you need to take.

Ideally, a family will have their financial affairs in order before a sudden loss occurs. However, life is unpredictable. Therefore, be sure to organize and safely file important papers, such as marriage and birth certificates, tax returns, retirement account records, insurance policies, investment and bank statements, and estate planning documentation. Should such circumstances arise, you or your loved ones will be better prepared. $

Disability Insurance — An Ounce of Prevention

Just think for a minute. What would you do if you suddenly became ill or injured and lost your income-earning ability? How would you pay your bills and daily expenses?

For most of us, this is not an everyday concern. We get up in the morning, go to work, and rarely consider the possibility of becoming sick or getting in an accident. However, if a disability were to prevent you from working for an extended period of time, how would you maintain your standard of living?

If you're employed by a large company, your employer may provide **group disability income insurance**. However, what if your company doesn't provide disability benefits or you're self-employed? In these cases, it's up to you to make sure you're covered.

One way of protecting yourself is by self-insuring, or keeping a *large* savings account. However, even if you save 10% of your salary each year, one year of disability could wipe out

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Should Retirement Be Hard Work?

Ah, retirement! Finally, there will be time to relax, free from financial worry. Many people think of retirement as a time to travel or pursue special interests—a welcome break from the 40-hour workweek. But without careful retirement planning, you may actually need to work harder and longer than you imagined during your so-called retirement years. It may be safe to say that, when it comes to retirement, the best-laid plans are made well before the traditional retirement age of 65.

Know Your Resources

How many times have you said, "I'll do that when I retire," expecting plenty of free time to pursue your passions after liberation from the 9-5 work schedule? But, have you considered the cost of not working? A general rule of thumb is that you may need 60% to 80% of your pre-retirement income to maintain your lifestyle during retirement. Careful planning now can help you maintain your desired lifestyle during retirement, as well as help ensure that you have the resources in which to do so.

For many, Social Security, employer-sponsored retirement plans, and personal savings are the primary sources of retirement income. It is important to recognize that Social Security was designed not to be the sole source of income for retirees, but merely one component in the overall retirement income package. Therefore, many workers rely on an employer-sponsored retirement plan to provide substantial income. However, both of these sources may need to be supplemented with personal savings to help provide enough income to meet your retirement goals.

Put Time on Your Side

Early retirement planning puts time on your side. It is never too early to begin saving and never too late to start. In fact, one advantage of early retirement planning is that you have a longer period of time before retirement, which allows a great opportunity to increase your savings through potential growth.

An equally important consideration for retirement planning is the reality of inflation, which can affect even substantial savings. For example, a modest 4% inflation rate, maintained over 15 years, reduces the purchasing power of $250,000 to $138,816. Starting early may allow your savings to outpace inflation.

Although it can be difficult to imagine a time when you will not have to be at the office or worksite each morning, the day may arrive sooner than you think. Therefore, begin preparing for retirement *now*—even if it seems a long way off. With time on your side, the best-laid plans may help ensure future financial well-being for you and your family. $

Disability Insurance — An Ounce of Prevention

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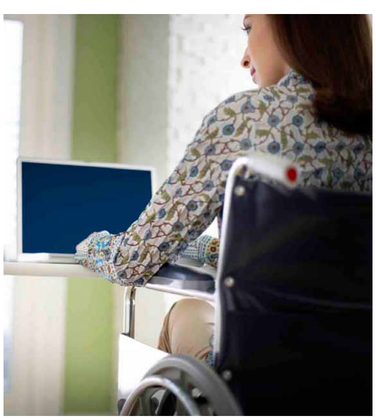
years of savings! You may qualify to receive **Social Security disability insurance** if disabled. However, the amount of Social Security benefits you would most likely be entitled to is, in many cases, less than the amount that would be required to help you meet your regular bills and living expenses.



One smart method of protecting yourself from the financial implications of a sudden disability is to own an **individual disability income insurance** policy. Such a policy would pay you a "paycheck" each month—after an initial waiting period—if you became sick and couldn't work. $

Can a Living Trust Replace Your Will?

When planning your estate, you may consider setting up a **revocable living trust**. A properly managed revocable living trust can provide unique benefits; however, it does not completely replace a **will**. In determining whether this type of trust is appropriate for you, it helps to understand the overall benefits and tradeoffs of this estate planning tool.

A revocable living trust is created during your lifetime, and you can alter it in any way, and at any time. One key feature is that it allows you to retain control of the management and distribution of your assets.

The Probate Connection

Many people establish a revocable living trust to avoid **probate**, which is the legal process of settling your estate. Assets distributed from a trust upon your death *do* avoid probate. However, the probate process itself is not as burdensome for many estates as in the past. Many states have adopted the Uniform Probate Code, which greatly simplifies the process for many small- to medium-sized estates.

But, even with these improvements, the probated assets in your estate still become a matter of public record, which may raise privacy concerns. Avoiding probate may also be appropriate if you own properties outside your state of domicile, which may involve multiple probate proceedings.

Once you set up a revocable living trust, you must transfer your assets into the trust. Failing to do so will subject your assets to probate. Simply signing a trust document *without* retitling assets renders your living trust useless.

Do I Still Need a Will?

The short answer is yes. Generally, a revocable living trust cannot entirely replace the need for a will. There are some assets you may not wish to place in a trust. For example, it may be impractical to transfer tangible personal property such as automobiles, furniture, and jewelry to a trust. Consequently, some of your assets will remain outside your trust, making a will necessary to name your intended beneficiaries of those particular assets. If you have minor children, a will may also be used to designate a **guardian** for them.

Other assets may require special consideration. For example, retirement plan accounts (Individual Retirement Accounts (IRAs), 401(k)s, and profit-sharing plans) cannot be retitled to a living trust, although you could change the beneficiary designation to the trust. However, naming someone other than a spouse as beneficiary of a qualified retirement plan often requires spousal consent, because in many states, spouses now have rights to retirement plan benefits. In addition, naming your trust, rather than your spouse, as the beneficiary of your qualified retirement plan may have income tax consequences at the time of your death.

Trusts and Taxes

Other benefits that properly funded living trusts may offer under the right circumstances include a possible reduction in estate taxes. Your legal professional can help you examine all the variables affecting your property—the *type* of assets (e.g., real estate, life insurance, bank accounts, savings, business interests, and personal property), *where* they are located, and *how* they are titled to determine if a revocable living trust can help you meet your short- and long-term estate planning goals.