EIGHT STEPS FOR WIDOWS TO FINANCIAL WELL-BEING

If you are reading this worksheet for widows because of recently losing your spouse, I offer my condolences. The loss of one's life partner is never easy in any regard. Most of the time, there's probably enough to deal with just from an emotional standpoint. But as you likely well know, life does not stand still and other matters, including finances, must eventually be dealt with. Having worked with and talked with so many widowed women, these eight financial steps are designed to help you preserve your financial security and reduce the emotional burden when taking on new financial responsibilities.

Step One: "Take stock" and get the benefits rolling

The easiest place to start in any new situation is by becoming familiar with your surroundings. You may or may not feel that this phrase applies to you. If you didn't have a role in managing the family money while your husband was alive, you may feel that handling your entire financial picture is a new, overwhelming responsibility. Since some spouses manage money together, or perhaps you were even the primary person responsible for your family finances, you may be feeling as if, financially, things are already familiar. However, have you ever gone on a drive somewhere that you've been to before but perhaps haven't visited in a long time? Often, when you do this, things can feel very different. Some streets and buildings may look the same, but perhaps the area has built up, or gotten run down, trees have grown, building colors are different. Your financial life now is often the same way. No doubt you are familiar with many of the financial instruments you and your husband had – bank accounts, CD's, investments, insurance. But your situation and your needs – your surroundings, so to speak – have totally changed.

To begin the process, it's important to "take stock" of your assets. Some of them may change – for example, life insurance policies on your spouse will pay out their benefit, pension plans may end or change form, and accounts in joint names will need to be retitled. Start by making a list of all of your financial accounts and their balances. Make a separate list of the ones that need changes. If you have life insurance, annuity contracts, or retirement plans, you will want to begin the process of finding out what these companies require in order for you to receive the financial benefit. Typically a phone call to the financial institution to let them know your spouse has passed away will be the first step you'll take. Most companies will require a certified copy of the death certificate, so you may need to request as many certified copies of the death certificate as accounts that need change. Most companies will also have paperwork from their institution you will need to complete. That first phone call to the institution should get the ball rolling and the necessary forms on their way to you. Do yourself a favor, though, and read all the way through these steps before you begin to execute them. There may be questions you are asked when you make that call to the institution, and the remaining steps will help you be better prepared.

Step Two: Realize that you are not newly rich

A common question you may encounter when making a call to a financial institution to claim a benefit or make changes to an account, is how you would like your benefit to be paid to you. You may have the option for the benefit to be paid out in cash, or paid to you in a monthly payment. It can be very important to do some planning before you make this decision, as the choice you make may have ramifications both on your cash flow and tax situation. One of the most important perspectives many widowed women have shared with me is that you must realize that you are not newly rich. Especially if insurance or retirement plans pay out a big sum of cash, it can be easy to feel as if you've become wealthy, or have lots of extra money to spend. Be very careful before you spend even a dime. Most of the time, those benefits were put in place to ensure that you have resources for the rest of your life. The key element in making sure those resources last is making sure they are around as long as you are alive.

Let me give you the example of Cindy* (all names have been changed). Cindy was widowed at the age of 52. She received about $200,000 between her husband's life insurance benefits and retirement plan at work. These dollars were paid to her in lump sums. All of a sudden, Cindy had $200,000 in the bank! She felt rich. She had never had that much money available to her in her whole life. She also felt that some new "stuff" might help ease her pain, and that of her two adult children. So, Cindy decided to do some shopping. She felt her daughter needed a new car, as did her son. Come to think of it, she needed one too. She bought them all with cash. She said to her daughter, "Let's go shopping!" And so they did. Within a couple of years, Cindy found that most of the money was gone. And then she began to realize – "what am I going to live on for the rest of my life?" Cindy worked, but knew she didn't want to work the rest of her life. Her own retirement savings were minimal. She really wished someone had sat her down two years earlier and made her realize that spending all of her money wasn't the right way to go.

To put your survivor benefits in perspective, add up all of the money you will receive as a result of the death of your husband. Then, calculate your family's previous annual spending. This can be done by taking the monthly budget and multiplying by the 12 months to get the annual figure. Or, if you don't know the budget figures, look at your last year's tax return to determine gross income. Divide the amount of money you will receive by the amount of money your family has been spending every year. The resulting number will tell you how many years the money you will receive will pay for. As an example, Cindy received $200,000 in insurance and retirement benefits. If her annual family budget had been $60,000 per year, Cindy would have found that her new nest egg would have paid for 3.33 years of life. ($200,000 / $60,000 = 3.33 years). This is a very simplified formula, and proper financial planning could perhaps make this sum of money supplement her life for more years than this calculation suggests. However, the point of the exercise is still relevant – when we realize that the $200,000 will only last Cindy for a little over 3 years if all it pays for is her monthly living costs, then we realize that she really hasn't become "rich". In fact, Cindy likely needs to be very careful with her money to make sure her future is going to be secure.

Step Three: Don't make any significant changes for 3 months

For the reasons just discussed, it can be very beneficial to not make any significant financial changes for three months after the death of your husband. You may receive more or less in benefits than our example of Cindy above. You may spend more or less than her on an annual basis, but the point is that even significant sums in the range of a million dollars or more may need to be carefully managed and allocated in order to protect your long term security. So that you can get comfortable with the new financial circumstances you are managing, or perhaps just the fact that you are managing the finances now for your benefit alone, allow yourself the time to get comfortable with your situation before you make any changes. If you receive cash settlements, you may want to place them in a money market savings account so that your funds are stable and drawing interest while you get emotionally and mentally adjusted.

Step Four: Beware new friends, family members, and financial gurus

It is sad to say, but you may not be the only one blinded by dollar signs by the financial changes that accompany being widowed. You may need to lean on people in your life for emotional support and counsel, which often provides them intimate details of your financial situation. If your husband's estate goes through probate, which occurs for any assets handled by a Will, or if your husband died without a Will, then these items become a matter of public record. It is an unfortunate reality of our society, but there are people that will try and take advantage of you, and it is not always a stranger. In the same way you might initially feel as if you are "newly rich", as we discussed before, your children, grandchildren, siblings, or other family members might have that same perspective. A family member in some financial trouble of their own might come calling asking for your financial support. Beware also of friends or family members with new business ideas, home improvements, or other big dollar items that they want you to help finance. This is not to say you should be permanently unwilling to help people you care about. Rather, it is important beforehand that you have an understanding of your own financial needs and a plan for how your finances should be structured to properly support you.

Let me give you the example of Mary. Mary was widowed at the age of 72. She felt she was left in generally good financial circumstances. She had a $1 Million dollar home, about $100,000 in stocks, and a pension benefit from her husband that would continue to pay her $2,000 per month as long as she lived. Mary decided to down-size her home, selling it and moving to a condo costing approximately $500,000. She determined that annually she needed about $80,000 to have the lifestyle she had been accustomed to. Mary felt that, with the sale of the home, the resulting $600,000 or so of assets she would have ($500,000 from the home sale and the $100,000 in stocks) was way more than she could possibly need. Unfortunately, Mary had forgotten to factor in realtor fees and taxes on the gains that had appreciated in her home over the years. So she wasn't actually going to have $600,000. Mary was going to have about $400,000 total. And of that $400,000, Mary wanted to take $80,000 of it and pay off her grandson's mortgage. Mind you, her grandson was 25, had a great job with good pay, and was married with a working wife. It wasn't until Mary understood how hard that $400,000 of hers was going to need to work to provide the significant additional income she desired, that she understood how detrimental it could be to give away almost one-quarter of that. As we mentioned, the pension Mary received would provide her $24,000 of her $80,000 annual dollars. But to get the other $56,000 annually, Mary's $400,000 nest egg would need to earn 14% annually* in order to provide the income. Most financial planning professionals would consider this level of return, needed annually, to be highly unrealistic.

*(assumes no depletion of principal so that the funds could generate the income over an indefinite period of time.)

<u>Step Five: Assess how life has changed, and what finances you need to support it</u>

Mary's situation above illustrates just how important it is to understand both your financial needs and your assets before making any optional financial decisions. In order to assess how life has changed, it's important both to make a new budget and to add up monthly income, since expenses, income, or both may now be different. Income changes can be far more impactful, so it is often easier to start there. What was the source of your family income? Was your husband working? If so, that income will end. Were there pension benefits from your spouse's former employment? Pension benefits can remain the same if there is a full survivor benefit option in place. However, if you and your spouse chose a reduced benefit, or no survivor benefit, then the pension may decrease or end. Social security retirement income may also reduce, since you will be entitled to widow's social security from your husband's benefits OR your own benefit – whichever is greater. However, if you and your spouse both drew social security, one of your benefits will end. Were there life insurance benefits to replace income or pensions? If so, it's important to look at how that money was to be put in place before beginning to spend the money.

It certainly is possible that expenses will decrease, but often they only decrease minimally. After all, how much did your husband eat or shop anyway? Some of your entertainment costs, or to use a more technical term – discretionary spending – may certainly decrease. However, fixed expenses such as the mortgage, utility bill, car payment, cable, and telephone will likely stay the same. You may eventually want to down-size your home, get rid of the extra vehicle, or cut other major expenses, but these things often take time to accomplish. Initially, for the easiest planning, you may want to assume that monthly household spending will remain almost the same. Over time you may be able to take these actions to reduce your household costs or spending obligations, but for your own emotional comfort, you may want to give yourself several months to make these things happen. Unless you find yourself in a situation where there are virtually no income benefits and your income has suddenly dropped drastically, time can be very helpful in working through these financial day-to-day changes.

Step Six: Estate planning as the answer to giving money away

Much like our example of Mary above, who felt it was very important to give part of her assets to her family, you may reach a point when leaving a legacy becomes an important priority to you. By all means, this is an important step to take. Once you have determined your own financial needs and resources, then you can prioritize getting your estate in order. It can be very important to meet with an attorney who specializes in estate planning to make sure you get familiar with the most appropriate strategies for your situation. While a lot of attorneys might claim that they can do estate planning, only those that specialize in it are likely to know the intricate tax and legal aspects that may pertain to your situation. If you needed brain surgery, you likely wouldn't want your family general practitioner to conduct that surgery, right? Same thing goes with a general practice attorney.

To provide a basic definition, estate planning provides for orderly transfer of assets to family, individuals, charities, or organizations that you choose. It can also minimize taxes, probate costs, and publicity associated with the legal process of transferring assets at your death. Perhaps most important of all, it can give you the comfort of knowing that your assets and personal effects will go to the people or institutions of your choosing, in a way meant to minimize the time involved in the process of getting them there.

When consulting with an estate planning attorney, be prepared to talk with the attorney in-depth about your own death and to whom you want to leave assets. It is helpful (and often required by the attorney) to bring a list of your assets and details about them so the attorney can have a meaningful initial discussion with you about estate planning strategies that may be appropriate. Be prepared also to candidly discuss any family issues, disputes, or inequities in your situation, as these discussions will help the attorney determine the pros and cons of different methods of planning specifically for you.

Step Seven: Be careful of doing things just because your husband did

When it comes to moving on with life, one important characteristic to avoid is making financial decisions just because your husband did them that way before. Sometimes I will meet with women who don't want to make any changes to their financial assets because their husband bought them. Now earlier I mentioned not to make changes for 3 months after being widowed, and that can be important to getting your bearings and being able to make well-thought out decisions. Once you get past that three month point, though, don't remain frozen in time financially. Our economy, companies, laws, and circumstances are always changing, and it can be important for your money to change along with them. Your husband may have had very good financial sense and skill, but if he were here to say what was most important to him, he would likely say your comfort and security is what matters more than any particular financial account or holding. Financial assets should not be like family mementos or photos. You need to actively manage and monitor them to make sure they are working well for you.

If your spouse worked with a financial professional, it is also important that you have a comfortable relationship with that person. Is this person someone that you feel comfortable with and trust? If not, it may be important to consider a change. Trust and mutual respect are both fundamental in a relationship in which someone gives you advice about your money. You need to be able to have the confidence that this person is giving you the best advice for your situation. If you don't feel you get this individual's best efforts, or if you feel pressured, interview other professionals to see if someone else better meets your needs.

Step Eight: Can you manage the finances alone, or do you need people to help you

If you or your spouse did not previously work with someone for advice on your financial situation, you may need to also ask yourself if you are comfortable making decisions about your new situation alone. If you are comfortable to do so, certainly there is nothing wrong with it. But if you find yourself nervous, uncomfortable, unsure of what to do, or procrastinating on making decisions, you may want to find help. Financial advisors can be consulted on an hourly, flat fee, or commission basis. Like any field of expertise, individuals have varying degrees of experience and differing fields of expertise. I find that, especially for women, one of the most important elements of working with a financial professional is finding someone you are comfortable with. Being able to communicate effectively is key to making sure that you and the professional are on the same wavelength. Feel free to have an initial meeting with one or more financial professionals to see if their experience and personality mesh well with your needs. Take a list of questions of information you want to know so that you can make a sound decision. Make sure the person you decide to work with is someone you feel comfortable with, and also someone you feel confident can do the job well – even if that person is you.

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