

FINANCIAL PLANNING

Surviving a Loss: Financial Planning for Widows and Widowers

By Mark Colgan

When an individual loses a spouse, their life dramatically changes forever. There is no handbook, process, or friend that can begin to understand what the surviving spouse is going through. But it is also a time when individuals should seek help if it is needed.

One area in which help may be needed is in understanding the financial transition process. During this time, a widow or widower will be overwhelmed, distracted, uninterested, and shortsighted in dealing with financial affairs. Unfortunately, the surviving spouse will also be faced with a mountain of financial details that arise quickly after the death of their loved one.

How can a surviving spouse regain control of their financial future during these difficult times?

The following article is a short guide through the financial transition process. It originally was written for financial planners to help them understand the needs of clients who have recently lost a spouse. But it easily applies to anyone who has recently lost a spouse, or who wants to help a parent or friend get through their loss.

—Editor's Note

Three Stages

There are typically three stages to a survivor's financial transition process:



- Handling funeral arrangements and other immediate issues.
- Dealing with financial transition and the business side of the deceased's life. This includes everything from collecting benefits to settling the estate.
- Rebuilding and moving forward with their own lives. The survivor may be making decisions on his or her own for the first time in many years.

The Funeral

Time magazine once reported in a cover story that people spend more time getting ready for a two-week vacation than they do preparing for their last two weeks on earth. If this is the case, survivors may experience "sticker shock" when facing the funeral costs of a loved one. This shock may be exacerbated depending on their stage of grief when these expenditure decisions need to be made.

According to the National Funeral Directors Association, the average funeral in 2001 cost \$6,130. The additional expense of a burial plot and headstone or marker (not provided through the funeral home) can easily boost the bill to more than \$10,000.

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Recommended Resources

Helpful Articles and Consumer Information

Survivor Assistance (author's Web site)
"My Personal Financial Diary," a 27-page booklet, is available free through the Web site.
www.SurvivorAssistance.com

The Bond Market Foundation
"Coping with Unwanted Change: A Guide to the Financial Decisions of Difficult Times"
www.unwantedchange.org

BenefitsCheckUp: National Council on Aging
To identify federal and state assistance programs for people ages 55 and over.
www.benefitscheckup.org

Federal Trade Commission
"Funerals: A Consumer Guide"
www.ftc.gov/bcp/online/pubs/services/funeral.htm

Last Acts Partnership/Partnership for Caring
Deals with end-of-life issues, and provides downloadable state-specific living wills and medical powers of attorney.
800/989-9455; www.partnershipforcaring.org

National Funeral Directors Association
www.NFDA.org

Government Agencies
Social Security Administration
800/772-1213; www.ssa.gov

Veteran's Affairs
800/827-1000; www.va.gov

Internal Revenue Service
800/829-3676; www.irs.gov

Funeral homes are required by the Federal Trade Commission (FTC) to offer a "general price list," which is a comprehensive listing of services and their related costs. Although not publicized and seldom mentioned, this list must be provided to anyone upon request. No matter what suggestions or "recommendations" are provided by the funeral home, the survivor should always request this list so cost and ser-

vice comparisons can be made. (Detailed information on this regulation can be found at the FTC's Web site).

Next, you can help the survivor determine if their loved one's Social Security or veteran's benefits can be used toward funeral expenses. Social Security, for example, will pay \$255 toward funeral expenses to a surviving spouse who was living with the decedent at the time of death. Veteran's benefits, such as reimbursement of burial plot expenses, may be available if the deceased served in the military.

Also, be sure the survivor obtains 10 to 25 death certificates from the funeral director or health department. These will be invaluable in the next stages of the process.

Financial Transition

After a loved one's death, survivors must face the reality that life continues, even though it may seem their world has stopped. That new reality means survivors may have to take on certain financial responsibilities for the first time. Survivors can get through this challenging stage of financial transition by following six steps.

Step 1: Organize

Being organized helps survivors avoid missing deadlines or misplacing important documents amid the upheaval that typically accompanies the loss of a loved one. Survivors can be overwhelmed by the mountain of paperwork from insurance and mortgage companies, creditors and banks, the deceased's employer, and many other businesses. Such correspondence can mount up quickly and survivors simply may not be able to handle it all at once.

Encourage the survivor to start a basic filing system. Whether they use folders or large manila envelopes in a filing cabinet, or piles on a dining room table, the point is to have them retain these documents in a designated place and create a system for quick and easy retrieval. Suggest Post-It notes or bright labels to clearly mark due dates.

Step 2: Find an Attorney

In most cases, the survivor will benefit by obtaining legal counsel. As with any advisory relationship, choosing the right attorney is critical. [See the accompanying article on page 9 for more on finding an attorney.]

Step 3: Align Investments for Sufficient Liquidity

Ensure that the survivor arranges financial accounts to be sufficiently liquid, especially during the months closely following the decedent's death, as the payment of insurance benefits may lag behind the survivor's financial obligations.

At this time, check to see if the deceased had investments with death clauses:

- Certificates of deposit carry an "estate feature" or "death put" allowing for immediate termination at face value without penalty.
- B-share mutual funds waive contingent-deferred sales charges upon death.
- If the deceased owned any variable annuities, this is an opportune time to find out if the contract's death benefit is greater than its current market value.

Step 4: Review and Collect Benefits

Determine if the survivor is entitled to death benefits from any sources and, if so, have the survivor apply for them as soon as possible.

Social Security benefits. Social Security benefits are paid to survivors, survivors' children and other family members. The survivor should file a benefits claim by contacting the nearest Social Security office as soon as possible. While the funeral director usually notifies the Social Security Administration, that notification is not a formal claim for benefits. Have the survivor call or, if necessary, make the call for them to the Social Security Administration.

When applying for Social Security benefits, the survivor will need:

- The birth and death certificates of the decedent,
- Marriage certificate,
- Birth certificate of any dependent children,
- Social Security numbers, and
- Copies of the decedent's most recent federal income tax return.

If the decedent paid into the Social Security system for at least 40 quarters (10 years) and was eligible to receive Social Security, two types of survivor benefits are available: a lump-sum death benefit of \$255 toward burial expenses, and survivor income benefits.

Survivor income benefits are for a qualifying spouse or the decedent's children. Qualification depends on age, whether there are dependent children and if the surviving spouse is disabled. The amount a survivor is eligible to receive is based on their deceased spouse's earnings. The more the spouse paid into Social Security, the higher the benefits to the survivor. The following are eligible for such benefits:

- A widow or widower—full benefits at full retirement age (between age 65 and 67), or reduced benefits as early as age 60.
- A disabled widow or widower—benefits as early as age 50.
- A widow or widower at any age, if they care for the deceased's chil-

dren who are under age 16 or disabled and receiving Social Security benefits.

- Unmarried children under 18, or up to age 19 if they are attending high school full time; under certain circumstances, benefits can be paid to stepchildren, grandchildren or adopted children.
- Children at any age who were disabled before age 22 and remain disabled.
- Dependent parents age 62 or older.

Survivors who are eligible for these benefits may continue to work. However, depending on their age, the benefits could be reduced if they earn more than certain amounts. For detailed information, read the Social Security Administration booklet, "How Work Affects Your Benefits," publication number 05-10069 [available at www.ssa.gov].

Life insurance benefits. Life insurance often provides survivors with their single biggest financial benefit. Depending on the benefit amount, it may determine whether they must sell their home or return to work.

In addition to personally owned policies, have the survivor check the following sources for possible life insurance benefits:

- The decedent's employer and previous employers.
- The survivor's employer for "spousal" life insurance.
- Lenders—insurance may exist through companies providing mortgages, loans or credit cards.
- Social organizations—Many social organizations, professional associations and unions have group life insurance plans for members that provide special benefits for surviving spouses. For example, if the deceased was a member of a teacher's union, it may be possible that he or she owned a group life insurance policy.

There are several different ways a survivor may receive their benefits:

- Lump sum: They receive the entire death benefit in one check.

- Specific-income provision: Using this option, the life insurance company will pay principal and interest on a predetermined schedule.
- Life-income option: Under this option, survivors are guaranteed income for the duration of their lives. The income amount will depend on the policy's death benefit and the survivor's age.
- Interest-income option: This option means that the life insurance company will hold the proceeds of the policy and pay the interest earned. If a survivor chooses this option, the policy's death benefit will remain intact and will be paid to a secondary beneficiary upon the claimant's death.

Let this process serve as a reminder: The survivor needs to update the designated beneficiaries named in their own life insurance policies (and IRAs) if the deceased was listed as the beneficiary.

Employee benefits. Have the survivor contact all former employers of the decedent to collect potential employee benefits. The human resource department can tell them if the company has a policy of paying out any vacation time or sick days that the decedent accrued while working.

Retirement benefits. Upon the decedent's death, the answers to who gets the retirement monies, and when, can be complex. The options under IRA rules depend on the type of beneficiary. Generally, a beneficiary will fall into one of the following categories: spouse, non-spouse or other entity (such as a trust). Furthermore, the age at which the IRA holder died (before or after the required beginning date) may result in different distribution options for the beneficiary.

Among the options, the one often overlooked is that of the surviving spouse who is under 59½ years of age and requires extra income. In this situation, the individual should consider lifetime distributions via an IRA-beneficiary distribution account. The IRA would be titled in the name of the

survivor as beneficiary of the deceased's IRA. Distributions prior to age 59½ would still be taxed as ordinary income, but would not be subject to a 10% federal income tax penalty because there is a 72(t) exception for death. The spouse could also roll over or transfer the inherited IRA into his or her own IRA.

In the event of multiple beneficiaries, the IRA distribution strategies become more complex. Upon the IRA owner's death, the age of the oldest beneficiary must be used if any beneficiary chooses to take distributions over their lifetime. This prevents the younger beneficiary from using his or her life expectancy and extending IRA payments over a longer period. But as with many rules, there is an exception. Beneficiaries do not become "designated" or recognized for the purpose of distributing IRA assets until September 30 of the year following the IRA owner's death. This exception potentially allows younger beneficiaries to capitalize on their age if older beneficiaries choose other options.

The distribution options under a qualified retirement plan may be different. Some plans offer no choice and pay distributions to the beneficiaries all at once. To be certain of the distribution options, obtain and read the employer's retirement plan document.

Employer-provided health insurance. One of the biggest financial worries for survivors is maintaining health insurance. A widow or widower is eligible for COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) health coverage if their spouse was employed at the time of death and was covered by the company's health insurance plan. COBRA covers the deceased's enrolled eligible family members for up to 36 months after the spouse's death. Survivors must still pay the premiums for the plan, but they will not have to find, qualify for and pay for a new health insurance plan right away.

Instead of electing COBRA/continuation coverage, surviving spouses

may wish to consider conversion options. Conversion allows surviving spouses and their dependents to convert to individual policies directly with an insurance provider, rather than through a group plan, without a medical exam. In other words, conversion covers anyone who was previously covered under the plan. Such policies may also cover pre-existing conditions, but must be established within 31 days of the date on which continuation coverage expires. But converting a policy can be expensive, so compare the cost with that of an individual policy. Also, selecting a conversion option means COBRA/continuation cannot be used later.

Lastly, survivors should ask the deceased's employer if the deceased had a medical-care "flex" or reimbursement account. If so, claims should be filed for any outstanding medical bills incurred by the deceased. If this benefit is not used by the end of the year, the money is usually lost.

Veteran's benefits. If the deceased served in the military, have the survivor contact the Department of Veteran Affairs to obtain a copy of the military discharge record. This will determine whether the survivor qualifies for survivor's benefits.

A qualifying survivor could be eligible for reimbursement of burial plot expenses, pension payments and education assistance. Whether surviving family members are paid such benefits will depend on a number of factors, including whether the veteran died from causes connected with military service, whether he or she served in wartime or peacetime, and whether the discharge was honorable or not. The surviving family's financial circumstances are also a consideration.

Again, to check on benefits, survivors can call the U.S. Department of Veteran's Affairs (VA), or visit their local VA office. If there is no local VA office, they may contact local veterans' organizations such as the Veterans of Foreign Wars or the American Legion, or even the American Red Cross. The

VA will need a veteran's claim number (called a "C" number) or a copy of the Certificate of Discharge from military service (DD Form 214), a military service number or branch of service and dates served. In addition, a death certificate, marriage certificate(s) and birth certificates for children may be required.

Step 5: Review Assets and Liabilities

Before paying any bills or distributing any assets, survivors should review all of the deceased's assets and liabilities. This will give them a better understanding of what they have to work with and what needs to be addressed.

Survivors should evaluate the deceased's financial accounts, retirement accounts, investments, real estate, notes receivable and any "hard assets," such as automobiles, boats, RVs or other vehicles. The status of each should be assessed, including what needs to be done to transfer ownership. As always, before taking any action, survivors should seek prior approval from their attorney to be sure the particular action does not contradict any post-mortem planning, such as the disclaiming of assets.

On the flip side, the survivor also will need to review the decedent's debts or liabilities. Mounting unpaid bills may cause anxiety for a spouse, but there are definite rules for how and when to pay bills held in the sole name of the deceased. It is imperative to sort through the pile, pay appropriate bills and conserve the assets of the estate.

The survivor should not be in a rush to pay off the deceased's bills. In particular, they absolutely should not pay off the deceased's debts from their own funds, since the estate is responsible for satisfying the debts of the deceased.

In most states, the available funds first pay for funeral expenses, then attorneys and lastly creditors. If the estate runs out of money before the creditors (including hospitals) get paid, the survivor may not have any further financial obligations. In most cases, the survivor should consult with the relevant attor-

Finding an Attorney to Help Settle the Estate

You may already have an attorney to work with in processing the will and estate. If not, you may need to find legal representation. Choosing the right attorney is critical. Many lawyers, especially the good ones, don't do a lot of marketing; they attract clients by word-of-mouth. To find these attorneys you'll have to tap into their network of clients and colleagues. You might, therefore, consider the following search methods:

- 1) **Ask other professionals:** Ask attorneys and accountants you work with to recommend estate attorneys they know and trust.
- 2) **Ask friends or relatives whose judgment you trust:** This can be a good source for referrals, but exercise caution as they may not be the best judge of a professional's actual work, especially in complex legal matters. You don't want a bad lawyer with a charming personality.
- 3) **Search legal directories:** Search an on-line version of the Martindale-Hubbell directory, the best-known directory of attorneys in the U.S. You can search by legal specialty and geographic location. If you don't have Internet access, check at your local library.
- 4) **Call your local bar association:** Go to the American Bar Association's Web site (www.abanet.org) and click on your state. A list of lawyer referral sources will pop up. Focus on those referral sources that meet the bar association's standards. This means that they operate solely in the public interest and do not charge extra for the referral.

When you are searching for a suitable attorney, make sure you consider the following:

- 1) **Check for area of specialization:** Martindale-Hubbell, the legal directory publisher, identifies four specialties that relate to financial planning:
 - Trusts and estates: Includes estate planning and preparation of wills, trusts and other planning documents.
 - Wills and probate: Most attorneys in this category do one or both of these. Transactional lawyers handle the administrative side of probate while probate litigators represent clients in fights over who gets the estate.
 - Eldercare: This rapidly growing area of law specializes in the needs of older people.
 - Family law: These attorneys handle divorces and all matters relating to children including adoption, guardianship, child custody and child support. They also do prenuptial agreements.
- 1) **Consider the attorney's fees:** Some attorneys may charge by the hour, while others will charge a percentage of the value of the estate. In some cases, a paralegal may be responsible for doing much of the paperwork and will have a different billing rate. You should inquire about the specific division of labor and the related costs.

—By Mark Colgan

neys before paying off any bills. Also, they need to pay close attention to any obligations tied to a contractual arrangement. For example, car leases and cellular phones may have a death clause allowing the survivor to escape any responsibility.

Step 6: Settle the Estate

Once assets are determined and bills are under control, settling the deceased's estate will be the next concern. While it is recommended and often common practice for survivors to hire an attorney for guidance in settling the estate, it is not mandatory. If the estate is small and uncomplicated, it may be

possible to handle the estate administration without legal assistance. In New York, for example, estates of less than \$20,000 that do not contain real estate can be processed through Surrogate's Court for about \$1. Quite simply, the executor should become aware of his or her responsibilities.

Should the estate be large enough to be taxable, the estate tax return is due nine months after the date of the decedent's death, assuming there are no time extensions. As a general rule, every asset owned by the decedent in his or her gross estate is valued at its fair-market value. The personal representative can choose the valuation date:

the decedent's date of death, or the alternative valuation date of six months later if the alternative date produces a lower valuation. The alternative valuation date election is allowed only if it lowers the decedent's tax liability. Whatever date is selected, it is irrevocable and will apply to all assets in the decedent's estate. If the six-months-after-death date applies and property is sold, distributed, exchanged or disposed of during the six-month period, it is valued on the date of the disposition, rather than on the alternative valuation date.

During the time that a decedent's estate is being processed, the survivor

Financial Planning: Moving Forward

If you are recovering from a spouse's death, what kind of financial plan should you follow?

During this time, you should keep your goals and objectives *simple*. Focus on the short term. A person who has just lost his or her life partner is emotionally vulnerable. Instead of attempting to plan your finances for the next 20 to 30 years, take it one step at a time and focus on what is necessary for the next 12 to 15 months.

Cash flow will probably be your immediate concern. More liquid assets, such as money market funds, are usually needed in the months following a spouse's death to take care of any unforeseen expenses. This should be the focus of any financial changes you make during this time. Importantly, you should not make any major financial decisions for at least one year following your spouse's death.

Once you feel more emotionally and financially in control, you may want to get your own affairs more in order. Dying is one of the few certain events in our lives, yet it is also something most of us are not willing or likely to plan for. But if you get your affairs in order today, you will leave your survivors with fewer things to worry about.

Draft or Modify Your Will

If your spouse was the first beneficiary to inherit under your will, you must designate a new one.

Draft a Living Will or Healthcare Proxy

These are advance directive documents that present your wishes for treatment and care when you are unable to do so. [Downloadable documents are available from Last Acts Partnership.]

Adopt a Durable Power of Attorney

A power of attorney will authorize someone else to handle your financial affairs if you are unable to do so. [A document is available from Last Acts Partnership; see Resources.]

Pre-Arrange Your Funeral

Make and prepay funeral arrangements, and write down details about how you would like your service to be carried out. This will ease the burden on your survivors and close friends and deter possible confusion over the arrangements.

Identify Beneficiaries/Owners When Possible

Assign assets to individuals by naming them as beneficiaries where possible. You can name beneficiaries to your life insurance policies and retirement accounts. For non-retirement accounts, check to see if a Transfer on Death or Payable on Death contract is available, which allows you to name a beneficiary as you would on an IRA. At death, assets with designated beneficiaries will transfer directly to them without going through probate.

Draft or Revise Your Estate Plan

Estate plans that were devised for

a married couple must be revised to reflect your new financial situation.

Consider Organ Donation

Often this is overlooked or an intention that is never acted upon. Should you decide to participate, make sure to sign your driver's license and notify your attorney in writing.

Notify and Document Your Wishes

Prepare a letter of instruction for your executor, trustee and beneficiaries to let them know your wishes and the location of your will and other important documents.

Create a Comprehensive Personal/Financial Diary

Organize all the necessary information your survivors would need to settle your estate:

- people to be notified,
- important business/personal contacts,
- personal documents/information,
- list of all employment benefits,
- list of all bank and investment accounts,
- medical and disability insurance,
- credit, debit and ATM cards,
- tax return location,
- your living will or healthcare proxy, and
- special final requests.

[You can fill out this information in "My Personal Financial Diary," a 27-page booklet available from the author—see his Web site at www.survivorassistance.com.] ▲

—By Mark Colgan

should make certain that the estate is being protected. This includes checking to ensure that any property is properly insured and titled.

One Final Word

It is natural for survivors to want quick closure on their deceased's affairs

as it eases their burden of grief. But it is important that they know this extensive six-step process may realistically take months or years to complete. ▲

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