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Money Management

Coping with the Financial Challenges of Losing a Spouse

When you lose your spouse, evaluating your finances may take a back seat to more pressing concerns. But even amid the grief and emotional turmoil that accompanies the death of a loved one, it is important to assess your financial and legal situation to avoid making any serious mistakes in the days and months following your loss, and to ensure that you and your family have the necessary resources in the years to come.

Now Is the Time to Learn

If you have been involved in managing your family's finances, the task of preparing for the future will be easier than if your spouse primarily handled the family finances. If you don't know the details of your assets and legal arrangements, now is the time to learn.

Begin by gathering all documents relevant to your financial situation, including insurance policies; bank, credit card, and investment statements; mortgage documents; tax returns; government retirement benefits; and any pensions and other employer-provided benefits. If the paperwork is substantial,

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Reaching Retirement

Ah, retirement! You are now armed with the hard-earned wisdom of the years and are anticipating what the future will bring. After the retirement party is over, you may feel aimless and unsure of what lies ahead. Rather than viewing retirement as an ending, why not consider it an unparalleled opportunity to pursue new and exciting possibilities?

Many people, either out of necessity or choice, have made work the focal point of their lives. Indeed, high achievers and "workaholics" typically have little time for anything but work. But, even for those for whom work is not all-consuming, its role in building and maintaining self-esteem mustn't be underestimated. It may take some time for you to realize it, but multiple avenues of possibility do exist for a fulfilling life outside of work. It's time to look forward to exploring those opportunities.

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Insurance Protection for Life's Key Stages

Whether you are just starting out, in your peak earning years, or enjoying retirement, your insurance protection needs may change. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families to examine their particular insurance requirements and plan for their unique needs.

Starting Out

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can help provide a continuing source of income, pay off a mortgage, or help fund a child's college education.

The Peak Earning Years

Between the ages of 35 and 55, a family's assets may increase, thus changing their life insurance needs. At this point, individuals owning **term policies** may wish to convert to **permanent insurance**. Permanent insurance offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that any policy loan that is outstanding when the insured dies will reduce the policy's death benefit amount.

Another concern during this period is protecting one's ability to earn income. According to the Life and Health Insurance Foundation for Education (LIFE, 2009), before the age of 65, roughly three in ten Americans will sustain a disability that lasts three months or longer. It is important to plan ahead with **individual disability income insurance**, the proceeds of which can help replace part of the insured's income should he or she sustain a disability.

Some life insurance policies offer a rider called a **waiver of premium**. With this additional coverage, if the insured becomes disabled, the insurer will pick up the cost of the premiums with no repayment required. Thus, the insured's life insurance coverage won't be affected. There may be an additional cost associated with the rider.

Nearing Retirement

As retirement approaches, generally between the ages of 55 and 67, those with assets in excess of $3.5 million (in 2009) may want to prepare for estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the trust provides tax-free funds to help cover the estate tax liability.

The Retirement Years

Upon retirement, there will probably be different concerns. Personal assets that have taken years to accumulate could be quickly depleted should an individual or loved one require long-term care (LTC). Although Medicare generally begins at age 65, it does not cover most long-term care services. Because it is a government program designed to help those in financial need, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for assistance. Once an individual has depleted his or her savings and assets have been reduced, he or she may qualify for nursing home care under Medicaid. **Long-term care (LTC) insurance** may help cover the cost of long-term care expenses before you, or a loved one, becomes eligible for Medicaid.

Appropriate insurance can provide peace of mind throughout life's key stages. By understanding the concerns that are common at each life stage, individuals and families may be in a better position to plan appropriately. *MM*

Coping with the Financial Challenges of Losing a Spouse

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you may want to create a filing system to help organize the various documents.

Read the documents carefully, taking notes and writing down questions as they arise. You may want to create a balance sheet listing assets and liabilities, as well as a cash flow statement detailing your income and expenditures over the course of a year. Your financial professional can be a valuable resource throughout this process.

Consider Your Decisions

On some matters, immediate action will be required. As soon as possible after the death of your spouse, apply for any life insurance, public benefits, or veteran's benefits to which you are entitled. If your family's health insurance coverage was through your spouse's employer, you may be able to retain those benefits for a period of time. If your health coverage has been discontinued or has become too expensive, explore alternatives to avoid becoming uninsured. Some group health plans may allow surviving spouses and their dependents to convert to an individual policy without undergoing medical exams.

If you have inherited money or received substantial proceeds from an insurance policy, there are important long-range decisions to be made. Avoid the temptation to spend or give away the money until you have carefully considered your future needs and the tax implications of your gifts. Even if you are retired, you may want to manage the funds so that they generate income to support you over time. If you have minor children, you may want to consider ways to fund their education.

Older widows and widowers are often faced with the decision of whether or not to keep the family home. If the home is larger than you require, selling is an option. Buying a smaller home or condo in a retirement community may not only be a smart financial move, but it could also give you a fresh start and the opportunity to make new social contacts.

Review Your Own Plans

This may also be the time to delve more deeply into the estate planning process. Review your will to ensure that it reflects the current state of your assets and your desired distribution to heirs. Your attorney may recommend a trust as a means of accomplishing your estate planning goals. While they can be complex, trusts are powerful tools that can help you handle a variety of family and tax-related issues. Consider, too, the role of life insurance in your estate. You may find that you need additional life insurance coverage, not only to provide for your beneficiaries, but also to help cover Federal and state estate taxes.

While it is necessary to make certain financial decisions following the death of a spouse, give yourself time to heal before making any major decisions—possibly as long as a year or more. Until you are certain of your choices, it may be best to leave inherited assets in savings or money market accounts. Then, with the help of financial, tax, and legal advisors, you will be in a better position to design a plan that will provide a secure future for you and your loved ones. *MM*

Reaching Retirement

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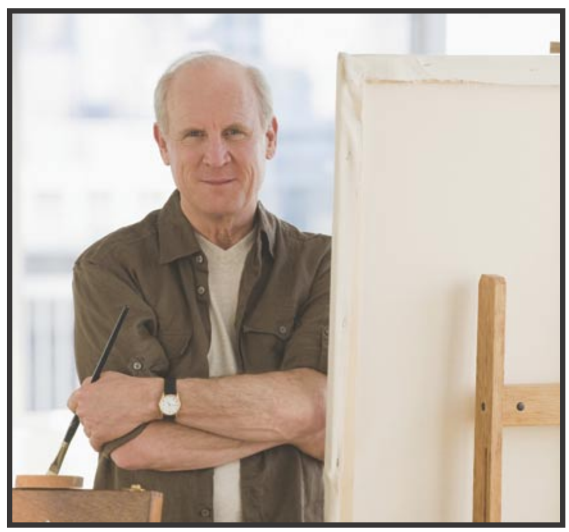
Retirement offers the perfect chance to seize the day and set new life goals. You may now have the freedom to diversify your activities and do things that may have once seemed impossible. Some people may enjoy charitable work, while some may wish to pursue hobbies and other activities of interest. Still others may prefer RV travel or cruising to exotic ports of call.

Your retirement lifestyle might look something like this: part-time work to fulfill productivity needs; charitable work to give back to your community; adult education to rekindle the joy of learning; and sports and exercise for fitness and fun.

Is such a lifestyle really possible after retirement? The answer may depend on how well you have planned financially. Review your present financial situation. Start by assessing your income and assets versus your expenses and liabilities. If your debts exceed your assets, develop a plan to pay down your debt to avoid facing it while in retirement.

Perhaps you have some savings but wonder if they will be enough to provide for all of your needs and wants in retirement. If that is the case, start by projecting your retirement funding needs and then determine the amount you must begin setting aside monthly and yearly to close the gap between that goal and your current assets. When projecting your expenses in retirement, it's important to consider inflation. In addition to creating higher costs for goods and services, inflation creates depreciation in currency values; in other words, more dollars are needed to purchase the same amount of goods and services. As time goes on, one of your greatest financial challenges will be making sure that your savings exceed inflation.

Retirement presents you with the golden opportunity to live your life around your interests and your desires—instead of around a job or a career. Figuring out what you want to do may be challenging, but it can also be enlightening. Your horizons are limited only by your imagination. Shakespeare wrote of the "many stages of man," and while retirement may be "just another phase" to some, it may open the door to infinite possibility for others. Opportunities are everywhere. Sometimes, the world looks different when viewed through a new window! *MM*



A Parting Thought...

What's your bottom line? Calculating your personal net worth can help you get a better sense of your overall financial picture, as well as develop money management strategies to meet your long-term goals. To figure out where you stand, simply subtract what you owe **(liabilities)** from what you have **(assets)**. Your assets include everything you own, from the cash in your checking account to the equity in your home. Your liabilities represent the amount of debt you carry, from the unpaid balance on your credit card to your mortgage. A positive net worth means you own more than you owe, while a negative net worth means you owe more than you own.