FAMILY FINANCIAL EDUCATION FOUNDATION

DOLLARS & SENSE

EDITION 11, VOLUME 6

Unexpected Occurrences: Protecting your loved ones, assets, and finances

Death is not only a scary topic that's difficult to discuss; it is entirely unpredictable. With no way of knowing what may happen to you or your spouse, preparing your finances now could save your family a lot of time and stress later. Upon the unfortunate circumstance in which either spouse passes away, falls ill, or becomes incapacitated, there are tough decisions to be made. Actions often must be taken within just a few short weeks. By being prepared for the unexpected and keeping your spouse on the same page, you can ensure your family will be financially stable during an emotionally painful time.

The importance of both spouses being informed on household finances

In many marriages, spouses tend to split up household duties amongst themselves, sometimes resulting in one spouse completely in charge of the finances. While there's nothing wrong with sharing the work together, it's imperative for both spouses to have knowledge of the other's responsibilities. Often, there are questions and concerns about finances that spouses don't think to talk about until it's too late.

This doesn't necessarily mean both spouses need to be in charge of paying the bills, but both should at least have an understanding of the basics to ensure that if the need arose, your family would be able to function and know how to get help if needed.

How to organize finances for easy transparency

Keeping everything together in one safe place, clearly organized, will ensure both spouses know where all relevant legal documents are at all times. You might think the filing system you use couldn't be more organized and that your important documents are in an obvious location, but your spouse may not.

There's a good chance that while much of your information may be printed and stored, there is often even more information stored in your memory, or on your computer as you probably manage a portion of your finances online.

Without access to your email, which receives monthly statement reminders, your partner probably doesn't know how to access your online accounts, and may not know which banks or other financial institutions you use; not to mention the bills you pay or the investments you may have.

Steps to begin organizing and efficiently manage your finances together

Talk about money

Do you know how much your spouse makes each year? Many couples don't. Knowing your partner's salary may seem like a minor detail, but

(Continued on page 2)

Unexpected Occurrences (continued from p.1)

it's important that both of you have a clear picture of the household's finances, savings, investments, etc.

Because people tend to complete tasks more successfully when they understand the purpose of what they're doing, tell your partner why you place your savings in a certain account or why you pay for certain things your partner may not understand.

For example, if your spouse doesn't know what long-term care is, they may not understand why you're paying for a long-term care policy on your mother's behalf. They may find it unimportant and cancel the policy. It is imperative that you explain what everything is and why it's important.

List financial accounts

Your partner may know a lot about you and maybe even be able to finish your sentences, but they may not know where you keep sensitive information. Chances are you have a number of financial accounts such as checking, savings, mortgage, credit cards, investments, 401k, IRA, etc. Make sure you know which accounts you each have and how to access them if needed.

Create a spreadsheet with account information

Creating a document that has all accounts and account numbers is an excellent way to keep track of your current situation and provide pertinent information to your partner quickly. Doing this can also help you manage your household budget and lay the foundation for any investment decisions that you may need to make later in life.

A spreadsheet will also help you get organized by taking an inventory of all the accounts you both have. Just make sure you keep the list secure, as you wouldn't want just anyone to be able to access it.

Give your partner access to everything

Just knowing that individual accounts exist won't be enough. If you want your partner to be able to take charge when the need arises, you'll have to give them full access to all accounts. It's important to get your partner a set of keys to any safety deposit boxes, give them the code to your safe, or let them know which tree in the backyard you buried money under. Also, make sure he or she can access any computer files you may have and all online accounts.

Set an account beneficiary

Having a beneficiary for retirement, investments accounts, and insurance policies is important also, as these accounts will pass directly to the beneficiary designated on your account. This will generally supersede any instructions in your will, so it's important to keep this information updated.

Make sure your partner is named either an account holder or the primary beneficiary for major accounts, life insurance policies, and any property owned. This will help avoid possible legal complications in the event of death. Naming and updating beneficiaries on financial accounts is not difficult, and most financial service providers will even let you do it online.

Retirement accounts: Beneficiaries can be named on retirement accounts such as 401k's and IRA's. If you're married, some employer-sponsored retirement plans will automatically designate your spouse as the beneficiary unless you choose to name another and your spouse has consented in writing. Checking with your company will ensure you're up-to-date on their policies.

Non-retirement related accounts: Naming beneficiaries on a non-retirement bank account or brokerage account could establish a "transfer-on-death" (TOD) registration for the account. Essentially, it allows the account ownership to be transferred to a designated beneficiary, which you've already named, in the event of your death.

Know where legal documents are

It's also not uncommon for couples to place important documents in separate places. Designate a particular place for important legal documents that both spouses can easily access to find what they need quickly and efficiently. Documents like tax returns dating back two years, marriage and birth certificates, social security cards, insurance policies, wills, trusts and health care proxies are some of the things both partners need to know how to find.

You can either store your documents in your attorney's office or a fireproof place such as a bank safety deposit box or in-home fireproof safe, anywhere that someone close to you can access in the case of an emergency. Secure virtual safes can also help in storing copies of important documents and other digital information like passwords, accounts, financial statements, estate planning, wills, and more. You could even store electronic information as an encrypted, password-protected file with a backup copy in a separate location.

Using logins and passwords that only have meaning to you and your partner will also help keep your information safe and secure. This way, your written list of important, delicate information can consist of prompts or reminders for your login usernames and passwords instead of the complete codes. For instance, one of your passwords could be the location where you first met followed by the date you acquired your pet cat. In this instance, the prompt could be "first met + cat bday". No one else would likely know information like this, keeping your information more secure if someone were to stumble across your list.

The importance of a will or living trust

You've worked hard for your money and everything you own. It's only natural that you'd want some control over what happens to your assets after your death. Preparing a will can help make sure your family is taken care of, will dictate who gets what, and outline how your expenses will be paid. With a little preparedness, you can rest assured that everything will be taken care of completely.

While it's obvious that you should have a written legal document that will distribute your assets at the time of your death, the question becomes whether you should have a living trust or a will. For some, a living trust is beneficial, useful, and practical but for others, it may be a waste of time and money. Let's discuss the difference between the two

A will is a written document that is signed and witnessed, indicating how your property will be distributed upon your death and it allows you to appoint a guardian for your children that are minors. It can be altered and changed at any time during your life and can also include information such as instructions for your burial or cremation or any other wishes you have as long as it doesn't involve breaking the law.

It does not have to be written on special paper or use a lot of legal jargon. A will is valid as long as it was made when you had the presence of mind, and you weren't put under pressure to write or change it. Generally, a will is signed and dated by you in the presence of at least two independent witnesses, none of which can be people who will inherit anything from you.

A living trust, on the other hand, provides lifetime and after-death property management. If you are serving as trustee, the trust will provide for a successor if something were to happen to you, whether that's death or incapacity. Because living trusts are also used to manage property, if you become disabled due to an accident or illness, the successor trustee can manage the property. Court intervention is also not required, which can help you completely avoid added expenses, unwanted publicity, and the inconvenience of a court-supervised distribution of your estate. A properly written living trust will help you avoid probate on your assets, plan for the possibility of your own incapacity, have a say in what happens to your property after you're gone, and prevent financial affairs from becoming a matter of public record.

A living trust is typically more expensive to set up than a will because it must be actively managed after its creation. It will also be useless unless it's funded. Funding a living trust means moving over any assets, titles, and beneficiaries into the name of the trust (rather than you individually). A trust will only control the assets you have placed into it. Any assets that have not been transferred to the trust are not funded, and the trust will not be beneficial. Keeping your will or living trust, updated is as important as it's creation. Be sure that your will or living trust reflects all the latest info and current wishes you have.

(Continued on page 4)

Items to consider when writing a will:

There are a number of sites online where you can download free or relatively inexpensive templates for writing a will – and they have step by step instructions on how to customize them for your use. Find one that is specific for your current state of residence. However, just using a piece of paper to write down your end of life wishes is also considered acceptable – although not as secure. Unless you have a lot of assets in your estate you can just sign and date the will and keep it in a safe place.

If you want additional validation you can sign it and have it witnessed and notarized. Be sure to make copies to keep in a safe place, and if possible tell someone where to find it in the event of your death. If you have a number of assets to protect or large financial investments you should consider enlisting the help of an estate lawyer. It's also good to review your will every few years to make sure that it is still applicable and there are no needed changes.

Most wills include:

- Financial power of attorney (can be split between individuals)
- A Healthcare directive (also known as a medical power of attorney or End of Life Plan)
- Identify an executor or personal representative of the estate who will wrap up the decedent's affairs
- Information on existing trusts
- List guardians for any minor children and pets
- A list of assets and how to manage them
- A list of personal items or money amounts and who you choose to leave them with, (this is called a bequest). This list often takes priority over other financial designations in the will

Unexpected Occurrences

(continued from p.3)

Because creating a will is a simpler process, it is highly recommended that you start your planning there. If you decide that a living trust is beneficial to you, seek legal counsel to help you.

Creating a will

If you do not currently have a will, it is highly recommended that you create one as soon as you can. No matter what your age, you should always be prepared for the unexpected. If your family is on the small side and you want to leave everything you have to them, making your will is easy. More complicated situations will create a more complex will. Either way, don't put it off.

Steps to make your will:

1. List out your significant property and assets. Keep in mind spouses should create separate wills because you can only leave a share of the assets you own with your spouse.
2. Decide who will inherit your property and assets. Don't forget to select alternate beneficiaries as a backup in case your chosen beneficiaries don't survive you.
3. Choose somebody to be the executor to handle your estate and carry out the terms of the will. This person should be willing to serve, and the job shouldn't come as a surprise.
4. Choose a guardian for your children. Who do you want to raise your kids if something were to happen?
5. Choose someone to manage your children's property. Leaving property to a child or young adult will require you to appoint an adult to manage whatever they inherit until they come of age. To give the person you choose this authority, you can make them a property guardian, a property custodian under law, or a trustee.

After you've made these important decisions, it needs to be put in writing and signed in front of at least two witnesses. It also doesn't hurt to have the signing notarized.

Additional items of preparedness

In addition to a standard will or living trust, below are other vital documents that should be considered.

A pour-over will: Many people believe that their choices are either a will or a living trust. However, there is a third option, and that option is called a pour-over will. A pour-over will is often established in conjunction with a living trust. In the event of death, either all or a portion of an individual's assets would be transferred, or poured over, to your trust.

By doing so, you can ensure that your estate has explicit directions on exactly how you want your estate assets moved. A properly structured pour-over could alleviate the burden of requiring the estate to undergo an often costly and lengthy public probate process.

Power of Attorney: A person will be appointed to act on your behalf regarding financial and other matters while you are still alive. This will only go into effect if you became incapacitated and are unable or unfit to handle matters on your own. If you fell seriously ill, for example, this person will step in.

A health care proxy: This names a person that will make health care decisions for you if you were ever unable to communicate yourself. A health care proxy will generally outline your wishes when it comes to life-prolonging medical treatments such as resuscitation or life support. A healthcare proxy only becomes active under the circumstances stated in the document itself, so you will set terms for this to take effect. Many health care proxies also vary depending on your resident state.

Once you have the initial discussion and get all your documents organized, make sure you stay on the same page with your partner by checking in at least once a year or so to ensure their wishes are the same. You may find you prefer to touch base at the end of the year, the beginning of the year, or even as your preparing to file tax returns. Staying up-to-date on any changes that may have transpired over the year(s) will make maintaining organization much easier as well.

There are many financial issues for partners to discuss, but having knowledge of household finances, maintaining a will, and talking about what you want with your spouse is essential. To ensure your family is financially secure for the worst of times, keeping your spouse updated on all financial matters as well as creating and updating a complete will and living trust will help. Not only will your family be able to focus on issues that don't involve money but everyone can rest assured knowing their wishes will be taken care of, even after death. ■

If you know of someone who would benefit from this information, please pass this newsletter along.

For more information about our services or how we can help you with your debt management program, please contact Family Financial Education Foundation at www.ffef.org.

Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS
724 Front Street, Suite 340
Evanston, WY 82930
contact: (877) 789-4175
www.ffef.org | info@ffef.org

Monday-Friday: 7:00 a.m.-6:00 p.m.
Saturday: 8:00 a.m.-12:00 noon