Coping with Death and Injury: Financial Considerations in a Time of Need

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Making financial decisions is a reality even in a time of grief. Prompt, sensible financial planning and timely actions can help you avoid or minimize potential financial hardships. It's also vitally important to not overreact to potential financial problems and as a result make poor decisions that could have a lasting impact on your financial well-being. It's also important that you not let others make financial decisions for you.

The following is a brief guide to help you make calm, rational financial decisions in the coming days, weeks, and months following the death or injury of a loved one.

The guide is divided into three sections: financial actions that should be taken as soon as possible... in the coming weeks and months...and in the long term. While most of the information is directed to families who lost loved ones, some of the information also applies or is specifically included for those whose loved ones are injured but face a long recovery or permanent disability.

What to do as soon as possible…

Perhaps the best advice is what NOT to do right away. Don't make any hasty major financial decisions, such as changing investments, moving, changing jobs, or retiring early, unless absolutely necessary. Defer all but the most essential financial decisions. This is the worst time to make decisions that have such a far-reaching financial impact. Many financial advisers recommend that survivors wait sometimes up to a year before making major decisions.

Instead, make a list of financial issues that will need to be addressed in the coming weeks and months, and focus on those actions that you must take soon or that lay a sound foundation for financial decisions that need to be made later.

Obtain multiple certified copies of the death certificate. A death certificate opens the door to much-needed financial resources. You'll need to file an individual death certificate to:

- Apply for death benefits
- Apply for retirement and Social Security benefits
- Settle the estate
- Assume sole control of assets such as bank accounts, investments, residence and vehicles, and a safe deposit box

Make funeral arrangements. To help in this, find and read the will and any letter of instructions, which may provide funeral instructions and other guidance to survivors. Also, see if any advance arrangements were made with a funeral home.

Review living wills and powers of attorney. Families of those severely injured should locate and read any living will, health care power of attorney, and other related powers of attorney. These can help you make important decisions and, in some cases, provide you the legal authority to carry out vital financial actions.

Control spending and create an emergency fund. Cash will be tight for many families (and perhaps remain tight) until additional financial resources such as life or medical insurance benefits become available. You may have lost critical income if your loved one was a significant earner. You may face new expenses, such as babysitting or housecleaning, as well as funeral expenses and other one-time costs. Identify current income sources you can depend on and try not to let expenses exceed that income. This is not a good time to run up debt.

Find immediate cash or assistance. Whether or not you currently work, you may have more financial benefits and resources than you realize. Consider:

- Personal savings accounts
- Life insurance cash reserves
- Local or state agencies
- State unemployment compensation
- Friends and relatives

CAUTION: Try to avoid dipping into retirement accounts or selling investments for cash.

Pay bills. Quickly take control of bill paying if you were not doing that task previously. You don't want to lose your good credit.

Continue health care coverage. Don't let coverage lapse for yourself or your children. If your health insurance coverage was through your loved one, contact his or her employer within 30 days of his or her death. You probably can continue coverage under the group policy, through what's called COBRA, though you'll have to foot the entire premium.

Buy an individual policy if you can't continue employer coverage. You can either buy it on the open market or perhaps by converting from the existing group coverage. You usually can get one without an exam or waiting period for pre-existing conditions as long as your loved one was covered under the group policy for at least 18 months.

For families who have their own policy, informing the carrier of your loved one's death may reduce premiums.

Handle business affairs. You may need to give some attention to critical management issues or other impending business transactions if the deceased or injured owned an interest in a business. Consult with the company's attorney, any partners and key employees.

Notify financial institutions. Notify banks, investment accounts, your mortgage holder, department of motor vehicles and other institutions of your loved one's death as soon as possible. This reduces the potential for scam artists to use the deceased's name illegally.

One exception to this, suggest some financial advisers, is your credit card company. You could lose the card or find the credit limit reduced if the card was issued based on your loved one's income or two incomes.

Apply for death or disability benefits. First, determine what benefits you are eligible for. This could take some effort, particularly if you were not previously managing the household finances.

For known life or disability insurance policies, contact your insurance agent or the company. If you can't find the policy or aren't sure what coverage your loved one had, dig through financial records, such as checkbook records for checks written to insurance companies. Talk to your loved one's employer, parents and other relatives, attorney and perhaps seek professional advice.

You can also inquire about policies you can't locate by calling the Life and Health Insurance Foundation for Education at 202.464.5000, or go to their Web site at www.life-line.org.

Note dates and names of all conversations when contacting representatives regarding what benefits are available and claim procedures.

Death benefits. Major sources include:

- Personal life insurance
- Employee life insurance
- Business ownership life insurance
- Travel insurance
- Social Security
- Veterans' or active-military benefits

Less obvious may be death benefits attached to credit cards, payment protection for loans such as auto and home, funeral homes, auto insurers, membership in unions or professional organizations, and previous employers.

Collecting life insurance benefits.
When applying for life insurance benefits, you may need to decide how you want to receive those benefits. Some of these decisions are irrevocable, so choose carefully, preferably after seeking independent professional advice. Options include:

- ***Lump sum payment.*** Often this is the best option, unless you have creditors waiting in the wings or a large tax obligation.
- ***Leave the benefits with the insurer.*** Leave the benefits with the insurer for a while and receive interest payments. You can take a lump sum payment later. Just be sure the financial health of the insurer is good and that you can't earn higher interest elsewhere.
- ***Installment payments.*** Installment payments of interest and principal over a period of time.
- ***Annuitization.*** Many financial planners advise against this until you've had time to explore all the options in light of your particular needs. Annuitization is not always the best choice.

Social Security survivor benefits.

- Surviving spouses, and sometimes ex-spouses, caring for children under age 16 or who were disabled before age 22 can start collecting monthly benefits from Social Security
- Unmarried children under age 18, up to age 19 if still in high school, or disabled before age 22 also are eligible for benefits
- Widows or widowers, and in some cases ex-spouses, no longer caring for children may be able to collect monthly benefits, starting as early as age 50
- Dependent parents 62 or older may also be eligible
- In addition, you can collect a small death benefit

Employee benefits. Check as soon as possible with the human resources department of your loved one's employer to see what benefits or money may be due to surviving family members. These benefits may include:

- Unpaid salary, bonuses, commissions or deferred compensation
- Unused vacation or sick days, paid out in a lump sum
- Life insurance benefits. (The employer may not be in a position to help, so you may need to directly contact the insurance company for the group plan.)
- Stock options
- Regular monthly income based on a percentage of the worker's salary, paid to the spouse and dependent children. If offered at all, this may last only a limited time or until specific events occur such as the survivor's retirement.
- Personal financial planning for the survivors
- Pension benefits. A surviving spouse usually qualifies for immediate benefits under the working spouse's pension plan even though the loved one was not retired.
- Some pension plans allow for disability retirement
- Qualified plan benefits. Plans such as 401(k) or 403(b) plans will pay out the account's value to the designated beneficiary, typically as a lump sum, though the plan may offer the option of fixed payments for a certain period or for life.
- Some of these benefits may be reduced by benefits received from Social Security

Veterans and military survivor benefits. As a surviving spouse or child of an active-duty member or retiree, you may remain or be eligible for certain military benefits. These include:

- Funeral benefits
- Medical care
- Commissary exchange
- Dependency and indemnity compensation
- Survivor benefit plan annuity (whether the deceased was retired or not)
- Veterans mortgage life insurance

Medical and disability benefits. For those with loved ones severely injured or disabled, several income sources may be available:

- *Short-term disability payments* of up to 26 or 52 weeks from the employer. Payments could run as high as two-thirds of salary.
- *Employer long-term disability coverage.* This could be up to 80 percent of salary when combined with Social Security payments.
- *Workman's compensation.* Covers medical bills and loss of income if injured on the job.
- *Social Security payments* only if the disability is permanent.
- Personal disability policies
- Service-connected military benefits
- Payment protection for such loans as a mortgage

Address tax payments. Check www.irs.gov for specific deadlines that apply to your situation.

In the coming weeks and months…

Don't let emotions rule financial decisions. As you go through the grieving process, it is imperative that you be conscious of your shifting emotions—anger, profound sadness, hopelessness, denial, depression—and not let them influence your financial decisions. Otherwise, you may compound your loss with financial grief.

Organize financial records. You've already done some of this work by collecting records to apply for death, disability or pension benefits. Now collect the rest of your financial records such as investment and retirement accounts, vehicle titles, deeds, and bank accounts, and determine what debts are owed. Check income tax returns, checkbook records and even hiding places you know of in order to identify potential assets or liabilities. This will help clarify your overall financial picture.

Develop a more long-term budget. Revisit your emergency fund. You probably have a better handle now on income and expenses. Revise every two or three months, if necessary.

Discuss finances with your family. Discuss with your immediate family financial changes. Include children old enough to understand that financial adjustments and sacrifices may be necessary, at least in the short-term.

Transfer ownership. You'll want to transfer ownership to your name only for all financial relationships you've held jointly with your deceased loved one. This includes bank accounts, investment accounts, loans, mortgage, automobiles, utilities and so on.

You may want to obtain credit cards in your name in order to establish your own line of credit.

Postpone planned giving. Wait until you've designed a new financial plan and are certain that you have sufficient financial resources before starting or resuming any gifting.

Park your insurance benefits. In the next few weeks, you'll probably receive most or all of your life insurance benefits. What should you do with them?

You may need some of the money to pay current or accumulated bills such as funeral expenses, or even basic living expenses. But don't spend the rest of it frivolously. You'll need this money to pay for key needs in the coming months and years.

Usually the best thing to do with the money for a while is nothing, particularly if you know little about investing. Don't use it to pay off the mortgage or make other major investment decisions.

Park the funds in a money market account, short-term certificates of deposit, or short-term Treasuries. They are easily accessible, safe from market volatility, and you'll earn a modest return until you are more prepared, emotionally and financially, to make long-term decisions.

This step also reduces your vulnerability to scams or someone taking advantage of this stressful time by persuading you to make inappropriate investments.

Contact creditors. You may find yourself temporarily unable to meet some financial obligations. Contact creditors as soon as possible to explain the situation. Many will be willing to delay or even renegotiate payments.

Contact a credit counseling service if your debt problems have grown serious.

What to do with retirement accounts. Assets inside individual retirement accounts (IRAs) and 401(k) or other qualified retirement plans will automatically pass to you if you are the named beneficiary. However, it's usually best to leave the accounts alone for now until you can develop a more long-range financial plan.

Withdrawing funds soon could result in income and penalty tax consequences, and perhaps expose the money to inappropriate investment decisions.

Leave your investments alone for now. It is tempting to make early investment decisions because of worries about the market and economy, and as insurance or other lump sum benefits arrive. However, you should always base investment decisions on your long-term needs, not temporary market or economic conditions.

Today's down market and economy will likely rebound. Meanwhile, your long-term needs may be changing, but take some time yet before deciding how those changes should affect your long-term investments.

The main reason you would want to consider changing investments early on is if some of your money is in assets you consider too risky for your comfort.

However, some investments may need tending. For example, stock options owned by the deceased may need to be exercised within a year of the owner's death. You also may want to diversify some of a portfolio heavily invested in company stock, but seek professional investment advice before proceeding.

Seek professional financial advice. A financial planner can help in two major ways. First, it's difficult to make rational money decisions alone in such times of stress. A planner can help you avoid making rash, and potentially costly, financial choices.

Second, decisions about what to do with life insurance benefits, investments, retirement accounts and your home have major tax, estate and investment consequences that could benefit from expert advice.

Maintain financial control. Actively participate in decisions regarding your finances recommended by professional financial advisers. Do not hand over control of your finances to friends or relatives. Listen to their advice, but remain responsible for all final decisions.

Educate yourself financially. Regardless of whether you use professional financial advice, take the coming months to educate yourself financially about investments and personal money management. A number of good books, magazines, Web sites and seminars are available. Your personal financial adviser can help you pick the best ones.

Update wills and beneficiaries. You likely will need to revise your existing will—or certainly get one if you don't have one. You'll also likely need to change beneficiaries on your own personal and group life insurance, retirement accounts, will, trusts, annuities, and other documents. Powers of attorney and guardianships also may need to be changed.

Review your life and disability insurance. As the sole breadwinner, adequate life insurance is critical if you have children or others who depend financially on you. You'll also want adequate disability insurance, which provides some replacement income should you become disabled to the point you can no longer work.

In the coming months and beyond…

Collect financial and estate documents. Many of these financial documents you will have already collected earlier, including income tax returns, a list of assets and liabilities, retirement and investment accounts, stock options, the will, and so on.

Settle the estate. Generally, you have nine months from the date of death of your loved one in which to settle their estate. Usually it's good advice to have an estate planning attorney, working with your financial planner, review the will and other estate documents, and handle any legal aspects of the settlement.

Unfortunately, some victims—particularly younger ones—may not have had a will. That means the probate court will decide to whom their estate will be distributed.

You'll also need to file an income tax return on behalf of the deceased.

Make your own life plans. In time, you'll begin to think about your own future. That means taking a long-term financial view. Many financial advisers recommend waiting at least a year before making major decisions. When you do, you'll want to:

- Create a new financial plan for your needs
- Create a new estate plan specifically for you
- Define your own financial goals
- Explore your career or job options, including retirement
- Re-examine your investments
- Consider moving

Don't necessarily pay off the mortgage. It's often tempting to pay off an existing mortgage or even pay cash for a new home, particularly when resources such as life insurance benefits are available. However, as long as interest rates remain low it's often better to keep the money in more liquid investments, such as those aimed for college education or retirement, rather than tie it up in a residence.

Continue to save for your own retirement. Other major financial goals are likely competing for limited dollars. However, retirement should be a priority, even over such things as funding your children's education. Your children will find a way to pay for college, but no one else is going to help you out for retirement.

Women especially need to pay attention to their retirement needs because they typically live longer than men, have smaller nest eggs than men and they tend to sacrifice their own needs to those of others.

At this stage, it is likely time to roll over assets from your loved one's IRAs and qualified retirement plans into your own IRA. However, other strategies may be more appropriate for your situation, so consult with an expert in this area before making an irrevocable decision.

Develop your own investment plan. Only after you have regained some control of your life, and in particular your financial life, should you consider readjusting your investment portfolio tailored for your goals and needs for the long-term.

In addition, it may be time to determine what to do long-term with the death benefits and other lump sum payments you've parked temporarily in low-risk accounts. You may want to seek professional advice in this area.

FINANCIAL CHECKLIST

- ☐ Don't make any major financial decisions unless absolutely necessary
- ☐ Obtain copies of death certificate
- ☐ Make funeral arrangements
- ☐ Review living wills and powers of attorney
- ☐ Create an emergency fund
- ☐ Find immediate cash or assistance
- ☐ Pay bills
- ☐ Continue health care coverage
- ☐ Handle business affairs
- ☐ Notify financial institutions
- ☐ Apply for death or disability benefits
- ☐ Contact Social Security
- ☐ Contact employer
- ☐ Seek military or veterans benefits
- ☐ Seek medical and disability benefits
- ☐ Address tax payments
- ☐ Organize financial records
- ☐ Develop a long-term budget
- ☐ Discuss finances with family
- ☐ Transfer ownership
- ☐ Postpone planned giving
- ☐ Park insurance benefits
- ☐ Contact creditors
- ☐ Leave retirement accounts and investments alone
- ☐ Seek professional advice
- ☐ Maintain financial control
- ☐ Educate yourself financially
- ☐ Update wills and beneficiaries
- ☐ Review your life and disability insurance
- ☐ Collect financial and estate documents
- ☐ Settle the estate
- ☐ Make your own life plans
- ☐ Save for your own retirement
- ☐ Develop an investment plan for your needs

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