

Focus on Life's Challenges

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Focus on **Financial**
Management
Series

Unit 7

Purdue Extension

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Focus on Life's Challenges

Planning prepares you for the expected and unexpected occurrences in life. For example, what would happen to your finances if ...

- You became incapacitated or died?
- Your spouse/partner became incapacitated or died?
- You became separated or divorced?
- You married or remarried?
- You had a change or loss of employment?
- You began caring for a loved one, which resulted in decreased income and/or increased expenses?

Many people fail to plan for how these life-altering events might affect their finances. That lack of planning may cause heirs to argue, medical bills to mount, legal fees to deplete estates, divorces to become more costly, and new marriages to collapse in financial confusion.

Planning for life's challenges means looking at where you stand financially, and determining what decisions you need to make to secure your financial future. One of the most important actions you can take is making sure your beneficiaries have the information and resources they need to cope emotionally and survive financially if you should die unexpectedly or become incapacitated.

Social Security

You will be eligible for Social Security retirement (and survivor's) benefits if:

- You are a worker.
- You are married to a worker.
- You were married to a worker for at least 10 years.

To create a successful plan for your future, you will need a statement from the Social Security Administration, telling what your retirement benefits will be. You should automatically receive a statement annually from Social Security starting with your 50th birthday. If you have not received a statement, call Social Security's toll-free number (1-800-772-1213) and ask for a "Personal Earnings and Benefit Earnings Estimate." If you have Internet access, you can go to <http://www.ssa.gov> and complete the form online. In a few weeks you will receive a calculation of your estimated monthly benefits.

To qualify for Social Security benefits, most workers must work at least 40 quarters (10 years) in jobs covered by the Social Security system. How much you will receive will depend, in part, on how much you earned while working in a covered job and your age at the time you retire.

Social Security Normal Retirement Age by Year of Birth

| Year of Birth | Retirement Age |
|----------------------|-----------------------|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943-1954 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

If you are married and at least age 62, you will receive your own benefit or a benefit based on your spouse's wage record (if covered), whichever is larger. The accompanying chart gives the age at which full retirement benefits will be paid by year of birth.

You may retire earlier than the age at which you receive full benefits if you are willing to take a permanent reduction in your benefits. There is also a bonus if you choose to delay retirement until age 70. The percentage varies depending on your year of birth.

If you are divorced, you are entitled to half your ex-spouse's Social Security benefits if the marriage lasted for 10 or more years, you are age 62 or older, and the divorce occurred at least 24 months before you apply for benefits. This is true even if your ex-spouse has remarried. However, if you have remarried, you may have lost the right to your former spouse's benefits. Even if your former spouse has not applied for benefits, you can get benefits.

If you are a widow(er), benefits can begin when you reach age 60, with some exceptions. You can receive benefits at any age if you are caring for your deceased spouse's children under the age of 16. If, as a widow(er), you become disabled within seven years of your spouse's death, you may qualify for benefits on your spouse's Social Security record when you reach age 50. The monthly amount you receive will depend on how old you are when you apply for benefits.

Children of a deceased parent and the surviving parent are both eligible to receive benefits, but the parent's benefits will stop when the youngest child reaches age 16 unless the surviving parent is 60 or older. Children of a deceased parent can receive benefits through age 19 if they are still in elementary, junior high/middle, or high school.

To apply for Social Security, schedule an appointment and take the following documents to a Social Security office:

- Your Social Security card or record of your number.
- Proof of age — birth certificate, passport, or baptismal record.
- Wage and Tax Statement (W-2) forms for the last two years.
- A copy of your marriage certificate, divorce papers, or death certificate for your spouse, if appropriate.
- Birth certificates of children under the age of 16 who live with you.

The Social Security Administration has several publications that may be downloaded from the Internet at <http://www.ssa.gov> or ordered via a toll-free number, 1-800-772-1213. The American Association of Retired Persons (AARP) also has several helpful publications on Social Security that can be downloaded from their Internet site (<http://www.aarp.com>) or ordered from their offices at 601 E Street, NW, Washington, DC 20049.

Making a Will

An important task is planning how your personal effects will be distributed after your death. A will is a legal document that puts your wishes on paper. If you die intestate, without a will, the state will distribute your property according to its laws, which may not be what you would like at all.

Most of us don't intend to die without a will, but it does happen often. It is particularly important to have a will if you have minor children who will need to have a guardian appointed to take care of them and any assets they may inherit.

Selecting an executor is another important part of preparing a will. It needs to be someone both willing and able to carry out the complicated tasks assigned to the job. These include preparing an inventory of assets, collecting any money due, paying off any debts, preparing and filing all income and estate tax returns, liquidating assets, distributing the estate, and making a final accounting to the probate court.

Before visiting an attorney to draw up a will:

- Inventory your assets.
- Prepare a list of family members and other beneficiaries.
- Have an idea about what specific property you want to go to specific people.

Legal fees for drafting a will vary with the complexities of your estate and your family situation. A simple will costs between \$50 and \$200.

After you write a will, you may need to change it. A change in marital status, the birth of a child, or a change in tax laws can all prompt a review and rewrite of your will. Be sure to sign and date the new will and have it witnessed before destroying the old one.

A Living Will

A living will is not a “will” in the same sense as the legal document that distributes your property. A living will is a written statement of your wishes concerning the use of extraordinary medical treatment, artificial nutrition, or hydration to prolong your life when death is imminent. A living will gives medical personnel permission to withhold or withdraw life support systems that delay death. The living will activates when the attending physician and one other physician determine that the patient is in a terminal condition and is incapable of making informed decisions.

The process for creating a living will depends on where you live. Most states have laws that provide special forms and signing procedures. Many states permit the use of preprinted forms for living wills. However, you should be cautious about using those forms without advice from an attorney.

Most states also have special witnessing requirements and restrictions on whom you can appoint as your agent. You must follow those rules carefully.

Typically, states require two witnesses. Some require or permit a notarized signature. Some have special witnessing requirements if you live in a nursing home or similar facility. Even where witnesses are not required, consider using them anyway to reinforce the deliberate nature of your act and to increase the likelihood that care providers in other states will accept the document.

You do not need a lawyer to make a living will. However, a lawyer can be helpful if your family situation is uncertain or complex, or you expect problems to arise. Start by talking to someone who knows you well, can help you state your values and wishes, and understands your family and medical history. Share your ideas for instructions with your doctor to make sure medical care providers can understand them.

You can obtain up-to-date state-by-state information, along with statutory forms, if they exist in your state, from Legal Counsel for the Elderly (contact information is listed in the Resource section at the back of this chapter). Hospitals, medical societies, bar associations and councils on aging may also provide forms for your state.

It is your responsibility to inform your physician that you have signed a living will; it is your physician's responsibility to make your living will a part of your medical record. Patients admitted for emergency care often don't have complete medical records with them. For that reason, you may want to consider wearing a bracelet or necklace with the wording, "Living will — do not resuscitate."

Keep your living will in a place where you and your family members can find it easily. Some lawyers suggest you sign several copies and have each one witnessed and certified (this makes revoking your living will a little more complicated, as you have to destroy each of the originals). Carry a card in your wallet stating you have a living will, where the original is located, and who to contact to get the original. Your attorney should also have a copy of your living will. If you put the original in your safe deposit box, make sure someone knows where it is and has access to it. Otherwise, your living will may be found too late.

You may revoke or cancel your living will at any time. You should notify your family and your doctor if you revoke your living will.

A *medical treatment plan* is different from a living will in that it defines what care will be provided or withheld. A medical treatment plan is useful if you suffer a serious injury, disease, or illness; if you are contemplating an operation; or if you become terminally ill.

A *health care power of attorney* is a document that allows someone else to make medical decisions for you if you cannot make them for yourself. You may appoint any competent person who is at least 18 years old and not providing paid health care to you. The person you appoint is called your health care agent.

Give a copy of your health care power of attorney to your appointed health care agent and to your physician. Also, carry a card identifying who has your health care power of attorney and how to reach them as well as where your living will is located.

A Letter of Last Instruction

You may also want to prepare a summary of information for your personal representative or others who will be handling your estate. This “letter of last instruction” is to let someone else know everything he or she would need in order to handle your personal finances should anything happen to you.

Once your letter is done, make several copies of it. Give one to your lawyer, clip another to a copy of your will, and keep one in the place your family would look first. It is important to update your letter of last instruction annually.

The letter, to be opened at the time of your death, should include the following:

- 1) Names, address, and telephone numbers of those to be notified on your death. (Be sure to keep this list up-to-date.)
- 2) Instructions for your funeral and burial, or cremation and memorial service if desired.
- 3) Location of your will.
- 4) Location of your safe deposit box, its key, and a list of its contents.
- 5) Location of your essential personal papers, including:
 - Birth or baptismal certificates.
 - Marriage certificate, dissolution or divorce records.
 - Papers for adopted children.
 - Naturalization or citizenship papers.
 - Social Security card and records (for possible benefits).
 - Military service records (for possible benefits).
- 6) Location of life, health, and property insurance policies; also burial insurance and notation if prepaid.
- 7) Location of papers for pension or retirement plans and individual annuities.
- 8) Location of membership certificates in unions, lodges, or fraternal organizations that provide death or cemetery benefits.
- 9) List of personal and real property you own.
- 10) Location of signed original and copies of list of how you want your personal property and family heirlooms distributed after your death.
- 11) Location of income tax returns and supporting records.
- 12) Location of all credit cards and list of the account numbers and addresses and phone numbers of the companies.

- 13) Location of any trust funds you have set up, and the names of trustees and copy of the trust fund agreement.
- 14) Names and addresses of advisers such as your lawyer, your banker, insurance representatives, broker, CPA, or tax adviser.
- 15) Your father's full name and mother's maiden name, which will be needed for the death certificate.
- 16) Instructions and directions concerning your business.
- 17) A statement of reasons for actions taken in your will, such as disinheritance.

If you keep the above items in your financial notebook, it will be easier, speedier, and probably less expensive for your family to settle your estate when you are gone.

Are You Prepared to Live Alone?

Whether you've been together a short time or a long time, individuals go through a tremendous amount of emotional and financial stress after a spouse/partner dies. Trying to take charge of all the responsibilities you have to handle alone at the same time you are making important decisions about your future can seem overwhelming.

Now you will be required to do many tasks yourself. You'll need many documents to apply for survivor's benefits, insurance, and other benefits you might be able to claim. You will need copies of your marriage certificate, Social Security cards, and death certificates. To ensure that you have access to these and other documents needed to transfer titles, be sure your name is on the family safe deposit box and that you have a complete list of where your family's legal and financial records are stored.

What would your financial situation be if your spouse/partner died? This is a critical question, because once you know the answer, you can take the appropriate steps to strengthen your financial position. Complete Worksheet 21, *Life-Altering Event Analysis*. When you have finished it, sit down and ask yourself these questions:

- How would you support yourself for the first year?
- How would you support yourself after the first year?

This simple exercise could save you from a financial crisis and ease your transition into a new life.

Is Divorce Part of Your Future?

Up to now, we've been talking about living alone as the result of death. But divorce is equally traumatic. Although no one goes into a marriage expecting it to end in divorce, many marriages do break up. The financial decisions couples make during a divorce have long-term economic effects on the wife, the husband, and their children. Economic information and an understanding of your financial situation are critical as you make these decisions.

Most states have adopted “no-fault” divorce, where the goal of a divorce proceeding is to arrive at a “fair and equitable” settlement. A “fair and equitable” settlement could mean dividing all assets and all debts equally, but what is “fair and equitable” depends on the situation and the judge.

Before you divorce, make a list of the property you own, its estimated value, and a list of debts. Property includes real estate and personal property (the car, the furniture, bank accounts, stocks, bonds, pensions, etc.). You must plan how to pay off family debts, such as a home mortgage, car loans, student loans, credit cards, unpaid bills, and unpaid taxes.

Spousal support, or alimony, is payments made after divorce by one spouse to the other. It is awarded by the court on the basis of need (of the recipient) and ability to pay (of the payer). It may be awarded short-term to help a dependent spouse complete an education or job-training program, or it may be awarded long-term until death. The dependent spouse may want to consider a life insurance policy on the supporting spouse to ensure alimony payments would continue even after death.

The amount of child support awarded is based on several factors, including the number of children, medical costs, educational needs of the child, and the amount of the payer spouse's income. A schedule built into the divorce statutes dictates the amount.

Once Again, for Richer or Poorer

A remarriage is different from a first marriage. When you remarry, you and your new spouse walk down the aisle with more family responsibilities than you had the first time you said “I do.” You may bring dependent children, adult children who need support, or elderly parents into the relationship. And both of you have developed money personalities and habits that can be quite different from each other’s. To top it off, you each are probably bringing to the union a collection of assets, debts, and “stuff” — which are not equal in value.

Still, these complicated money situations need not be a source of concern if you share financial information and talk through the financial issues you’ll be facing *before* you tie the knot. A prenuptial agreement may also help, especially if either or both of you have children you want to protect.

Even if you and your new partner do not enter into a formal premarital agreement, it is important that your financial life begin with a climate of openness and honesty. Talking about money in advance may not seem very romantic, but it can be the best gift you ever give each other.

Adapted from *Take Charge of Your Money* by Barbara R. Rowe, Utah State University Extension Service, 2001.



Life's Challenges Action Box

- Obtain and review your “Personal Earnings and Benefit Earnings Estimate” from Social Security.
- Write or update your will.
- Discuss with your spouse and/or family, “What if ... ?”

Worksheet 21: Life-Altering Event Analysis

Date: _____

1. If your spouse/partner died or left you, how much would your annual income be?

Add up your:

- a. Survivor's benefits:
 - Pension and retirement income \$ _____
 - Social Security \$ _____
- b. Personal earnings \$ _____
- c. Alimony \$ _____
- d. Child support \$ _____
- e. Disability benefits \$ _____
- f. Unemployment \$ _____
- g. Income from other sources, excluding assets \$ _____
- h. Subtotal** \$ _____

2. How much income could you get from your assets?

Add up your:

- a. Savings and investments, excluding your reserve fund \$ _____
- b. Life insurance proceeds
(check your spouse's/partner's policy for the death benefit) \$ _____
- c. Sale of home \$ _____
- d. Sale of personal property \$ _____
- e. Other assets \$ _____
- f. Total assets: \$ _____
- g. Enter an interest rate that your money could earn (e.g., .05) _____
- h. Interest income— multiply 2f by 2g: _____

Example: A lump sum of \$75,000 earning 5 percent could provide \$3,750.00 per year (50,000 by .05), leaving the principal untouched.

3. **TOTAL ANNUAL INCOME** — add lines 1h and 2h: \$ _____

4. **TOTAL ANNUAL EXPENSES.**

Estimate your expenses for one year. \$ _____

5. **ADDITIONAL INCOME NEEDED** — subtract line 3 from line 4 \$ _____



Resources

Unit 7: Focus on Life's Challenges

1) American Association of Retired Persons (AARP)
601 E Street NW
Washington, DC 20049
800-424-3410
<http://www.aarp.com>

2) American Medical Association
www.ama-assn.org

3) Choice in Dying, Inc
200 Varick Street
New York, NY 10014-4810
1-800-989-WILL

4) Indiana State Department of Health
"Advanced Directives"
<http://www.in.gov/isdh/regsvcs/acc/advanced/>

5) Indiana State Department of Health
Out of the Hospital Do Not Resuscitate Declaration and Order
State form 49559 (12-99)
<http://www.in.gov/sema/ems/apps/ohdnrdec.pdf>

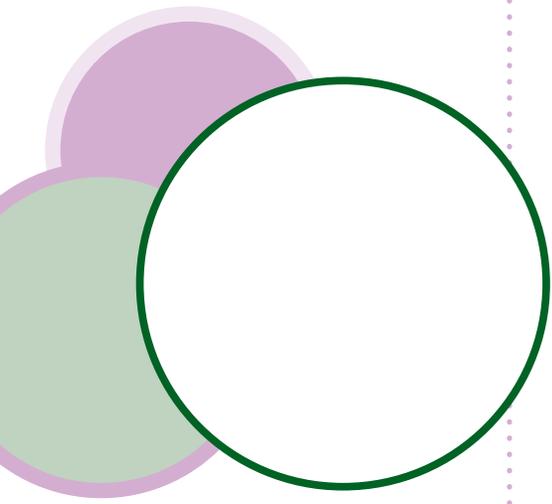
6) Legal Counsel for the Elderly
AARP
PO Box 96474WW
Washington, DC 20049-6474
1-800-424-2277 ext. 2197

7) LegalZoom
www.legalzoom.com

8) Partnership for Caring: America's Voices for the Dying
www.partnershipforcaring.org

9) Rowe, Barbara
Take Charge of Your Money
Utah State University Extension Service
Logan, UT 84323
(435) 797-1000
<http://extension.usu.edu>

10) Social Security Administration
6401 Security Blvd
Baltimore MD 21235-0001
800-772-1213
<http://www.ssa.gov>



Materials available in the *Focus on Financial Management* series

Focus on Financial Management Workbook, CFS-727 (\$25)

This printed workbook contains eight chapters designed to help middle-income adults increase their financial management knowledge. It is designed either for self-directed study or for participants who enroll in a *Focus on Financial Management* program. The workbook contains 24 worksheets to help participants conduct self-assessments and compile appropriate records.

Focus on Financial Management Coordinator's Guide, CFS-726 (\$75)

This package contains the Coordinator's Guide and Workbook in print and on a CD so that a coordinator can present the eight 2½-hour sessions. The program coordinator is expected to organize and present the sessions and provide materials to the participants. The CD is available separately (CD-CFS-726) for \$50.

Order online at www.extension.purdue.edu/store
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The following individual chapters of the workbook are available free online.

- CFS-727-1-W, Unit 1: Focus on Getting Organized
www.extension.purdue.edu/extmedia/CFS/CFS-727-1-W.pdf
- CFS-727-2-W, Unit 2: Focus on Money Personalities
www.extension.purdue.edu/extmedia/CFS/CFS-727-2-W.pdf
- CFS-727-3-W, Unit 3: Focus on Your Net Worth
www.extension.purdue.edu/extmedia/CFS/CFS-727-3-W.pdf
- CFS-727-4-W, Unit 4: Focus on Risk Management
www.extension.purdue.edu/extmedia/CFS/CFS-727-4-W.pdf
- CFS-727-5-W, Unit 5: Focus on Savings and Investments
www.extension.purdue.edu/extmedia/CFS/CFS-727-5-W.pdf
- CFS-727-6-W, Unit 6: Focus on Credit Cards
www.extension.purdue.edu/extmedia/CFS/CFS-727-6-W.pdf
- CFS-727-7-W, Unit 7: Focus on Life's Challenges
www.extension.purdue.edu/extmedia/CFS/CFS-727-7-W.pdf
- CFS-727-8-W, Unit 8: Focus on Retirement
www.extension.purdue.edu/extmedia/CFS/CFS-727-8-W.pdf

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