

Dealing with Sudden Loss



5 Things Every Widow Should Do to Ensure Her Financial Security

by Midori Hillis

The death of a spouse is one of the most traumatic events that can happen in life. Grieving such a loss can take weeks, months or even years. In my experience working with individuals who have lost loved ones, I can tell you with certainty that there is no set timeline to follow, except your own. This is an extremely difficult time for anyone going through it; it is emotionally and physically draining, and there can be added stress about finances, cash flow and financial security. Many of the people I have helped expressed to me that they experienced a mental foggy or blurriness in the weeks and sometimes months after the death of a loved one. For this reason, it is my advice not to make any major financial decisions right away, unless it's absolutely necessary.

That's not to say large financial decisions don't have to be addressed, because they do; but you must first give yourself time to grieve and create some clarity on what you want in this next stage of your life. Sometimes family and friends who are trying to be helpful suggest things that may not be what you need right now. Agreed, you may need to make some changes, but don't let others pressure you before you're ready or let them make those decisions on your behalf. Start small and work your way up to larger financial considerations. Items that need your attention right away will present themselves, such as changes to your cash flow, while asset allocation changes and estate planning can be done at a later date.

1 Do things in your own time.

Conversations about your changing financial circumstances can come up more quickly than you would like. Realtors may start approaching you to see if you are interested in selling your house; your children may suggest they start taking a more active role in your finances (or ask you to move in with them); neighbours may ask what you are going to do with your boat or camper. Take a deep breath—not all of these things need to be decided right now. Use this line as needed: “I’m not ready to commit to anything right now, thanks for understanding.” This will buy you some time to figure these things out at your own pace.

When you address your overall financial income plan, it will help you with making some of the bigger financial decisions, such as possibly selling some of your larger assets. These assets can include a secondary vehicle or camper, boat, recreational property, or even moving and downsizing your home. You don’t have to make any of these decisions until you know where you stand financially.

Watch for mail/email to come in. Correspondence can prompt you on what needs to be updated, like name changes for hydro, cable and phone. Other less obvious registration changes may be on vehicles and with land titles. Use a notebook to document your progress; make lists about what things you have done and what you have left to accomplish.

After you have gone through the next two sections, it may become apparent that you do need to sell some larger assets or downsize your home, for additional funds to be added to your financial plan. Alternatively, you may find that you don’t need additional funds, but you still may want to downsize to reduce maintenance or the stress of dealing with a larger asset. There is also a good chance that you will just want to stay where you are and continue a familiar lifestyle. There is no “right thing” to do, only what feels right for you.

2 Have enough money in the bank.

Having enough cash on hand, easily accessible in your bank account, is a good place to start while you assess your changing financial circumstances. Final expenses on death can range from a few hundred to a few thousand dollars to cover costs such as a celebration of life, cremation, urn, obituary announcements and death certificates, as well as probate fees, legal costs and income taxes. Some final expenses may seem too extravagant, such as keepsakes, urns or gravestones. If you think that something you’re being sold is too expensive, it probably is; don’t feel pressure to buy these items over less expensive options.

At the same time you are facing a spike in expenses, you may also experience a reduction of income as you move from a dual income to a single-income household. To make matters worse, depending on how your accounts were set up in the first place, you may not be able to access all the funds you had on hand as a couple; if your bank accounts were held individually rather than joint ownership, your spouse's individual accounts may be temporarily frozen until after probate is granted.

See if you can make a cushion of funds in your bank account to cover these expenses and any other unexpected costs. Start with \$5,000 if your cash flow remains relatively unaffected, or up to \$25,000 if your income has been significantly reduced. The amount you select will be specific to your own circumstances, comfort level and affordability.

Where is this money going to come from? Start by collecting all of your savings and debt information so that you can create a list of assets and liabilities to work from. Collect your bank account statements and then gather your investment statements for RRSPs, TFSAs and RRIFs as well as employer group accounts, pension plans, life insurance, house assessment and any other information about your assets. Debt information such as credit cards, mortgages, loans and lines of credit should also be detailed. This exercise will assist you in determining how much cash you have and the best place to access it. Start drawing on existing non-registered cash savings, if available, rather than registered accounts; or from your TFSA to avoid tax consequences. TFSA redemptions can be replaced in the following calendar year, which makes them a nice tool to use while everything is getting sorted out.

Inform your financial institutions within a few weeks that your spouse has passed away. Use the list of savings and debt you just created to identify the various institutions you need to contact. Most of them will want to see an original or notarized copy of the death certificate and so will CRA and other institutions; therefore, it is advisable to have a few copies available. Never give away your last original. If you find yourself down to just one left, simply go and get some more notarized copies from that original.

3 Prepare yourself for a change in income.

Reviewing your bank account transactions (not just the balance) will allow you to identify all your income sources: employment, pensions, investments or a combination; and these will usually change on your spouse's death. For example, your spouse's CPP and OAS will stop once you notify Service Canada of their death. You may be eligible for a CPP survivor pension and/or a one-time death benefit (up to \$2,500) and should complete these applications as soon as possible. The CPP survivor pension amount varies and is based on your age and current CPP benefits and those of your spouse.

Private employer-sponsored pension plans offer several survivor options and, therefore, varying levels of income for the surviving spouse. Keep in mind you may not have any choice at this point, as survivor benefits are usually determined in advance of starting the pension income. Find out as soon as you can what your options are, if any, so that you can confirm your income from this source.

If your spouse hadn't yet commenced their private pension plan, you could be faced with having to choose between taking a lump-sum commuted value or a lifetime income. This is a much larger decision and should be made within the context of a lifetime income strategy, especially considering that once this decision is made, it cannot be reversed. Consulting a financial advisor before making this decision is highly recommended.

If your spouse was enrolled in a group benefits plan, there could be some group life insurance available and/or continuation of health and dental coverage. Contacting their employer or HR department will answer these questions for you, but please note that continuation of these benefits can be time sensitive, so don't put off following up on this item.

Once you have determined your new income, create a rough monthly budget. Listing all income and known monthly expenses will assist in determining any significant shortfalls. If needed, you can add income from your investments and/or savings accounts to cover your expenses; if that's not available to you, try to find ways to reduce spending or consider selling larger assets. Reach out for help if you need it, and remember, budgets are just a guideline and will fluctuate from month to month.

Once you have worked your way through assessing your cash and cash flow, you can take a break, as long as you have a handle on your monthly budget. Call your friends, perhaps go for walks or whatever you like to do to keep active. The next items can be reviewed over time, ideally within 12 months.

4 Understand your investments and how they fit into your long-term financial plan.

I find women to be slightly more conservative than men when it comes to managing risk within their investment portfolio. With this in mind, it's wise to complete a new risk assessment with your financial advisor and potentially adjust your asset allocation, especially if you have an additional need for income. At this point, don't feel that you need to understand all of this on your own. This section is simply intended as an overview to show you that you have a variety of planning options. It can be pretty complex stuff, so you should work with a trusted financial advisor who can guide you through all of your options.

Income from investments can be generated in a few different ways. Some income-producing investments include guaranteed investment certificates (GICs) that can pay monthly interest, fixed income investments (bonds and preferred shares) issued by companies or governments, individual stocks that pay dividends, and income-producing mutual or segregated funds (a pool of investments). Except for the GICs, the income produced can be variable and is not guaranteed, which is fine, as long you understand how each type of investment fits into your plans for longer-term growth.

Another option for cash flow is to turn some of your investments into guaranteed income by purchasing an annuity or guaranteed minimum withdrawal benefit (GMWB) plan. Insurance companies offer these products, some give you access to your capital while others do not, only providing income. Due to the complexity of these types of investments, you need to review the pros and cons with a professional, particularly the cost, access to capital and estate value. That being said, if you have any concerns about outliving your capital, these products can offer assurance that money will be paid to you for the rest of your life.

Once you have confirmed your new income plan, you will gain a better understanding of the appropriate investments to use. Most likely you will end up with a diversified portfolio, including a variety of these asset classes and products, with a tilt toward growth, income or safety—whatever personalized mix best addresses your needs.

Tax considerations are also important when you have investments in multiple asset classes and account types. Everything you redeem from an RRSP or a RRIF is taxable income, whereas redemptions from a TFSA are not. That doesn't mean you should redeem all of your TFSAs first, since then you would be left with only taxable income once the TFSA has been depleted. It's almost the opposite: consistently maximizing your TFSA contributions, should result in lower taxes each year. Knowing which tax bracket you are in will help you determine how much of your registered investments to use for income, without bumping you up into the next bracket or putting you into an OAS clawback situation.

Still with me? Remember, you don't have to understand all of this on your own. In fact, I strongly recommend that you review all of these decisions with your financial advisor.

5 Update your own estate plans.

Lastly, once some time has passed and you are feeling up to it, review your will and power of attorney documents to see if any changes need to be made. If your spouse was the executor of your will, who is listed as the alternate? Family and friends that reside in the same province can be a good choice, provided they are willing and able, but you can always ask a law firm to assist you with administrating

your estate. There can be some additional filing requirements and cost if your executor lives in another province or country; if this is the case, you may want to consult an estate lawyer to determine the consequences before going ahead with naming them.

Special consideration should be given to selecting who will hold power of attorney (POA) for your financial affairs. You can give a general POA to someone to give them signing authority for you at any time, or you can restrict it to become effective only when a doctor deems you incapable. The individual named as POA has a lot of financial responsibilities; it is not a decision to be taken lightly. They would be trusted to pay bills, manage cash flow, make investment decisions, sell or buy assets and prepare tax returns. It can be a lot of work, potentially over a long period of time, so having an alternate POA is a good idea.

Don't forget, direct beneficiary designations will need to be updated, since they generally fall outside of the instructions outlined in your will. Examples of where you would find these named beneficiaries include registered accounts such as RRSPs, RRIFs and TFSAs as well as any pension plans, group benefits, segregated funds and life insurance. If you don't update these designations, the unfortunate consequence is that, upon your death, the funds will go to the person still named and not the person you intend them to go to, even though your will may recently have been updated.

You Got This!

Reach out if you are feeling overwhelmed or anxious, particularly about money. You can work at your own pace with professionals and others you trust to make plans that are meaningful. If you aren't sure exactly what is in store next, play it safe and be a little more conservative until you have a comprehensive plan in place. If you aren't ready to make any long-term plans, just make a short-term one, which may only be your income plan for the next 12–24 months.

Take things one day at a time and create a network of trusted people, which can include family, friends, neighbours, advisors, lawyers and accountants. If you weren't working with an advisor in the past, it may be time to consider meeting with a professional, such as a Certified Financial Planner. Feel welcome to bring a friend or relative to your meeting. Once you have a clear picture of your current finances, it will be easier to make a thoughtful and appropriate financial plan. By following the tips outlined in this chapter, you can reduce the stress of change and move forward with confidence knowing your financial future is secure.

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Midori Hillis, BA, CFP® is a Senior Financial Advisor with IPC Securities Corporation who strives to make a positive difference in the lives of others by helping them plan for financial success. Midori is focused on listening to what matters most to you, in order to guide you towards achieving your personal goals. Since starting in the industry in 2002, she has been building her own unique Personal Wealth Management Strategy™ to provide families with peace of mind.

Midori has been awarded Investment Planning Counsel's Best Client Experience Award, twice. She is a proud member of Advocis, our professional association, and has served on the local board. Her office in Victoria, continues to be a member in good standing with the Better Business Bureau.

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She thoroughly enjoys calling Vancouver Island her home and currently resides on a tranquil property in Willis Point with her family, her cats and ducks. Midori gives back to her neighbourhood by organizing an annual community Christmas potluck, editing the local newsletter, arranging food drives, participating in "road clean up" days and occasionally running the bar at hall for various community events and fundraisers.

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