American National Bank

Financial strategies for singles

In a relationship, generally, one of the partners handles most of the financial planning and money issues. But what happens when the spouse who actively managed the couple's assets and financial future is no longer the decision maker? The less experienced spouse has to step up to the plate, usually with little or no warning. Because this transfer of responsibility is often occasioned by death, disability or divorce, it can be an emotionally challenging time. Yet critical decisions concerning investments, insurance, financial and estate planning need to be made to avoid or minimize financial hardships later.

Here are some guidelines to help a novice get up to speed. Putting your financial life in order is essentially a five-step process:

- Determining your financial and estate planning objectives;
- Evaluating the continued viability of any plans in place;
- Understanding the options available to achieve your goals;
- Formulating a plan to achieve your goals; and
- Implementing the plan.

What do you have?

Begin by making an asset and plan inventory, securing existing papers that provide the information that you will need. These documents fall into two groups:

1. Financial documents—including tax returns, bank and brokerage statements, credit card records, mortgages, insurance, retirement and other employee benefits, and similar statements that have information on your assets and liabilities.

2. Legal documents such as your will, durable power of attorney, health care proxy and any trust agreements that name you as a beneficiary or trustee.

It is important to remember that both types of document may embody your estate and financial plans. For example, beneficiaries can be named in trust agreements and your will. But they also can be named in beneficiary designation forms on file with your employer (for retirement plans and other benefits), as well as banks, brokers and insurance agents. These designations are as binding as your will.

Once you have sifted through these materials, you will know the nature and extent of your assets, and how these assets will pass at your death.

Making adjustments

The next steps involve deciding whether the plan in place still makes sense and, if not, implementing needed changes. Following are the types of issues that you should consider:

• Reevaluation of income needs and investment goals to ensure that your current portfolio meets the needs of your new circumstances. For example, if you were not the primary income producer, you may want to adjust your investments to generate more income. If joint retirement is no longer an issue, your investment mix may need rearranging.

• Review of beneficiary designations in wills, trusts, bank accounts, retirement accounts and insurance policies. These must be changed to provide a new beneficiary if a spouse were previously the sole beneficiary. The same applies to designations for executors, guardians and trustees. Health care proxies and durable powers of attorney also may have to be updated to empower trusted loved ones to make decisions when you cannot.

• Use of a living trust to afford you the comfort and security of having a professional trustee manage assets during your life and ensure that they are distributed pursuant to your wishes, without getting involved in the probate process.

Children and grandchildren as beneficiaries may become more important in your planning. Issues that arise here include whether:

• Assets inherited from a deceased spouse should be "disclaimed" so that they can pass to children tax free.

• A program of lifetime gifts makes sense in order to reduce your estate taxes and put money in their hands for education, home purchase, etc.

• A trust should be established to provide for special needs children or the education of minor children.

• A primary residence or vacation home might be owned jointly with your children or transferred into a QPRT (Qualified Personal Residence Trust) to maximize current and future use and tax planning.

• It makes sense to name children as your IRA beneficiaries so as to extend the payout period over their life expectancies and protect against poor financial decisions.

Don't go it alone

Once you have reviewed your current plans and documents in place, and considered the issues and options, you can make informed decisions about a new plan tailored for your circumstances.

Throughout this process it is important to obtain professional guidance as you chart your course. We can offer you guidance on a wide range of investment, retirement and estate planning needs. Together with us—and with the assistance of your attorney, accountant or other professionals with whom you work—you will be able to gain the necessary knowledge about financial matters to allow you to make the decisions that are important for your future—and the future of others in your care.