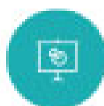

SURVIVING TO THRIVING

A FINANCIAL RESOURCE FOR DIVORCEES AND WIDOWS

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Introduction

My experience working with divorced and widowed women is that they go through the commonly known stages of loss. Being "suddenly single" often leads to a great deal of fear and anxiety as to what the future will look like.

From Surviving to Thriving is aimed at empowering you with the information you need to move forward after such a major life transition.

Education is your best weapon!

In this book, I have enlisted experts from various fields to assist with this task. Many of them are women and some have gone through the same "fire" you may be going through.

While I realize you and the other women who might read this book are highly intelligent, immensely talented and blessed with more common sense than the average man — the impact of life-changing events can alter your thinking and lead to mistakes.

In the end, I hope this book helps you thrive and continue to do so in the future!

Chapter 1: From Surviving to Thriving

By: Alyson Stone
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If you're reading this, you're likely in the middle of a transition, somewhere along the path from surviving to thriving. Your journey may have begun with a death of a loved one, a divorce, illness, job change, move or change in financial circumstances. Maybe the transition began so gradually you scarcely noticed, as when the landscape outside your car slowly merges from flatlands into hillside. Or maybe it was sudden, like a tornado tearing through your life, leaving it in wreckage before dropping you unceremoniously into a foreign land.

Whether slow or sudden, intentional or accidental, transition involves loss. You must adjust to something new while grieving for what came before. Transition changes the landscape of your life. You may feel terrified, exhilarated, sad, angry, shocked or confused. You might feel all of these things at once, or one after another in rapid succession. It's disorienting.

Everyone's path through loss and transition is unique, yet there are many commonalities. And though healing never occurs on a truly linear path, you can expect to travel through certain stages on your journey.

In William Bridges book, *The Way of Transition,* he describes transition as a three-phase process (as distinct from change that involves a situational event, such as a change of jobs). The first phase involves letting go of the way things have been. Then comes an in-between, neutral zone filled with creative potential. And the final phase involves taking hold of what comes next. I call the first phase **Surviving**, the second phase, **Regrouping**, and the final stage, **Thriving**.

We will explore each of these phases, taking a look at the unique opportunities and challenges they pose, as well as things to do during each phase and things to avoid doing.

Going through transition is like going through a house (life) remodel. A few years ago, during a particularly violent storm, a beautiful Spanish oak tree in a neighbor's front yard uprooted and crashed through the center of their house. Luckily, they weren't home at the time, but they returned from their trip to find their house in ruins. The next few months were stressful and chaotic, but eventually they moved back into a newly remodeled house that suited them better.

Like my neighbors, you may find your transition, though painful and chaotic, affords you an opportunity to create a more satisfying life.

~

As a psychologist, I have helped countless people cope with transition, loss and grief. Although my training and education have helped me do this, I've learned as much from my own experiences of loss and transition.

When I was a child, I knew it was tax season because my father would grumble at the dinner table, "There are only three things certain in life: taxes, change and death." I figured change must be pretty awful to be grouped with taxes and death. And it often was. In second grade, my best friend and her entire family were killed in a plane crash. The following year, our dachshund, Ringo, who I had named for my favorite Beatle, was stolen from our backyard. And then, in sixth grade, my closest friend suddenly moved back to Japan. I felt each of these losses deeply, and it took time before I felt like myself again. But they paled in comparison to my mother's death. That loss turned my world inside out. And it taught me a great deal about all three phases of transition.

My mother died when I was a young mother. She was the sun to my sky, and with her gone, I lost my bearings. In the months after she died, my grief and longing were so unbearable that, though I knew it was a lie, I sometimes told myself she was on an extended trip and would be home soon. This fantasy comforted me for a time.

It's been 18 years now. My healing has involved active, painful work. As I moved from Surviving into Regrouping, I had to let go of some of the coping strategies I had leaned on, like denial and distraction. I couldn't regroup without being willing to live in reality, as painful as reality was.

Looking back, I know some of the positive changes in my life couldn't have happened were she still here, guiding me. I did eventually begin thriving again. I hope some of what I learned will help you to thrive again, too.

Survival

When your life is upended, you are catapulted into change, whether you like it or not. The unknown is scary and, without transition and change, you might never choose it willingly. Yet, upheaval offers you the opportunity for renewal. Losing your bearings helps you to reorient and decide who you want to be and how you want to live. But first you must navigate the Survival phase.

"The rain to the wind said,
'You push and I'll pelt.'
They so smote the garden bed
That the flowers actually knelt,
And lay lodged --- though not dead.
I know how the flowers felt."
–Robert Frost

When you are in the middle of Surviving, you don't have clarity about is happening. It's a turbulent time, akin to standing on the deck of a ship tossed about by a churning sea. Often, the best you can do is hold on.

Challenges

- Coping with intense emotions, including overwhelm
- Reaching out to others and asking for help

Opportunities

- A chance to start new things
- Developing new or improved coping and self-care skills

What to Expect

If a tree crashed into the center of your house, you might have any number of responses. Likewise, your reaction to change and transition will depend on many variables, including whether you chose the transition or it feels like it happened to you; your history of transition, change, and loss; your personality and temperament; your resources; and your support network. You may experience some or all of the following:

- Intense emotions such as rage, terror, despair, sadness elation and excitement
- Emotional swings
- Feeling numb, flat or calm
- A sensation that things are not real or you're not in your body
- Crying jags
- Periods of high energy and enhanced productivity
- A desire to isolate

To-Do List

Helpful coping strategies for survival:

Get Support

Stay connected

Many people withdraw when they are stressed, yet this is a time when you most need other people with you. Studies have shown that the presence of a trusted friend or loved one lowers your perception of pain. Remember that people who care for you want to support you. If you shut them out, it both hampers your recovery and deprives others of the pleasure of helping.

Hire help

If your support network is scant, borrow someone else's or use professionals to fill in the gaps. Many people find comfort from talking to a counselor or spiritual advisor. If you don't have people who can help you with meals or childcare, this is a perfect time to use a meal service, professional childcare and/or housecleaning services.

Accept Help

Make a list (or have friend do it) of things people can do to assist you. Consult the list when people ask what they can do. Following a death, this type of support tends to happen organically, but it's important in other losses as well. If you have trouble doing

this, ask a friend or family member to reach out to others on your behalf or set up a care calendar for you.

Practice Emotional Self-Care

Pamper yourself
When you are going through an emotional upheaval, treat yourself as if you have the "emotional flu," with extra care and gentleness, as if you were sick. The body responds to emotional stress in much the same it does to illness. Don't do anything that's not necessary. Wrap yourself in your favorite blanket, make a cup of tea, watch old movies. Do things that feel good to you.

Feel your emotions
Allow yourself to feel whatever you are feeling, without guilt. Feeling your emotions as they arise is the quickest way to move through them. Resisting them makes them stronger. If you are overwhelmed with sadness or guilt, ask yourself if you are also angry. In women, anger sometimes masquerades as other feelings. Anger, though frightening for many women, can be a surprising source of strength.

Breathe
Under stress, it's common to automatically start breathing from the chest, which tends to trigger the sympathetic nervous system. This system helps you fight off a tiger, but is not helpful for general coping. Try this exercise, taken from *The Mindful Way through Anxiety*, by Susan Orsillo and Lizabeth Roemer:

Place your hand on your belly. See if you can breathe into your belly,
allowing the breath to travel through your chest and down to your belly
and then back out the same way….Don't push yourself too hard.
Just invite your breath to slow down…and become a little bit deeper.
With practice you may find this calms you and creates more space for you to process your emotions.

Journal
Research shows that writing about difficult experiences promotes healing. Don't worry about making complete sentences. Just write.

Practice Physical Self-Care

Move your body
Under stress, it's easy to let healthy habits slide, like going to the gym or taking a walk. The trick is to think small. Even a 3-minute walk around the block can improve your mood and health. Try it, and make a note of how you feel before and after. Paying attention in this way will increase the likelihood you'll do it again. Put on a song you like and move around the room, dance, stretch. Practice yoga. Plan physical activities with a friend, which will help you to follow through with them.

Eat nutritious food
You need good food to fuel your body. Food powerfully affects your mood and energy level. If you don't feel up to cooking, use a local grocery's deli department or a meal service. Don't feel guilty about eating comfort foods. Just make sure you're eating nutritious foods as well.

Make a list of nurturing activities
Consult it often. Listen to music, read a good (but not too deep) novel, make a cup of tea, and/or book an appointment for a massage or pedicure (or ask a friend to go with you so you're sure to do it).

Practice Mental Self-Care

Don't make major decisions
Give yourself time before making significant financial or life changes. After a big loss or change it is best to give yourself a year or more to adjust.

Don't try to make sense of things yet
Clarity comes down the road, when you have time and energy to reflect on what you've been through.

Choose healthy thoughts
Don't beat yourself up with guilt, regret or fear. Talk to yourself the way you would a good friend.

Stay in the moment

This can be hard to do when things aren't going well. Yet, going into the future with "what if" creates anxiety. Going into the past with "if only" creates depression.

Utilize distraction as needed
You can only feel and process intense emotions and experiences in small bites. Distracting yourself with movies, books and television is helpful, as long as you practice other forms of self-care as well.

Don't compare yourself to other people
Everyone grieves and adjusts to change at her own pace. There are no hard and fast guidelines for how long you will be in the "surviving stage." Eventually, you will move into the "regrouping" phase of transition.

Regrouping

"Stand still. The trees ahead and the bushes beside you are not lost.
Wherever you are is called Here,
And you must treat it as a powerful stranger…."
-David Whyte; from the poem "Lost"

After you pass through Survival, you enter Regrouping. This is a stage between *what came before* and *what will come*.

Challenges

- Feeling the discomfort of uncertainty
- Avoiding impulsive action

Opportunities

- The chance to reevaluate your life and your goals
- Imagine and create new possibilities; dream

What to Expect

- Feeling unnerved, exhilarated or both
- Feeling anxious, fearful and uncomfortable
- A desire to make quick decisions
- Lethargy that makes getting anything done difficult

This phase involves experiencing emotions you may typically avoid. If so, you're not alone. Most people like to know where they are, where they are going and how they're going to get there. By contrast, the Regrouping phase feels like being lost. And in a way you are. You've emerged from the cocoon of the Survival phase and stand amidst the wreckage of your former house. With so much disarray, you may feel overwhelmed. What to do first?

"Time passes. It does not heal. Healing is an active process not a passive one."
— Deborah Morris Coryell, from *Good Grief: Healing Through the Shadow of Loss*

To-Do List

Practice Not Knowing
To take full advantage of the potential embedded in this stage, allow yourself to stay with the experience of not knowing what comes next. This can be remarkably hard to do. It involves trying to "stand still" and breathe through your uncomfortable feelings. In doing so, you expand your capacity for challenging emotions, which will help you build a fulfilling life.

Take this opportunity to become more comfortable with the sensation of being lost. If you sprint too quickly away from it you lose a valuable opportunity. So many of us are so focused on "doing" that we don't know what to do if we are not in action. Far from being a passive time, however, regrouping involves a great deal of internal activity.

Avoid Impulsive Action
Resist the urge to jump into action to avoid your anxiety, loneliness and fear. You may believe that quickly making decisions and moving on will help you feel better and heal sooner. But in actuality, when action is made to avoid feeling, it just delays the inevitable and makes things worse. Many people take the first job offered to them after being fired. Others jump into a new relationship after the end of a relationship. "Rebound" relationships and jobs begun in this stage are rarely satisfying for long.

Give yourself time and space
Transition upends the structure of your life. Although it's painful, it also gives you a rare creative opportunity to build something better. To do that, take the time to develop

blueprints and plans that fit your needs. Before you remodel, you want to determine what kind of changes to make. Ask yourself what you want and need now, who you are becoming, and what you want the future to hold. The answers to these questions don't arise automatically. They need space to emerge.

Take a retreat

A personal retreat is an ideal way to set aside dedicated time for checking in with yourself and planning for your next steps. A full day or more is ideal, but even a few hours can be beneficial. If possible, plan to be away from your normal environment so you won't be distracted by the obligations of your daily routine. Take a journal, comfortable clothes, favorite foods and an open mind. *The Woman's Retreat Book* by Jennifer Louden is an excellent resource to consult. Also, check out author Renee Trudeau's blog, *5 Reasons I Take Retreats*.

Journal

One of the greatest gifts of journaling is self-discovery. When you journal, you turn your attention, like a warm beam light, on your inner self. What you learn may surprise you. Try this: Set a timer for 10 minutes. Write whatever comes to mind, without editing. Keep your pen moving across the page. Don't worry about grammar and punctuation or even making complete sentences. Use this technique to explore specific questions. I call this exercise Journal Listing. Write a question at the top of a blank page of your journal. Write whatever comes to you as you ask yourself the question. Try these ideas to get you started:

- What am I feeling/needing/wanting?
- What have I lost?/How have I changed?
- What have I gained?
- What do I want?
- What does my ideal work day look like?
- What is something I've always wanted to try/explore/do?
- What would I do if I knew I could succeed?
- What would I do if I wasn't afraid? (This question taken from *Who Moved My Cheese,* by Spencer Johnson.)
- What do I want to change about myself/my life?

Explore spirituality

- Time spent in nature can broaden your perspective, soothe and inspire. For some people, they connect with a higher power most readily when outdoors.
- Practice mindfulness, which involves paying attention to the present moment, without judgment. Thich Naht Hanh's book, *Peace is Every Step*, is a great introduction to this practice.
- Practice meditation. Many studies have shown that with as little as five minutes a day, mediation decreases activity in the region of the brain correlated with anxiety and increases activity in the brain region associated with calm and happiness.
- Spend time appreciating music, literature, cinema and art.

Allow Yourself to Dream
Create a vision board by cutting out pictures from magazines that appeal to you or represent your goals. Hang it someplace you will see every day.

Assess your life-balance
Take stock of how you are doing in the four areas listed below. Your answers will create a map for self-care and for the next stage, Thriving.

- Emotional: Do your emotions come and go, like waves, or are you "stuck" in one emotion, such as sadness, guilt, bitterness, anger, or regret? If you are worried that you are depressed or stuck, seek help from a therapist. Are your relationships where you want them to be, or is it time to attend to neglected loved ones?
- Physical: Are you exercising, eating healthfully and getting enough sleep? Is your home environment safe and supportive?
- Spiritual: Does your life feel meaningful? Are you connected to community?
- Intellectual: Are you in a rut, do you need or want to learn a new skill or explore a new job? Are you practicing good mental self-care, being careful to choose self-affirming thoughts and stopping self-sabotaging ones?

Thriving

"Soar, eat ether, see what has never been seen; depart, be lost. But climb."
— Edna st. Vincent Millay

One day you realize you're feeling better. This awareness may come on slowly, like the dawn gradually lightens an inky sky. Or it might be sudden, like a rainbow emerging from behind thunderclouds. Your energy is better, your outlook is lighter. You are ready to move into the next chapter of your life.

Challenges

- Planning specific action steps to move toward your goals
- Navigating the trial and error of creating something new
- Continuing to heal and come to terms with the past

Opportunities

- Discovering new parts of yourself
- Strengthening your foundation to ensure lasting growth

What to Expect

Thriving involves planning and implementing the next phase of your life. It involves trial and error. Some of your efforts pay off, others don't. Along the way, you learn what works for you and what doesn't. And you continue to learn about yourself.

To-Do List

Commit to your ongoing healing and growth
Growth does not happen linearly. There will be times when you feel a wave of grief, doubt or anger that may take your breath away. This is normal. At those times, take extra care with yourself. This job of living and creating a satisfying life is hard work. Stay fueled for the journey by staying on your own team, always.

Consult your roadmap
What did you learn about yourself during the regrouping phase? Now is the time to address areas of imbalance you uncovered. Perhaps you want to reinvest in a relationship, learn a new skill, reconnect with a higher power or take hold of your finances. You've got the energy and time to do it now. After trying something new,

revisit the journal exercises listed in Regrouping. Create a creative feedback loop to ensure you stay on track.

Seek support
To change old habits and continue to grow, you need support. Invest in yourself by pursuing counseling. Develop new friendships and deepen existing relationships. Women's support groups, divorce groups, spirituality groups and meetup groups are all possible sources of inspiration and support. Shore up existing support and continue to seek out other avenues.

Invest in relationships
Research shows that good relationships predict longevity, physical health and emotional fulfillment more than any other factor. One study showed that having a good support network added more to life expectancy than diet and exercise combined. If you are recovering from the end of a significant relationship, take the time to learn about yourself and your role in your relationship patterns. Group therapy is the treatment of choice for relationship concerns. To find a Certified Group Psychotherapist, go to www.agpa.org.

Strengthen your financial stability
Take the time to address your financial health to ensure you will be able to live the life you desire. A good financial planner can help you assess your current situation and help you meet your financial goals. Take ownership of your finances by educating and empowering yourself.

Additional Resources:
Self-Compassion, by Kristen Neff
Finding your Own North Star, by Martha Beck
When Things Fall Apart, by Pema Chodron
The Mother's Guide to Self-Renewal, by Renee Trudeau
Constructive Wallowing, by Tina Gilbertson

Alyson M. Stone, PhD, CGP

Alyson M. Stone's therapy approach is collaborative, insight-oriented, and rooted in the belief that every person has an innate desire and capacity for healing and growth. This natural tendency can become blocked due to limiting or damaging life experiences. Current research clearly shows that even beliefs and patterns that were formed very early in life can be altered and improved. It is Alyson's experience that within the context of a good working relationship with a therapist and perhaps a therapy group, people show amazing capacity to grow and develop deeply satisfying lives.

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Chapter 2: Divorcing from a Lender’s Point of View

By: Rebecca L. Thorburn, CDLP®
Divorce Real Estate Professionals® at rebeccashomeloans.com

If you are divorcing and have an existing mortgage or want to buy a new home, talk to a mortgage lender – preferably a Certified Divorce Lending Professional® (CDLP) – early in the divorce process.

A CDLP has special training and expertise to navigate the complicated intersection of mortgage lending, real property laws and tax codes. CDLPs work with attorneys or financial advisors and their clients to:

- Identify the options for and implications of dividing residential real estate
- Identify divorce settlement agreement elements necessary to support future residential real estate financing needs
- Manage post-settlement residential property transactions

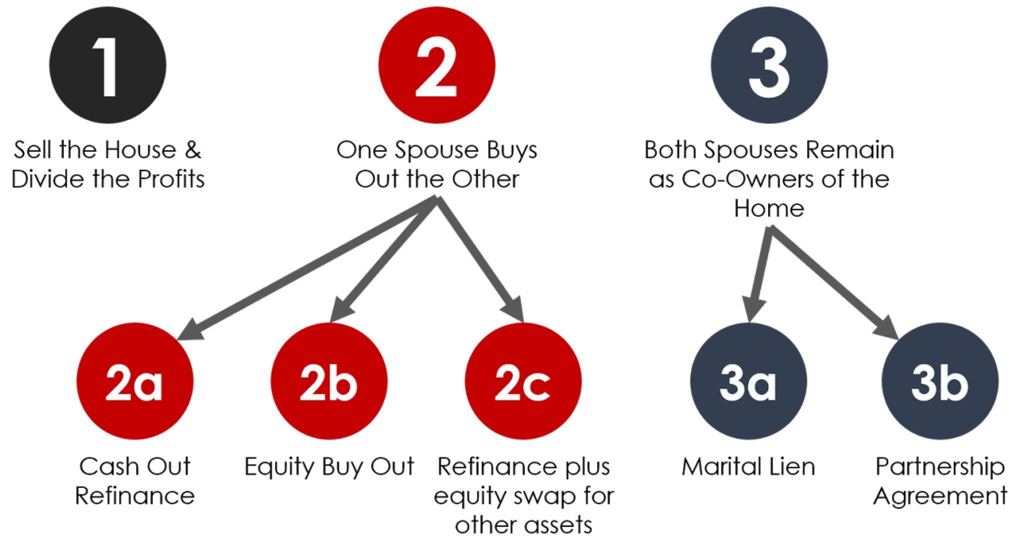
A CDLP can help you and your attorney or financial advisor make decisions about existing residential real estate and prepare you for future residential real estate financing needs. Your goals for future home ownership are critical to understand early in the divorce process so your attorney can help craft a settlement that supports them. However, attorneys and financial advisors are not experts at mortgage financing, the same way loan officers are aren’t experts on the law or financial planning, and a CDLP can step in to provide that expertise and detailed recommendations specific to your mortgage situation and goals.

Even if you did not engage a CDLP during the divorce process, one can help you after the divorce as well. Their additional training will help ensure a smooth process for a refinance or a purchase.

Find a CDLP near you from the Divorce Lending Association.

You Have Options

When a divorcing couple co-owns residential real estate, there are a few options for them to divide that home.



Selling the house and dividing any profits (or losses) is generally the easiest approach from a financial and transactional standpoint. Other considerations, such as maintaining stability for kids or keeping kids in the same school district, may prevent this from being a good option, however. If you or your soon-to-be ex want to keep the home, be very clear on the reasons for doing so.

Another option is for one spouse to buy out the other. In this case, it is necessary for the "departing" spouse – the one who will no longer own the home – to be removed from the mortgage through a refinance. Yes, that is a necessary step! This is very important and often misunderstood. The divorce settlement agreement awarding the property to one person is in effect a "Quit Claim Deed" that removes a party from the ***title*** of a residential property. However***, a Quit Claim Deed does NOT remove a party from the mortgage***. This party continues to be obligated on the mortgage until they are refinanced off the loan.

There are several ways to complete a buyout:

- Cash-Out Refinance

- Equity Buy-Out Refinance
- Swap some or all of the equity in the home for another asset

Often during a divorce, cash is a desirable but scarce thing. One way to find more cash is to pull cash out of the equity of the home. A Cash-Out Refinance can be done to provide cash to both spouses. Alternatively, an Equity Buy-Out Refinance can be done to award cash to the “departing” spouse only. In both cases, the new mortgage is in the name of the retaining spouse only.

Another alternative is to award the equity in the home to one party in exchange for awarding equivalent equity of another asset to the other party. For example, one party keeps the equity in the home while the other keeps a joint investment account of equivalent value.

The third option is for both spouses to remain as co-owners of the home. This can be very complicated for a divorcing couple as they are essentially entering a business partnership and therefore must agree on key terms, including:

- When will the home be sold?
- How will you divide profits/losses?
- What happens if the spouse who continues to live in the house remarries?
- Who is responsible for paying for maintenance of the home?
- How are decisions made regarding what maintenance activities are necessary and/or should be completed?

It is important that all terms be very specific to prevent confusion or additional trips to the attorney or court in the future.

Moving Forward

If you are looking to buy a new home after a divorce, it is important to know if you have been removed from the previous mortgage prior to getting too far into the search for a new home. If you haven’t yet been removed from the loan, there may be additional challenges in qualifying for a new mortgage. A CDLP can help prepare for that situation upfront so there are no hiccups once you are under contract on a new home.

I often meet with clients who are considering buying a new home before the divorce is final. This is understandable, but a really bad idea. You may feel that applying for new mortgages (refinance or new purchase) during the divorce process is helping to speed things along, but you may in fact be committing mortgage fraud without realizing it.

Additionally, if the divorce isn't final, the home could be considered joint property even if that isn't your intent.

My recommendation is to wait until after the divorce is completed to buy or refinance a home.

If you choose to move forward with a purchase or refinance during the divorce process, be very careful:

- Be sure to accurately complete the application:
    - Your marital status is still married
    - Check the appropriate box to indicate that you are involved in a lawsuit
- Inform your lender of the pending divorce
- Ensure your attorney is supportive of your intended purchase or refinance
- Understand you will need the court's approval to proceed and access assets to complete the transaction
- Understand the qualifying income requirements

A key reason to engage a CDLP during the divorce is to make sure the settlement agreement sets you up for future home financing needs. Typically, (and especially when there are children in the picture) the wife is awarded the marital home in the settlement; if this happens, it is important the wife also is awarded the financial means to own the home.

INCOME ≠ QUALIFYING INCOME

Income is a critical component to qualifying for a loan, whether you are an individual or a couple. For income to be considered "qualifying income" for a loan, it must meet certain criteria. Qualifying income may be comprised of employment income, support income, income from a settlement note, retirement account withdrawals or investment earnings. The typical guidelines for support income to be considered qualifying income are often referred to as the "6/36 Rule":

- If spousal support is part of one party's qualifying income for financing, support must have been received for six months and guaranteed for at least 36 additional months at the time of loan closing.

- If spousal support comprises more than30% of one party's qualifying income OR if part of the support is via a Promissory or Property Settlement Note, the rule becomes 12/36.

Different loan products have different criteria, but these are the most typical across loan products. A CDLP can work with you to determine which products are most relevant to your situation and help you and your attorney craft settlement elements to ensure any support income meets the necessary criteria.

Another key takeaway here is that support income should start as soon as possible if it will be needed to qualify for a future mortgage. Support income received during the divorce process can count toward the six months if there is a temporary support agreement in place and there is proof of payment and receipt of the support.

When the time comes for a home financing transaction, it is important to be prepared for the documentation requirements. In addition to the normal list of documentation required for a mortgage (employment income, assets, liabilities, tax returns, etc.), new mortgages (or refinances) may require:

- Executed copy of divorce settlement agreement or separation agreement
- Approval of the court for any purchases during the divorce process
- Proof of payment of support payments (following the 6/36 rule)
    - May include account statements from the ex-spouse to show where the funds are coming from (or going to)
    - Applies to Promissory and Property Settlement notes as well
- Proof of age (birth certificates) of children if child support is paid or received

These days, getting a mortgage requires a ton a paperwork and documentation. It can be frustrating. Being prepared to provide these additional documents can help reduce the frustration and lead to a smoother financing process.

I always recommend working with a mortgage lender to get pre-qualified or pre-approved before beginning your home search. This helps you understand how much home you can afford before you begin looking. It also can help move some of the documentation delivery activities to earlier in the process which makes the actual transaction process much smoother. A pre-approval requires more documentation than a pre-qualification, but it also is more powerful to you in the home search process. A pre-qualification indicates that a lender is likely to give you a loan based on initial information you provided. A pre-approval indicates that you have already been partially through the underwriting process and a lender is ready to give you a loan as soon as

you find a house. That difference may seem subtle, but it isn't; it can make a big difference to a seller or seller's realtor, especially in a multiple offer situation.

This checklist can help you simplify decisions related to your home during divorce.

For Widows

If you are widowed, unfortunately there is a long list of actions for you to take to gain control over the finances. When it comes to the mortgage, the first and most important thing is to make sure the monthly mortgage payment is paid on time, every month.

A lender, on the death of a borrower, can usually "call the loan" under a due-on-sale clause, but if you are making the mortgage payments, the lender is not likely to do this. If your name is on the title or deed, or if you are left the house in your husband's will, you may be eligible to assume the mortgage under the Garn-St. Germain Depository Institutions Act of 1982. There is a requirement that you live in the home. Make sure your attorney reviews the mortgage documents to determine what clause is in place.

If your name is not on the mortgage already, you will want it to be. There are usually two options for this: a refinance or an assumption. Do not undertake either of these steps until you have tackled items such as understanding investments and insurance and updated all joint and spouse named accounts to your name.

For either a refinance or an assumption, the lender will want to qualify you as an individual for the loan. If you are of retirement age, then income from 401ks, Social Security and other retirement accounts are used for qualifying income. If you are not of retirement age and are employed, your employment income plus any other annuities, investment, or insurance income may count toward qualifying income.

For either a refinance or an assumption, there will be a cost. Assumptions generally cost around 1.5% of the loan amount, although the cost varies from lender to lender. For a refinance, closing costs are around $3,500 in Texas, plus title insurance (varies based on the price of the home and time since origination of the current mortgage) and the amount of prepaid taxes and insurance if you use an escrow account. In either case, the cost of the refinance of assumption may potentially be added to the loan amount.

A refinance may allow you to lower the rate on the mortgage or change the term (length) of the mortgage. With a lower rate, your new monthly mortgage payment would be less. With a shorter loan term, you could pay off the mortgage faster; with a longer

loan term, your payments would decrease, but you would be obligated on the loan for a longer period of time.

If you cannot qualify for the mortgage on your own, consider asking a family member to be a co-borrower on the loan. With a co-borrower, your income and their income will be considered.

An alternative to an assumption or refinance is to pay off the mortgage with the proceeds of your spouse’s life insurance. While this will require a large amount of those proceeds, it also will save you the paperwork associated with an assumption or refinance and from worrying about paying the mortgage each month. (Make sure you continue to pay taxes and homeowners insurance, however!)

Another alternative, if you are at least 62, is a reverse mortgage. There are no credit or income requirements needed to qualify for a reverse mortgage. Generally, a reverse mortgage works best if the current mortgage balance is about half of the home's value or less. A reverse mortgage would allow you to stay in the home, and you would not have to worry about paying additional mortgage payments.

If possible, taking action before a spouse’s death is the best course of action:

- Make sure you have your own credit card and credit history
- Make sure you are on the title or deed to the home (your county property tax division can help you here)
- Make sure you are on the mortgage or there is insurance available to pay off the loan upon your spouse’s death
- Put accounts into your name or both names

Rebecca L Thorburn
Rebecca L Thorburn is a mortgage loan officer with PrimeLending (NMLS #1369022) and Certified Divorce Lending Professional®. Leveraging her prior experience in high tech marketing and strategy consulting, Rebecca delivers an exceptional mortgage loan experience to her customers. Expect personal service, education, and open communication.

Rebecca's expertise spans mortgage loans for residential home purchases and refinances, including jumbo loans, renovation loans, second/vacation homes and investment property loans. As a CDLP®, she offers specialized assistance to family law attorneys and individuals in a divorce situation as they navigate the options and complicated details related to dividing property, managing current mortgages, and preparing for future mortgages.

Chapter 3: Investments

By: Scott O'Brien, CFP®
Partner, Financial Planner at WorthPointe

Let me begin by giving you a brief primer on the most common investment assets: stocks and bonds. Then, I will cover a some statistics and observations related to women and investing. Lastly, I will cover some important investment topics.

What is a stock?

A stock is a share of ownership in a company. For many private companies, there comes a time when they need additional money to build more factories and hire more employees, so they issue shares of ownership in their company.

Shareholders become partial owners in the company and typically hope it continues to grow, as the value of the shares increases as the company becomes more valuable. The company may also pay out some of the monies it generates each year to its shareholders. These distributions are known as dividends.

What is a bond?

A bond is an investment that pays a particular amount of interest for a particular amount of time. Bonds are similar to Certificates of Deposit in this regard.

For example, the U.S. government might issue a 10-year bond that pays 2% interest per year and matures on 12/31/2026.

Because the U.S. government is considered very safe in terms of its ability to repay its debts, it can offer a lower interest rate than say Ford Motors might be able to offer. Since Ford Motors' ability to pay is dependent on its ability to produce and sell cars, it has a higher risk of not paying the interest on its bonds then the U.S. government does. Therefore, it pays a higher interest rate to offset the risk investors are taking for accepting this higher degree of risk by buying the Ford bonds rather than U.S. government bonds.

Bonds, while often considered “safe” investments by many investors, have a few types of risk to consider:

1. Default risk or ability to pay risk. (See the Ford example above.)
2. Inflation risk. While it might seem nice to receive 5% on a bond, if inflation is running at 6% you are really losing money in terms of purchasing power.
3. Interest rate risk. This risk involves the movement of interest rates up and down during the time you hold a bond. For example, let’s say you purchased a $10,000 bond that pays 3% and matures in 10 years. Every year you will get $300.

Then, let’s suppose the following year interest rates for bonds of equivalent safety and time are now paying 4%.

Which one do you want now: the one you own or the one that pays 4%? Of course you want the 4% bond and so does everyone else!

You could sell your $10,000 bond paying 3% for 10 years to someone else -- but remember they don’t want you bond if they could buy an equivalent quality bond paying 4%. Therefore, you would have to sell your bond for less than $10,000 to entice someone to buy it.

This illustrates why bonds can fluctuate in value during the time you own them. Incidentally, it works in the opposite direction if interest rates fall.

Think of it like a seesaw. When interest rates go up, bond values go down and vice versa.

In general, stocks are considered more risky than bonds, so investors must be calculating in determining how much they invest in stocks vs. bonds.

Stats and Observations

The *Kiplinger's Financial Advice & Investing Survey* revealed that 83.8% of single wealthy women and 80.2% of widows relied on newspapers, magazines, and websites as their primary tools for learning about finances. Financial television news networks and financial advisors came in second and third.

According to the University of California-Berkeley study, "*Boys will be boys; gender, overconfidence and common stock investment"* by Brad Barber and Terrance Odean, published in 2001, women outperformed their male counterparts by 2.3% over a seven-year period.

One of the reasons for that outperformance was attributed to the observation that women tended to take a more patient approach. A second study from Berkeley shows that the more an investor traded, the lower his or her returns.

Despite this evidence, investors are buying and selling at a more rapid pace now than ever before. In 2015, mutual fund company MFS found the average stock was held for only 8 months -- compared to an average of 8 years in 1960.

The Berkeley study found that women tend to trade 30% less than men. But the temptation to trade is clear: information is instant and abundant, trading commissions are low, and the action can be exciting.

However, Odean states that, "Trading is hazardous to your wealth."

A survey by BlackRock reported that only 25% of baby boomer women feel knowledgeable about investing compared to 46% of Boomer men.

However, confidence and knowledge are two different things. Many studies indicate the more overconfident investors are, the lower the returns tend to be.

Most investors overestimate how much they know, but research shows women tend to be less overconfident than men. A lack of confidence may well lead an investor to higher returns.

Women also tend to be more risk averse. Risk averse people tend to keep the fear of losing money at the top of mind. Women tend to be more conservative with their investments, preferring safety over growth. They also tend to make fewer changes to their portfolios. Consequently, women's portfolios may lag in up markets, but they may lose much less in down markets.

While the savings and investing basics are the same for everyone, there may be gender differences in knowledge, temperament, and attitude toward money.

Men tend to want to keep score: how much did I make? Women tend to want to meet certain lifestyle goals and be comfortable.

When managing money, men tend to say "I do" where women say "We do." Women prefer a more collaborative approach.

Financial knowledge overconfidence showed up in a recent study by the American College for Financial Services. It found that only 20% of retirement-age Americans can pass a basic quiz on how to make their portfolios last through retirement. About 80% of the more than 1,000 respondents to the online survey scored an F, meaning they answered 60% or less of the questions correctly.

Despite the failing retirement income grades, many respondents are surprisingly optimistic about their retirement prospects.

About 55% consider themselves well prepared to meet their income needs in retirement and 91% are at least moderately confident in their ability to achieve a secure retirement according to The American College's Retirement Income Literacy Survey.

The bottom line is that financial education can be the great equalizer in meeting your goals and women tend to be better investors over time. With that being said, let's cover a few important topics in investing.

Begin With The End In Mind

Q: How should you allocate your investments?

A: The same way porcupines make love — very carefully.

Building a portfolio is like having a suit tailor made. You may use the same fabric as everyone else, but your suit is custom fit to you.

The critical question is how do you choose what portion of your investments should be invested in what assets — for the best returns with the least amount of risk.

In the end, your goals should dictate your portfolio allocation. What's that mean?

Think about what you want to accomplish:

- Perhaps early retirement
- College for the kids
- A gift to a favorite charity after your death
- A lifestyle during retirement that matches your current standards
- Building a financial portfolio that will continue to aid your family long after you're gone

The 4-Part Process

The first part of this process is Objective-Based Asset Allocation, a concept that says your asset allocation should be based on what the ultimate objective is for your portfolio.

The process is similar to buying a vehicle. The one you buy depends a lot on what you need it to do. Hauling a boat, transporting a family with 6 children, city or country driving, current budget, and cost all play a role in deciding the best vehicle for you. Investing is the same way. You have to define your long-term needs, and then you can figure out the best financial vehicles to get there.

That's the logical part of investing.

The second part: Once your goal is determined, choosing an allocation is a bit like a film director putting together his cast. He needs to have many different performers working together for the greater good. You need the same strategy when allocating your investments.

This is the “art” part of asset allocation.

The third part: The science part is simply looking back historically and seeing how different asset classes work together. Historical research reveals that adding increasing numbers of asset classes (diversifying) can increase your return while decreasing your risk. This is the proverbial having your cake and eating it too scenario.

You want to base your investment allocation on academic research instead of hunches, hope and hype. With empirical data in hand, you can make precise decisions — the equivalent of operating with a scalpel instead of a meat cleaver. Use academic research, and you’ll have the right tool (asset class) for the job.

The fourth part: Once you have the logistics, art and science parts established, it then becomes a matter of risk tolerance. Or as I like to call it, “loss tolerance.” Most people don’t mind risk if they get good returns — it’s the losses they don’t like.

Legendary investor Benjamin Graham put it best when he said, **"Do you want to eat well or sleep well? That will determine what I recommend."** Base your loss tolerance on your willingness and need to take risk.

More Tools Available

Not so many years ago, investors who lived in the U.S. held portfolios primarily made up of U.S. stocks and bonds. Fortunately, things have changed over the last 20 years. Access to asset classes such as commodities, real estate and emerging markets have added to an investor’s ability to find less correlated assets to reduce volatility and risk.

That means you have more choices with the possibility of better returns with less risk of loss.

One of the secrets to great asset allocation is to create an anchor within the portfolio that combats the emotional reaction to the panic and greed of the markets. A popular anchor is short-term, high-quality corporate and government bonds.

Because these types of bonds present little credit, inflation, or interest rate risk, their inclusion in a portfolio allows more risk to be taken in the potentially higher performing segments of the market: stocks and real estate. This combination is comparable to the need for having both a heating and cooling system in your house.

Like shingles on a roof that shelters your house from the rain and snow, the bonds provide comfort during troubled times in the market. Fixed income investments dampen volatility, generate income and enhance returns.

Bonds are your anchor to reduce risk.

How Important is Asset Allocation?

In the late 1980s Gary P. Brinson, L. Randolph Hood and Gilbert L. Beebower published a study based on reviewing 82 large pension funds. Their conclusion was that asset allocation accounted for over 94% of the returns among those funds. Less than 6% of the returns were due to market timing or investment selection.

In other words, asset allocation was 15 times as important as the choice of individual stocks or attempts at market timing.

So, instead of trying to figure out who the best investment manager is, spend your time figuring out an allocation that is compatible with your loss tolerance.

You see it’s quite easy to figure out who the top performing managers are at any point in time. The tricky part is figuring out who the top performing managers are *ahead* of time.

Top performers in one year seldom, if ever, repeat their performance in subsequent years. Many years ago a well-known Wall Street advisor, Robert Stovall, when asked about the persistently poor performance of active mutual fund managers responded,

"one-third of the money managers tend to beat the market every year, unfortunately it's different ones each time."

History is also filled with evidence that annual lists of top managers were only the top performing managers due to being in the "hot sector" at that particular time. So when the hot sector eventually turned cool — or as academicians label it, "reverted to the mean" — these managers invariably suffered in their performance rankings.

Since asset allocation has been documented academically to determine up to 90% of your returns, it only makes sense that this is the area in where you should spend the bulk of your time instead of chasing after the best recent performing mutual funds or money managers.

The risk and return of each individual asset class by itself isn't important. What is important is how the inclusion of each individual asset class adds to return and reduces risk in the entire portfolio.

Let's move on to other areas to consider.

Probabilities

Investing is all about probabilities. About 70% of the time the stock market has a positive return on a year-to-year basis. That's 7 out of 10 times. To put this in perspective, look at the next page and consider the statistics from the Forum for Investor Advice.

Statistical Odds
Odds that you will win the lottery: 1 in 4,000,000
Odds that you will be dealt a Royal Flush: 1 in 650,000
Odds that a meteor will strike the Earth in your lifetime: 1 in 9,000
Odds that you will be robbed this year: 1 in 500
Odds that the airlines will lose your luggage: 1 in 186

Odds that you will be audited by the IRS: 1 in 100
Odds that you'll get snake eyes when rolling dice: 1 in 38
Odds that you will go to Disney World this year: 1 in 10
Odds that the next bottle of water you buy will be nothing more than tap water: 2 in 10
Odds that you will eat out today: 5 in 10
Odds that an investment in stocks will make money in any given year: 7 in 10

Part of your investment strategy should be “probability-based” investing. As Aristotle once said, “The probable is usually what happens.”

Ed Thorp, the author of the bestselling book, *Beat the Dealer*, noted that in blackjack, the payoffs are set, and the player's task is to assess the probability of drawing a favorable hand. Thorp’s book showed how to count cards to identify when the probabilities of a winning hand tilt in a player's favor.

When the odds favor the player, the ideal strategy is to increase the bet (effectively increasing the payout.)

Thorp notes that even under ideal circumstances, favorable situations only arise 9.8% of the time; the house has the advantage the other 90.2%.

“That is the nature of the art of investing — it requires probabilistic decision-making using imperfect information about an inherently unknowable future.” – Barry Ritholtz

Because most investors don’t have a good grasp of the history of the financial markets, they tend to make emotional decisions regarding their investments based on the current news rather than historical probabilities.

According to Ned Davis Research, there have been 294 dips of 5% or more in the S&P 500 since 1928. This means these dips happen on average 3-4 times a year. This also translates into 3-4 times a year that the average investor can completely screw up and do something stupid like selling just prior to the market climbing back up again.

The S&P 500 has dipped over 10% exactly 94 times since 1928. That’s just over one time per year. Historically, 15% dips happen every other year and a 20% dip every 3 years.

With these statistics in mind, the big picture statistic is that on average the stock market rises 2 out of 3 years.

Correlation

Correlation is the interdependence of certain quantities. For our purposes, think of it as how different investment assets interact with each other.

Think of practicing the piano and how well you play — there is a positive (or high) correlation between how much you practice and how well you play.

The same is true for surgeons and golfers. The more you practice any task, the higher your skills become at it.

Negative, or low correlation can be explained with the following example: The more you criticize someone, the less likely they are to be your friend and the higher the negative correlation between the two.

A zero correlation would be if two things are unrelated or random. If the correlation concept were applied to basketball players:

- A correlation of -1 is when two parts behave very differently — like a 6'1" left-handed point guard and 7'4" right-handed center.
- A correlation of +1 is when two parts behave exactly the same like twin right-handed brothers who play point guard.
- A correlation of 0 means the items being studied move in a random matter — two random people from the audience running around on the court during a game.

You should look to invest in assets with a low correlation. This often seems counterintuitive. Wouldn't you want your investment assets to all go up at the same time? Well, in theory, yes.

But in the real world of your financial future, that would also mean your investments would all go down at the same time and that's a problem.

Everyone is happy when investments are going up, but despair surfaces when asset prices fall.

Most investors look at their portfolio and see the ones that have gone down or aren't doing as well as others and think, "I should sell that one and buy this other one that's doing well."

If you find yourself feeling that way, you're falling into the trap of believing that what is going up will continue to go up and what is lagging will continue to lag. The evidence from tracking real-life financial portfolios over a lifetime says the "principle of reversion to the mean" will surface at some point, and the opposite will happen.

Reversion to the mean is the theory that prices and returns eventually move back toward their mean or average. For example, the S&P 500 has a historical average of close to 10%.

If the S&P 500 Index were to have 5 very good years in a row and averaged over 15%, then the reversion to the mean theory would say there is a high probability the index will start to produce lower returns as the performance numbers return to their historical average.

When building a portfolio, you want to combine assets that have low correlations to each other. Some are going up and some are going down. The goal is for your portfolio to travel on a smoother ride with lower volatility and risk. That's your goal, but it's difficult to achieve.

Overall risk in a portfolio isn't the average risk of each of your investments; risk can actually be less if your investments don't move together.

Beyond correlation, there is diversification.

Diversification

Money manager James Gipson wrote:

"Diversification for investors, like celibacy for teenagers, is a concept both easy to understand and hard to practice."

Diversification is simply spreading your investments between the numerous different asset sectors or classes to spread the risk of holding any one component.

To listen to some of the talking heads on TV you would think diversification is a bad word. You might hear some gunslinger investment manager proclaim that diversification is nothing but a guarantee of mediocrity.

In contrast, financial writer Nick Murray states:

"Diversification is the conscious decision not to try to make a killing, in return for the comforting knowledge that you'll never be killed."

Diversification requires discipline.

Many investors can't seem to resist the temptation to gamble or speculate — hoping for the big return.

Proper diversification dampens down the "excitement" quotient of a portfolio, and it does so on purpose. It can lower the risk while simultaneously increasing your overall portfolio return.

For investment managers, the best chance to outperform is to concentrate the portfolio on a small amount of stocks, betting on superior performance. The idea is that by just having the manager's very best ideas, you're more likely to have superior results.

Unfortunately, having a concentrated portfolio is also the most likely way to have poor performance if the manager is wrong.

Diversification is an important strategy because the highly unlikely is still possible.

The strategy of diversification is simply based on the old adage: "Don't put all your eggs in one basket."

One clever quip says, "I put all my eggs in one basket and the handle broke." Don't let it happen to you.

Putting all your eggs in one basket is the surest way to make a fortune; it's also the surest way to lose one.

Diversification isn't a complete failsafe. If you look back to 2008 when all asset classes except for U.S. government bonds fell dramatically at the same time, diversification didn't work as desired.

As many pundits have noted, in 2008 diversification failed at the exact time it was needed. Investors suffered losses in almost every asset class. The reason behind the failure is that in a panic, all asset classes became correlated and acted alike.

Diversification mitigates losses but doesn't eliminate them. Some people use the 2008-2009 timeframe as an argument that diversification doesn't work. That argument is much the same as going to a doctor and being told to take a specific medicine in the hopes of preventing a particular ailment and then coming down with the ailment anyway. Was it wrong to take the medicine? Of course not! Don't confuse the strategy with the outcome.

Just because it didn't work one time, the strategy of diversification shouldn't be cast aside.

Study after study has proven that diversification is a critical component to your investment strategy. Just ask the former employees at Enron, WorldCom, Adelphia and the hundreds of high-tech companies that have failed since the 2000-2002 tech bubble burst. Many employees lost most, if not all, their money by failing to diversify their investments, as they had large portions of their portfolios tied up in their employer's stock.

There are a handful of periods in the last century where the stock market has made no money for 10 years or more. For example, an investment in stocks that made up the

S&P 500 during the periods of 1929-1942 (13 years) 1996-1982 (16 years) and 1997-2009 (12 years) would have amounted to no more than a break-even investment.

However, at least in the decade of the 2000s, if you had been invested in bonds, real estate, commodities and foreign stocks, your return would have been in the 5-6% range. Not great, but not zero. The S&P 500 suffered a cumulative loss of 9% for 2000-2009 decade while emerging markets were up 405%, small international stocks gained 199% and real estate increased 176%.

Diversification works.

Author Larry Swedroe makes a great point:

"Diversification is always working; sometimes you will like the results and sometimes you don't."

The importance of diversification is lies in the inability to predict which sector is the best investment. Stocks move in response to unpredictable, unknowable events — both good and bad — such as regulation, technology breakthroughs, management woes, fraud, and geopolitics to mention a few.

Nobel Prize-winning economist Paul Samuelson proclaimed:

"Because we cannot predict, we diversify."

Summary

Investing is part logic, art, science, probabilities and risk.

- Asset allocation is much more important than trying to figure out who is the latest "hot" fund manager.
- Diversification reduces volatility.
- Reducing volatility maximizes the chances that you will stay invested during periods of market turmoil.
- Be strategic by placing the law of probabilities in your favor.
- Develop a portfolio that contains uncorrelated assets so all your investments don't move in the same direction at the same time.

Additional Resources:
Evidenced Based Investing by Scott W. O'Brien, CFP®
The 8 Critical Questions You Should Ask Before Choosing a Financial Planner

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Scott W. O'Brien, CFP®
Scott W. O'Brien is a CERTIFIED FINANCIAL PLANNER™ professional who serves clients by coordinating their financial lives and assisting them in making smart financial decisions within the areas of investments, retirement planning, insurance strategies, tax minimization, and estate planning.

He is a partner and Director of Wealth Management at WorthPointe LLC based in Austin, TX.

In 2015 and 2016, Scott was named by *Texas Monthly Magazine* as a Five Star Professional Wealth Manager for Austin, San Antonio and the Central Texas region. Approximately 2,300 advisors were nominated and 476 selected. The selection process is based on ten criteria including years in the industry, clean regulatory record, client retention, education and professional designations.

He is the author of Evidence Based Investing which endeavors to separate fact from fiction regarding investing by using data from academic studies. He has been quoted in the *Wall Street Journal, US News & World Report, Money Magazine, Time.com, MainStreet.com* and *Investopedia.*

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Chapter 4: Tax Considerations for Women in Grief

By Tricia Teegardin Edwards
Managing Partner, Teegardin & Associates CPAs

Death of a Spouse

The death of a spouse can be one of the most traumatic events you may ever experience. There are so many unanswered questions and such uncharted territory to go through. Although many of the challenges seem completely uphill, know that you are not alone and you will "get there" with the help of loved ones and trusted advisors.

"When my husband passed away, I had no idea where to start. It was not that I wasn't involved in our finances and taxes, but he always took the lead and I felt lost on even knowing where to start. Soon after his death, our credit card bill came due and it took all the energy I had to figure out how to pay the bill online. A few days later, my bank contacted me that I had overdrawn our accounts as my husband always had the bill set up to auto draft. I lost it and felt like the world was imploding. After my daughter told me to take a deep breath and ask the bank and credit card company to help me out by refunding the fees, I found that people really are willing to help… you just have to ask." –Margo

Many times women do not handle the finances for the family, so they don't even know where to begin. Your prior year tax return is an excellent place to start as it will list details of all of the income received in the prior year. Details on the tax return will help you track down the various accounts you and your spouse own. Contact your CPA right away and let him or her help you with this process.

Financial Considerations

You will want to make a list of all your accounts and balances – assets and debts. Begin with the bank accounts and determine whether they were joint accounts, separate accounts or payable on death (POD) accounts. For joint accounts, you will continue to

have access to all the funds because your name is on the account. POD accounts work in this exact same fashion as long as you were named as the beneficiary. You will need to show the bank the death certificate and the account will be transferred to you.

Accounts where your spouse was listed as the only account holder will not be accessible to you once you inform the bank that your spouse has passed. To gain access to separate accounts, you will need to go through the probate process, where the court determines how the assets are administered. The probate process can take months, and during this time you will not readily have access to the funds in affected accounts. This will apply to bank and investment accounts that contain liquid assets.

Check to see what accounts have auto debits or ACH payments coming out of them and make the necessary changes. If payments are missed or bank accounts are overdrawn, call the credit card company or bank. Most times, they will be very happy to help you and will often waive the overdraft and late fees. This is a very stressful time for you and most people will want to help.

Asset Transfer and Storage

You will want to contact the estate planning attorney who created your wills if that planning was done. The estate planning attorney will be instrumental in providing information about how the assets of the estate will transfer, how you gain access to accounts that were only in your spouse’s name, and what the probate process will be like.

Assets that have beneficiary or POD designations pass outside the will, as do assets held in living trusts. Everything else will be distributed according to the will so it will need to be probated. The probate process can be very simple or quite complex. Hiring a competent estate planning attorney or probate attorney is very important.

If your spouse died without having a will, it is considered dying “intestate” and state law will determine how the assets will transfer. Every state’s laws are different. Dying intestate can be very stressful for the surviving spouse, causing a lot of headaches and expense — and oftentimes the assets do not pass the way you would expect. In time, you will also need to update your will. You should not put this task off too long.

Social Security

The Social Security Administration pays a death benefit upon the death of a taxpayer. Unfortunately, the amount is only a one-time benefit of $255. However, if your spouse was eligible to receive Social Security benefits and you were married for at least 10 years, you can apply to receive one-half of their monthly benefits for the rest of your life. The amount you receive depends on your age and the type of benefit you would be eligible to receive. If you are of retirement age, you can receive full benefits or as early as age 60 if you are eligible for reduced benefits.

If your spouse was receiving reduced benefits, the SSA bases your survivor's benefit on that amount. The maximum survivor's benefit amount is limited to what the deceased would receive if he was still alive.

If you remarry after you reach age 60, your remarriage will not affect your eligibility for survivor's benefits.

If you have minor children, you can apply for Social Security benefits for your children and receive benefits until they reach the age of 18. There are even certain circumstances where benefits will continue past age 18. These benefits can be significant monthly income (75% of the deceased monthly benefit) and are non-taxable to the child.

"I had no idea that my children could apply for Social Security benefits until my CPA told me. The monthly benefits were way more than I expected and it immediately put my mind at ease knowing that the children would have this monthly income. I was also relieved to find out that these benefits weren't taxable." – Jill

Income Taxes

Income earned by your spouse up to the date of death will be included on your individual income tax return (Form 1040) for that particular year. However, any income earned after the date of death up to the time the assets are distributed to the surviving spouse or heirs is taxed to the "estate" of the deceased. You will need to get an EIN (employer identification number) from the IRS to establish the estate. Banks, investment

companies and possibly your spouse's employer will want this number so they may issue checks, income, and distributions to the estate. Your CPA or estate planning attorney can obtain the EIN from the IRS. It is usually a very quick process.

If the estate of the deceased earns more than $600 in any particular year, the estate will need to file a fiduciary tax return (Form 1041) and pay the associated taxes. The executor of the estate is responsible for filing all estate tax returns.

Sometime estates are opened and closed within a matter of months, while others can extend for years due to a slow probate process and beneficiaries who are in legal battles. Most estates do not file more than two tax years before the affairs of the estate are completed.

The IRS considers you married for the full year no matter what date your spouse passes. In the year of your spouse's passing, you will file a "married filing jointly" tax return for the entire year. If you have minor children, you can claim a special tax status called "qualified widower" for up to two tax years after the death of your spouse provided you do not remarry. The qualified widower brackets are the same as the married filing jointly brackets, so this can provide some tax relief. Once the two-year qualified widower period has ended, if you still have minor children, you can claim the "head of the household" status, which provides more favorable tax brackets than the "single" rates. This will provide some tax relief for the years in which you have minor children and remain unmarried.

Estate Taxes

There is a separate tax system in the U.S. called "gift and estate taxes." Each one of us can give away during our lifetime or at death a certain amount of our wealth without incurring gift or estate taxes. This is called the estate tax exemption. In 2016, the estate tax exemption amount is $5.45M and this exemption amount is per person. This exemption is indexed annually for inflation. If your total assets are valued at less than this exemption amount, this section of the tax law will most likely not affect you.

If your estate is over the exemption amount, and you were your spouse's sole beneficiary, there will be no estate taxes when the assets pass to you because currently there is an unlimited marital deduction. This is called "portability" of the marital

deduction. However, if your spouse chose to pass assets to children or other people in the will, the estate could incur estate taxes if assets are bequeathed above the lifetime exemption amount.

In 2013, portability of the estate tax exemption between married couples was made permanent for that and future years. This means if the first spouse dies and the value of the estate does not require the use of all the deceased spouse's federal exemption from estate taxes, the amount of the exemption that was not used for the deceased spouse's estate may be transferred to the surviving spouse so the unused exemption amount is not lost. To claim the unused portion of your spouse's estate tax exemption, an estate tax return (Form 706) will need to be filed. It can be a complicated form, therefore your CPA or estate planning attorney should file this return on your behalf.

Divorce

Divorce has become a life event that 50% of us will face during our lifetimes. When children are involved, divorce becomes more difficult. When divorce occurs, emotions such as betrayal, devastation, and loneliness can ensue and fears are activated. What might start out as amicable can very quickly turn ugly. There is life after divorce once you get past the host of emotions, negotiations and the realization that life as you knew it has drastically changed.

Statistics tell us that a woman's standard of living generally drops by at least 30% after a divorce, so the decisions you make while going through your divorce can have a considerable affect on your future.

Hire a good divorce attorney who will advocate for you. Try your best to look at the divorce as a business negotiation where emotions are left at the door. I have seen all too often that the divorce attorneys end up the winner through long, drawn-out cases when much of the divorce could have been settled if cooler heads would have prevailed.

Marital Status

Your tax filing status will be whatever you are on the last day of the year. Divorces sometimes last several years, so this is an important concept. You are married to your spouse until the judge says you're not.

If the divorce was filed on May 28 of year 1 and you are not divorced until March 15 of year 2, you are considered married for year 1 for tax filing purposes. That means you have three options on how to file your tax return for year 1: married filing jointly,married filing separately It will usually yield the best results to file a joint return, so it is a good idea to allow your CPAs to work together to save you taxes. If filing jointly is not an option, the “head of household” status could save you money. This status was originally meant for single people, but some people in the middle of a divorce could qualify as well. To claim this status, you must have lived apart from your spouse for the last six months of the tax year, paid over one-half the cost of keeping up your main residence, and be able to claim your child as your dependent. You will have to file a separate tax return from your spouse even if you are still legally married. Where there is more than one child, both spouses may qualify to file as head of household. Again, consult with your tax advisors to ensure the most beneficial tax position is taken. Typically filing as “married filing separately” will result in a higher amount of income tax being paid than “married filing jointly” or “head of household” status would.

For year 2, you are considered not married and have two options on how to file your tax return that year: single or head of household.

Divorce Settlement

The assets you receive in the divorce are not considered taxable income when you receive them, but there can be income tax considerations when those assets are sold. The first thing you will want to do is make a list of all the assets you and your spouse have as well as all the debts. Create a spreadsheet or list and discuss with your attorney and CPA, as all assets and debts were not created equal. For example, if you end up receiving your primary residence in the divorce settlement, it may not end up being tax free. When you sell your primary residence, you could face income taxation if you sell the home for a gain greater than $250K since this is the amount of “excluded gain” the IRS allows on the sale of your primary residence. The excluded gain for married taxpayers is $500K, so you are already put at a potential disadvantage if you receive the primary residence in the divorce, the house has increased significantly in value and you have plans to sell it. It may have been more beneficial if you had sold the residence before you were legally divorced to take advantage of the exclusion. You can see why tax planners are crucial during the divorce process. If you remarry and then sell

the primary residence, the $500K gain exclusion will apply. However, there are holding periods that must be considered —a two year minimum — before the gain exclusion will apply. This can also get a bit complicated if your new spouse sold a primary residence in the past two years, so be sure to consult your CPA.

Income Tax Considerations

Most divorce attorneys will consult with you on claiming your children as dependents to get the associated tax benefits on your tax return. The filing status of head of household is one of them. Head of household status provides relief to single parents by creating brackets basically halfway between the married filing jointly and single brackets.
Years ago, the majority of custody cases were pretty simple. The mother got custody and therefore, she was able to claim the kids as dependents. Now that's not the case as custody agreements have become quite complex and the IRS tax code doesn't define exactly what is the definition of custody or a custodial parent.

Typically, the divorce decree will designate who is the custodial parent and who will claim children on their tax returns. When there is no such agreement or mention in the decree, the custodial parent is considered to be the one who has physical custody of the child for the most days in calendar year, as only one parent can claim the child as a dependent. Nevertheless, it's a good idea to have it included in your decree.

So what happens when the custody is 50/50? Some parents claim dependency for the child every other year — predominantly when there is one child. When there are two or more children, many choose to split the dependency exemptions between the two parents where both will claim the head of household status. If there are an odd number of children, an every other year split of one of the children may come into play.

There are many other income tax considerations besides who gets to claim the children. Many times there are carryforwards of valuable tax credits, loss carryforwards and unused deductions. The most common ones are capital loss carryforwards, personal net operating losses (NOLs), unused charitable contribution carryforwards and foreign tax carryforwards. Make sure to consult your CPA while you're in the process of divorce; you'll want a tax expert on your side as these items are points of negotiation.

Child Support & Alimony

Child support is not considered taxable income to the recipient or a tax deduction for the payer. However, alimony is considered taxable income to the recipient and is a tax deduction for the payer. Alimony payments must be spelled out in the divorce decree and must contain certain language to be considered alimony. When in doubt, the payment will be considered child support or part of the divorce settlement — both of which are income tax neutral.

Qualified Domestic Relations Order

Sometimes a married couple's largest asset is a retirement account, such as a 401k or traditional IRA. Retirement plans are held in the name of one spouse, not both. Therefore, an order or judgement was created to accommodate the spouse in this instance and is called a qualified domestic relations order (QDRO). A QDRO is a legal order, entered as part of a divorce or legal separation, which changes the ownership of a retirement plan to give the divorced spouse their share of the asset or pension plan.

Distributions from a QDRO are taxable as ordinary income because the retirement assets had not been taxed in the past. The 10% penalty for early withdrawals (before age 50 ½) does not apply to QDROs. However, if you roll the QDRO into an IRA, you will lose this exemption from the penalty. Any amounts you might distribute before age 59 ½ should be kept in the QDRO. When dealing with a QDRO, you should definitely consult with a tax advisor before taking any distributions or rolling over the funds.

Social Security

If your marriage lasted for at least 10 years, you are eligible to collect on the spousal portion of your ex's Social Security benefits, provided you don't qualify to collect based on your own earnings. If you qualify, you can collect once your ex turns 62 (whether or not your spouse retires) and the divorce has been finalized for over two years. If you were married for at least 10 years, you qualify for the same survivor benefits as a widow.

Estate Planning?

Once your divorce is final, you'll want to make sure to update your estate plan with a new will and directives. Many divorce attorneys can provide a simple will and directives until you you're ready to implement a more thoughtful estate plan.

Thinking About Remarriage?

If you're thinking about remarriage, consider getting a prenuptial agreement. This was the best advice I received from my divorce attorney. Divorce is costly and few are immune to it. Once you've built up assets, you'll want to protect them in case of divorce or death — especially if you have children from a prior marriage.

Tricia Teegardin

Tricia began her career at Ernst & Young. As a Tax Manager, she provided financial planning and tax services to wealthy individuals and families. She moved to Austin in 1998 and spent more than 8 years as the personal business manager for the Dell family. As the sole manager, she led the finance and tax matters of the organization and helped to create their family office from scratch. She also served as the first executive director for the Michael and Susan Dell Foundation, managing all aspects of the foundation from 1999 – 2001. In addition to overseeing most of the back office functions, Tricia was part of the executive hiring team, and she was instrumental in launching other start-up businesses for the family.

Tricia left her position at Dell in 2006 to start her own practice, which has evolved into Teegardin & Associates Ltd LLP. She holds a bachelor degree in accounting from Indiana University. In addition to her CPA designation, Tricia is a CERTIFIED FINANCIAL PLANNER™. With over 25 years of experience as a CPA, Tricia serves as the Managing Partner and oversees all aspects of the firm's tax and family office services. Tricia works primarily with high net worth individual clients on their tax and family office needs.

Tricia is an avid tennis player and she enjoys spending time with her family and her white lab, Luke.

Chapter 5: What You Need to Know About Credit

By: Eddie Johansson
President at [Credit Security Group]

What is good credit? What is bad credit? How important is your FICO score? How can you enhance your credit? How can you ruin it? How can your credit score affect your life?

These are just a few questions you may occasionally ask yourself — but I hear them all the time. Even extremely intelligent people may be uninformed or misinformed about issues pertaining to credit, and that can pose significant challenges when a life event such as a divorce or death of a spouse occurs.

Just 14 years ago, in 2002, I was blissfully unaware that credit was about to play an important role in my life. I wanted to buy a house, and learned I couldn't, because I didn't have a strong enough credit score. I did my homework and ultimately rectified that situation so I could become a homeowner — and realized I wanted to help others who didn't understand the importance of their credit score.

Every day, I meet with people who want expert analysis of their credit scores. I've participated in more than 6,500 structured consultations, where I don't have the luxury of being wrong. With that as a preface, let's move on to the meat of the matter, remembering that what you don't know about credit can certainly hurt you.

The Big Three: Credit Bureaus

Your credit report is as unique as your thumbprint. It's a record of your payment history — how you've managed credit since the first time you were granted it — including credit cards, all types of loans including mortgages, and public records from banks — as well as any collection activities that have occurred.

Data on your credit activity is reported monthly to the three major credit bureaus: Experian, Equifax and TransUnion. They are receptacles for storing the information.

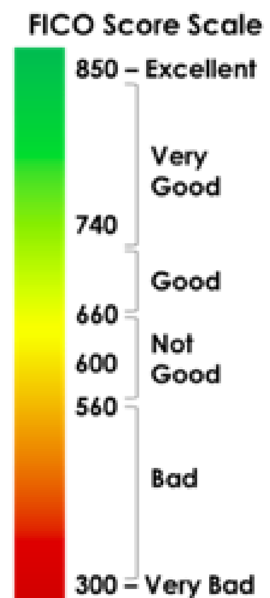
Because they can determine what accounts are included in your file, they can play a significant role in your life. Your credit history on file at the credit bureaus is used to determine whether you'll be able to buy a house or a car, or to make other large purchases you'd like to finance, and what interest rate you'll be offered if you are extended credit.

But that's not all. Your credit report may affect your insurance situation and even whether you will be able to get a job. Hiring decisions are not credit score-driven, but many employers don't want to hire people who have a lot of debt.

You may notice that your history paying utility bills for electricity and water, as well as cell phone bills, does not appear on your credit report. And thus we come to our first credit tip, regarding which bills are most important to pay on time:

Tip 1: If you only have enough money to pay either a credit card bill or an electricity bill, pay the former, as that delinquency will be reported to the credit bureaus.

Personally, I'd rather live with candlelight for a month to maintain my high credit score, rather than have it drop up to 70 points due to paying a credit card bill late. And here is our second credit tip:



Tip 2: It's very important to realize there are no "boo boos" on a credit report — only bombs and bigger bombs.

A 30-day delinquency is a bomb.

What's Your Number? FICO Scores

Your FICO score is based on your payment history, but you may not know that you have numerous FAKO scores, which are those provided by the credit bureaus; organizations like Credit Karma and FreeCreditReport.com; and even your credit card provider. You have only one true FICO score — the one lenders use — and it's available for $60 at MyFICO.com.

How can this be? The data being used to calculate all scores is the same, but the scoring method applied can be dramatically different. Without getting too technical, the three models used by the credit bureaus are:

- Equifax Beacon 5.5: FICO 5
- Experian Fair Issac version 2: FICO 2
- TransUnion Classic 04: FICO 4

What this means is you need to be conscious of the scoring model used to determine a particular credit score — and you must understand that lenders don't use FAKO scores, only your true FICO score.

FICO scoring is a future risk assessment tool, with scores that range from 300 to 850. The better your payment history, the higher your score will be. What scores are considered good or bad? From the FICO company's illustration above we see that: :

- 300-560: bad
- 560-660: not good
- 660-720: good
- Over 720: great

Your score will go up or down based on your payment activity as well as the number of inquiries into your credit. The key concept for maintaining good credit scores is "paid as agreed" - no late payments, ever. Inquiries make up less than 10% of your score, but it's still best to keep them to a minimum, perhaps 1-4 per year. Here are a couple more tips:

Tip 3: Small mistakes cost you big points. One 30-day late payment will lower a 680 credit score 40-80 points.

Tip 4: Only apply for new credit when you've made the decision to move ahead; don't just fish around.

If you are in the market for a home loan, it might give you peace of mind to know that all such inquiries within a 14-day period are counted as one.

What are some other things to keep in mind as you tend to your credit score?

Understand that time matters. You've probably heard the saying, "time heals all wounds." That is certainly true when it comes to your credit score, as it will recover over time from something like a late payment **if** there are no new bad events.

Let's say you have a 550 score. You can raise it to 600 within a year by having no more negative activity and charging a small purchase to one credit card every month and then paying the bill down to a small balance ($10 or less) each month... Which leads to our next tip:

Tip 5: You can't change the past, and you should never stand on principle.

Realize that timing matters. Because your score predicts the likelihood of a 90-day default over the next 24 months, anything recent has a lot more weight than something that happened many years ago. With that being said, it's best to buy a home before a car, for instance, and eliminate as much credit card debt as possible before buying a home.

Tip 6: Never open a new account within eight months of a major purchase.

Know that size doesn't matter. A bad event is a bad event, regardless of whether it involves a debt of $37 or $10,000. The important concept is "paid as agreed." Stay in the "black" and you're golden; go in the "red" and you'll be in trouble, even if the amount involved is small.

Consider the long-term consequences. When you open a new credit card account, your score will go down. Thus, when a store offers you a $50 savings if you open an account, don't do it unless you won't need to rely on your credit for 8-12 months. Otherwise, you could end up paying thousands of dollars more for a purchase like a car or home due to an increased interest rate based on your lowered score. It's just not worth it.

Understand the value of keeping multiple accounts open. It's a myth that closing a credit card account will increase your credit score. Say you have four credit cards and you close three of them; not only will that have no short-term effect on your score, it will bring down the average age of your accounts, which isn't good. If you do choose to

close an account, make it a newer one and keep the oldest. There's great value in keeping some accounts open and active — with no late payments — to prove that even though you have the ability to spend above your means, you aren't.

Understand how FICO looks at your credit card ratios. In the best-case scenario, if you carry any debt at all on credit cards, it's best for it to make up no more than 2% to 3% of the balance available to you. The more money you owe to credit card companies, the higher risk FICO assigns you, and thus your score will go down.

Realize that FICO doesn't crunch stories, but data. Underwriting is often automated, so your tale of woe is not going to make a difference in most credit decisions. Even if you get to share your story with a lender, 99% percent of the time that isn't going to change what you get because the loan originator doesn't make the decision and the underwriter, who does, is limited by a set of guidelines.

Seems like a good time for another tip:

Tip 7: The key to recovering from a "bomb" on your credit is nothing else negative.

That doesn't mean to stop using credit, but use what you have judiciously, at least one revolving account like a credit card and one installment account like a mortgage payment. But make sure you pay as agreed.

Life Events and Credit

When people get divorced, there can be some negative consequences when it comes to credit that can often be eliminated via knowledge. You should be aware that buying a home together is building debt, not credit. If both spouses are on the mortgage, divorce doesn't change that obligation for the debt.

It's not uncommon for the wife to remain in the home after divorce, with a settlement that may include her ex-husband continuing to pay the mortgage. What happens if he fails to do so? That will destroy her credit, since the debt is also her contractual obligation. A better option is to sell the house and split the equity, so each spouse can start anew.

Another scary scenario to consider involves an ex-husband who files bankruptcy and has his debts discharged — leaving his ex-spouse 100% responsible for their formerly joint debt.

Here comes a tip:

Tip 8: When couples divorce, it's very important for them to become "unjoined" on accounts.

Speaking of bankruptcy, it's good to be aware that it's not the end of the world. It can actually be a fantastic tool for a widow whose husband left her with debt at a level she can't pay off. A Chapter 7 bankruptcy discharges in six months, and it's possible to get an FHA loan to buy a home with just 3½% down in just two years (or seven years for a conventional loan).

What does bankruptcy do to your credit score? You might be surprised. Let's say you have a score of 700 and you've maxed out your credit cards. If you paid them off, your score would move to the upper 700s. If you file for bankruptcy and get rid of your secured debt — and have no other negative events — one year later your score would be back to 700, but it would never go higher.

The key to reestablishing credit is to be absolutely perfect after your bankruptcy discharges. As noted earlier with respect to recovering from credit score bombs, open one little installment loan and one credit card and follow the holy grail: paid as agreed.

Now back to the "ex" situation. What's most important to remember is that just because your ex-spouse has debt, it doesn't make it yours unless you are contractually liable. There's no such thing as community debt, but bill collectors commonly go after exes because they might erroneously believe they're responsible for anything their spouse bought while they were married. That's only the case if it was a joint purchase.

It's All About Risk

Lenders determine your suitability for credit based on the potential that you will repay the loan. While your FICO score is a significant indicator of that, it's actually not #1; money is the biggest risk reducer.

Here are a couple examples:

If you want a conventional home loan and hope to only put 5% down, you'll need to have a FICO score that's more than 640. However, if you're willing to put 20% down, you may be approved even if your FICO score is under 640.

If you're buying a car, a FICO score of at least 700 will guarantee you the best interest rate. But let's say your FICO score is just 640. You can still get a loan at a good rate if you put $1,000 down on the vehicle.

It's tip time again:

Tip 9: Don't despair if your FICO score is lower than you would like when you want to finance a major purchase because money talks.

Focus on Accuracy/Fraud Protection

Many people routinely check their FICO score (or more likely their FAKO score), but it's more important to check the data that's being used to calculate it. It's a good idea to get your credit report from annualcreditreport.com; I suggest staggering that task so you get a report from a different credit bureau every four months, i.e., Experian in January, Equifax in May, etc.

If you see something on your credit report that's not accurate, don't waste your time fighting with a credit bureau, but go directly to the data furnisher — and understand that the burden of proof is on you.

There are plenty of credit repair companies out there, but as is true in any industry, some are good and some sound too good to be true. A good way to determine a good credit repair company is to see if they can tell you which accounts in your file cause your score to be where it is and how your score will change if the corrections they propose are made. If a credit repair company doesn't understand how the contents of

your credit file affect your score, how can you trust them to start changing those contents? And, always check the company out at the Better Business Bureau website: https://www.bbb.org/search/.

A final thought here about identity theft, because it's something people are often concerned about when it comes to their credit. You really shouldn't lose any sleep over it, because your odds of being a victim of identity theft are a lot lower than commonly believed; you probably have a better chance of being struck by lightning or winning the lottery.

Be very careful with who has access to your personal information, because most identity theft is perpetrated by someone you know. And, if you've recently moved, it's a good idea to visit optoutscreen.com to stop pre-approvals from being delivered to your old address, where someone could try to gain credit in your name.

To Sum It Up

How you have used credit in the past will go a long way toward determining what your future credit options will be. Even if you have bombs on your credit report, you can mitigate their potential to damage your creditworthiness by paying as agreed moving forward and putting down cash when making purchases you wish to finance.

If you are divorced or widowed, it's important to understand which — if any — of your spouse's debts are your responsibility. Unless there is joint liability, meaning you signed a contract to secure a loan or credit card, his personal debt doesn't transfer to you, even if it was incurred while you were married.

And this brings us to the final tip:

Tip 10: Educate yourself about your credit so you don't face an unpleasant surprise when you try to finance a large purchase.

Eddie Johansson is the founding president of Credit Security Group. He trains and manages CSG's staff of credit analysts and researchers and has personally analyzed over 10,000 consumer credit reports. He developed credit score analysis tools tested on more than 250,000 credit lines. He has educated lenders and consumers on the facts of the credit system, helping lenders understand true credit risk and helping consumers and investors properly manage credit to reach their financial goals.

Johansson has been qualified by federal court as an expert witness in Fair Credit Reporting Act cases and is a frequent guest speaker at financial association conventions including the Texas Bankers Association, The Association of Independent Real Estate Owners and the Independent Bankers Association of Texas. He often serves as the credit expert answering consumer questions on Phoenix's KTAR Radio and has appeared on radio call-in shows on KLIF, Houston, and KTSA, San Antonio.

Johansson is the nation's leading credit analyst providing expert advice to news organizations such as Fox News, ABC Network Radio and to business journals and financial publications such as Forbes.com on issues involving consumer credit scores and lending.

In 2007, he authored the FICO© Professional Educational Series for Mortgage Professionals. This is a progressive three-part presentation and seminar detailing the real world of credit scores based on the findings of CSG's Research Department. Since its development, CSG analysts have presented the series to thousands of professionals.

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Chapter 6: Insurance

By: Sara Fry
Insurance Agent at Benjamin Fry Insurance

For women in transition, insurance matters might be a topic they have never had to deal with before.

I was 19 years old when I was introduced to the insurance industry, and only because I was trying to figure out what I wanted to do with my life. I started out as an administrative assistant and after listening to my boss for a month, I became curious about this unknown insurance world. Insurance is not some subject you can take in school; in fact, I had never even thought about what coverages I needed on my car. My parents split me off to my own policy when I turned 18 and suddenly I had insurance. Like most people, I didn't have a clue what my policy covered, or if my price was reasonable. All I knew was my agent told me I had "full coverage."

Many people have confessed to me that they do not want to shop their insurance or discuss insurance because they do not understand it. In fact, most people think that all insurance is equal. As an agent, I love what I do and I love helping people have a better understanding of how it works, so I encourage them to ask questions.

Over the years, I have compiled a list of FAQ and definitions to help my clients understand what they are purchasing. Additionally, I review their lifestyle, current situation and future plans.

Renter's Insurance

Most people come in for auto insurance, and as we probe their current situation, we discover they are renting an apartment. The first thing they blurt out is, "I do not have anything worth insuring." So we agree with their assessment, and then we start our questions: What if someone broke in and stole your worthless belongings? Or your next door neighbor has a fire or flood in their apartment and you have trickle down damage. Do you have money to replace your valuables? One thing we do know is they may start out having worthless belongings, but when they lose them they are valuables.

You may need renter's insurance. Think about the cost to actually replace every single item in your home. Maybe your items today are not worth that much, but add up the cost of a new couch, TV, coffee table, end table, mattress, bed frame, dresser,

dishes, pots, pans, silverware, clothes, shoes and computer. Those are just a handful of the large things, but people often forget the cost of the little things, too: a hair dryer, brush, towels, shower curtain, lamps, alarm clock, decoration, trash cans, and the list goes on and on. Even if you purchase these items at a discount store, they will add up to thousands to purchase them new.

Renter's insurance is often less than $15 per month. Your landlord or apartment complex is not responsible for your belongings, so make sure you protect them. I highly suggest asking the company you have your auto insurance with to quote your renter's policy. Most carriers will give a multi-policy discount if you have auto and renter's insurance with them, making the overall rate even lower. When asking your agent about renter's insurance, make sure the policy comes with replacement cost coverage.

Besides protecting your personal property, renter's insurance provides coverage for liability and medical insurance. Why would you need those coverages? Let's say you are watering your plants and leave out the water hose. Later, you decide to order a pizza and you have completely forgotten about the hose. The pizza delivery person walks up to the door, trips over your hose and injures his leg. He has to go to the hospital and get stitches. This is where your medical coverage will come in. Medical coverage can be added from $1,000 to $5,000, which will cover the pizza delivery person's immediate medical expenses. Now let's say that his leg is broken and he requires surgery and three years of physical therapy, so he decides to sue you. This is where your liability coverage will come in. Typically, renters' policies will cover from $100,000 to $500,000 in liability coverage. Are you beginning to understand why you need **renter's insurance**?

Now let's move on to auto insurance, something needed by everyone who drives and owns a vehicle. Do you know what you need and how the coverages work?

Auto Insurance

Let's start by reviewing what full coverage means. I hear this phrase a lot, yet there is no real definition on what it actually covers. Will your policy cover you if you need roadside assistance, or will it pay for a rental car if your vehicle is in the shop being repaired due to an accident? Most people are familiar with liability coverage, as it is required to legally drive, and of course comprehensive and collision coverage to cover your own vehicle, but what about all the other options available? When purchasing or reviewing your current coverage, it is very important to discuss all the options with your agent, as "full coverage" might leave you with less coverage than you think.

The Typical Core of Full Coverage

Liability – Every state has different minimum requirements, but the minimum is often very low coverage and might not fully protect you. In Texas, the minimum coverage is 30/60/25. This means your insurance will cover a third party for up to $30,000 of bodily injury per person and up to $60,000 of bodily injury per accident. If you have not recently looked at the cost of medical procedures, I can speak from personal experience and tell you the two surgeries I had in the past year cost $114,000 and $84,000. If you cause an accident and injure someone, that $30,000 might not go too far. On the property side, that $25,000 Texas limit is also very low. Would you be willing to dish out the extra $25,000 your insurance wouldn't cover for the $50,000 Lexus you just totaled? Increasing your limits is typically only a few dollars more per month and well worth the extra protection.

Collision and Comprehensive

Collision coverage ensures your vehicle is covered if it is damaged in a crash with another vehicle or stationary object, while comprehensive will cover your vehicle for things such as broken windshields, hail, theft, flood and fire.

Those items are the typical core of "full coverage" insurance, but there are many other coverages you need to consider. Have a discussion with your agent and he or she can walk through each coverage to see if it is right for you.

Other Optional Coverages

Medical or Personal Injury Protection – Depending on your state, these coverages are either required or optional and limits will be different. In Texas, medical coverage will cover just that: medical expenses caused by a covered accident. Personal Injury coverage is a little more extensive and covers medical expenses, lost income and funeral expenses. Lost income will pay up to 80% of your normal income if you are unable to collect a paycheck due to a covered accident. There are many different coverage limits for medical or personal injury protection and they will differ with each company, so be sure to talk to your agent.

Uninsured Motorist/Underinsured Motorist – Even though auto insurance is a requirement to drive, many people are still out there driving without insurance or have very low limits. This is where uninsured motorist and underinsured motorist coverage will help. This coverage will pay for your expenses after an accident that is caused by an uninsured motorist, a hit and run driver or a driver who does not have enough

coverage to cover your expenses. In Texas, the coverage has a $250 deductible and will cover bodily injury to you, family members or passengers in your vehicle.

Roadside Assistance – Some carriers have a towing coverage that will pay up to your limit to have your disabled vehicle towed. Most carriers have moved to a roadside assistance coverage that will typically pay for not only towing, but roadside assistance as well. Roadside assistance will cover things such as locking your keys in the car, running out of gas, having a flat tire changed, etc. Ask your agent for the specifics of your company's coverage.

Rental Car Coverage – This will pay the cost, up to your policy limit, for you to rent a car while your vehicle is being repaired due to a covered accident. This coverage is often misunderstood, as it does not pay for your rental vehicle if your vehicle is in the shop due to maintenance; it is only covered if it is due to a covered accident. Rental car cost can add up very quickly. If your vehicle is in the shop and parts need to be ordered it could take weeks to get it back. At $30 per day for a rental car for two weeks, you would have to pay $420 out-of- pocket without this coverage. If you cannot get by without a vehicle, I highly suggest adding this coverage.

OEM Endorsement – You may not be aware that insurance companies do not use parts straight from the manufacturer. Aftermarket and used parts are typically used to repair vehicles after a loss. With many carriers, you can request that OEM or original equipment manufacturer parts be used on your vehicle for an additional premium. I feel like this coverage is more of a personal preference, but many people are not aware it even exists.

Optional Carrier Features – Many companies will now offer their own features, which might include things like deductible rewards, accident forgiveness, full glass coverage, electronic key replacement, etc. There is a small premium for these options, but they can really save money when it comes to claim time. Ask your agent what options your company has to offer.

Discounts – Discounts are regulated by the department of insurance and each carrier can only offer so many of them. One company might offer a discount for defensive driving while another might give an occupation discount. Each company is different, so be sure to ask your agent what discounts your company offers to be sure you are getting the best rates.

Transition into Newly Single

If you are newly single, I highly suggest shopping your insurance rather than just splitting your policy. When you remove drivers and vehicles, your discounts will change and the company you are currently with may no longer be the best option for you. Each company has a target group they look for. You might be with company A that focuses on multiple vehicles, a certain age group and occupation type. After a divorce, those things may change and now company B offers better discounts for you. Shop, shop, shop your insurance when you have a major life change.

Homeowner's Insurance

Homeowner's insurance can really vary between company to company and it is important to have a good agent to help you with this coverage. One of the biggest mistakes I see is a consumer purchasing a homeowner's policy solely because it has the lowest premium. Policies are not equal from company to company and it is very important to understand this before you find yourself in a bad situation with a large loss that is not covered under your basic homeowner's policy. I have also seen on many occasions a customer getting a quote from two agents with the same company and going with the lower premium because they think that agent can get them a better rate. This is not the case. If the company is the same, and the premium is different, the product is different. The agent either has different coverages or discounts, but it is not because he can just get a lower rate, so please be cautious of this.

Many homeowners operate under the assumption that all homeowner's insurance is created equal. A common notion is that as long as the coverage limits match, a policy or quote comparison is "apples to apples." The reality is that that homeowners' policies differ substantially even though they may appear to be identical. One major difference between homeowner's policies is whether coverage is provided on a HO3 or HO5 form. Take a look at these two quotes.

Company A

Additional Coverages/Discounts: Replacement Cost Contents, Extended Dwelling Coverage, Advance Quote Credit, Protective Device Credit

Company B

Additional Coverages/Discounts: Replacement Cost Contents, Blanket Coverage, Coverage A Plus, Advance Quote Credit, Protective Device Credit

Looking at these two quotes, you would think the top quote has more coverage for the same price, so that is the better option and Company A is the best value. This is where a good agent comes in to tell you Company B is offering better coverage. How is this possible? Company B offers an HO5 policy where Company A offers an HO3. The limits may show $200,000 for the dwelling, but you have Coverage A Plus, meaning the insurance company has no cap on replacement cost of your dwelling and it gives blanket coverage, so you add together Coverage A, B and C to get your blanket coverage. You also have a lower deductible, saving money out of your pocket if there is a claim.

The HO3 is the most widely available policy form and is generally the minimum coverage requirement when obtaining a mortgage. It covers a broad range of property types, however, the coverage is more limited for your personal items.

Open Perils coverage insures against all causes of loss that are not specifically excluded.

Named Perils coverage insures against a list of specified causes of loss.

Here are some typical named perils that limit the personal property coverage on a HO3.

- Theft
- Fire or Lightning
- Explosion
- Smoke
- Freezing
- Vehicles
- Falling Objects
- Volcanic Eruption
- Windstorm or Hail
- Riot or Civil Commotion
- Damage Caused by Aircraft
- Vandalism or Malicious Mischief
- Damage Due to Weight of Ice, Snow, or Sleet
- Sudden & Accidental Tearing Apart, Cracking, Burning, or Bulging
- Sudden & Accidental Damage from Artificially Generated Electric Current
- Accidental Discharge or Overflow of Water from Plumbing, Air conditioning, etc.

Another type of coverage is HO5. An HO5 policy removes many of the limitations of the HO3 policy, adds new coverage and expands existing coverages such as a higher limit for jewelry items and business personal property.

Many coverages that are available by endorsement on the HO3 policy are automatically included on the HO5 policy. For example, coverage with the HO5 automatically includes replacement cost coverage on contents.

Another great benefit of the HO5 is that you no longer have to prove the damage to your property was caused by one of the named perils. This can take a lot of the uncertainty and headache out of adjusting a loss.

Let's take a look at a example of what can happen and the resulting insurance issues. Let's say while a family was away on vacation, squirrels get into the eaves of the house, chew through the drywall and get into the house.

The squirrels proceed to destroy virtually everything in the living room and kitchen, including the furniture, television, and appliances. The loss was fully covered under the homeowners' HO5 policy. On the other hand, an HO3 policy would have had this homeowner paying out of pocket to repair and replace these belongings. While this is unlikely to occur to you, it helps serve as an example of the number of ways your personal belongings could be damaged by things other than the 16 named perils.

Because the HO5 policy provides broader coverage, the underwriting guidelines can be more restrictive. Generally, insurance providers limit HO5 coverage to new(er) and/or well cared for homes that are in an area protected by a fire department.

So, all of this begs the question, "Which should you choose?"

Assuming you qualify for both forms, the HO5 policy is the form of choice. It not only provides broader coverage, but can also simplify the claims process. While the premiums on the HO5 policy may be higher than the HO3 policy, the total long run costs of an HO5 are generally lower.

The HO3-HO5 difference is one of many differences you could find between seemingly identical quotes or policies. It's important that you know the differences between good,

bad and average policies. Don't wait until you have a claim to learn about your coverage.

Now that you are more familiar with insurance and you know questions for your agent, I suggest shopping if you have not done so in the last three years or if you have had a major life change. There are two different types of agents, captive agents and independent agents. Both are good, but a captive agent can only work with one insurance company, while an independent agent can work with multiple insurance companies. Captive agents are going to be the companies you see on TV a lot such as State Farm, Farmers and GEICO. These companies advertise more to sell a brand name. They are good companies, but again, are limited to their product. Independent agents do not work for a specific company, so they shop multiple good companies to find the best company for your needs; remember, there is no “one size fits all” insurance company.

I have worked on both the captive and independent side and I personally prefer the independent side, as I feel agents can work more for their clients’ needs rather than placing them with the one product they have available. Independent agents can also re-shop for you years down the line, so for example, if you have been with your independent agent and the company you are with has a major rate increase, just call your independent agent to shop again for you rather than having to call around from company to company, spending valuable time giving out the same information. Make sure to get a referral from a friend or family member or look up reviews online to pick your agent.

Sara Fry

Sara focuses on property and casualty insurance, both personal and commercial, life insurance and individual health insurance. She has served 13 years in the insurance industry, working for captive and independent agencies. Sara has earned over 15 certifications and stays up-to-date on the latest insurance trends. She was even personally recognized by the president of Allstate, where she spent six years of her insurance career. Sara’s objective is to look at the big picture and anticipate the needs of her clients ensuring they receive the best possible coverage at the most competitive price. Sara strives for perfection and above all, customer satisfaction.

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Chapter 7: Estate Planning

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The dissolution of a marriage by either death or divorce gives rise to a number of estate planning issues. Generally, it means the estate plan you had, if you had one, is out of date and needs to be revised. Likely, the person you shared your life with was the beneficiary of your estate and your retirement account, the executor of your estate, and the primary agent on your powers of attorney. If you never had an estate plan prepared for you, you'll need to consider what type of plan is right for you. In this chapter, we will address the estate planning issues you need to consider at this important time in your life.

Let's begin by talking about what happens or needs to happen when your spouse has died. Once the funeral is conducted, friends and family return home, and the casseroles your friends and neighbors brought you are gone, you likely don't know where to start. Many think they don't really need to do anything other than decide how to handle the Social Security checks. The typical surviving spouse still gets to stay in her home, still can write checks on the bank account and still has access to the retirement accounts as the primary beneficiary. The late husband had a will, but there seems to be no real reason to do anything with it.

What surviving spouses often fail to consider is that the home they shared with their spouse isn't just in their name. It is in both of their names as husband and wife. If you are in this most common of situations, and you put your home up for sale to downsize or relocate to be closer to children, you typically won't be able to sell your home without some type of probate proceeding.

When you bought the house, title probably came into both you and your spouse. Nothing has happened to transfer title from the two of you to just you. This is the primary reason why probate is necessary. Although probate is most frequently seen as the place where will contests take place (which is true), most probates are fairly uneventful. Wills must generally be probated within four years of death, although the

judge can allow a late filing in some circumstances. This is a necessary step to get title to the home into your name.

There are several different types of probate, and an experienced estate planning and probate attorney can help you select the right one for you. It may be all you need is to probate the will as a muniment (fancy legal name for “evidence” or “proof”) of title. This allows the will to act like a deed and transfer the title when admitted to probate by the judge. Other issues require the application to open an administration and receive letters testamentary. This is typically necessary when there are accounts with certain financial institutions or brokerage houses, and there is no beneficiary designation or pay on death beneficiary. The existence of debt of the estate may also require an administration of the estate. Another option for small estates may be the small estates affidavit, but there are restrictions on the use of this type of an account that may mean it is not an option.

New issues are also raised by your new status as unmarried, whether by death or divorce. The first issue to address is disability. Are you prepared to deal with an upcoming health event that leaves you disabled? If the cause is not something that occurs suddenly, like a stroke or a heart attack, will you be able to recognize diminished capacity occurring as a result of dementia or Alzheimer’s? A couple together can watch out for each other, but that doesn’t always work for those who now find themselves living alone.

Many people choose to involve a child, other relative or close friend at this time. For those without anyone to fill this role, a geriatric care manager can assume it and help keep family out of state updated on your ability to continue to live independently. At any rate, powers of attorney can help make sure your affairs are kept in order.

Powers of Attorney

The first such power is the durable or financial power of attorney. This document empowers others to act as your agent in the event you aren’t able . This allows your agent to write checks on your account to pay your bills, sell property you no longer need and handle the “business” of running your life when you can’t. This type of power is certainly subject to abuse, so you should only select someone you really trust to handle these important duties. You can choose to have the power effective immediately and in

the event of disability, or make it conditioned upon your actually being disabled. If you really trust your agent, or attorney in fact, it is usually better to have it effective immediately once you are alone. This empowers your agent to act on your behalf without having to get a physician to certify your disability. You can also customize the power to only give your agent certain powers, while withholding others.

The impact of not having a power of attorney can be substantial. This might force your children, or one of them, to file an application for guardianship, for the purposes of having you declared incompetent. There may be a fight between children as to which should serve as guardian. The court could appoint a guardian of your person or your estate, or both. This means paying a filing fee, hiring an attorney to file the application, and having the court appoint another attorney, called an attorney ad litem, to represent your interests. This attorney has the task of making sure you are in fact disabled, and the guardian is granted no more authority than is necessary to take care of you. But the expense doesn't stop when a guardian is appointed. Guardians must generally seek permission and approval of the court for their actions, and file annual reports to the court. Needless to say, this can run into substantial expense.

The other type of power is a medical or healthcare power of attorney. This power selects an agent to make healthcare decisions when you are unable to make them. Perhaps you are in the middle of a surgical procedure and the surgeon sees something else that needs attention while you are under anesthesia. Your agent can authorize the surgeon to address this issue, helping you avoid a second surgical procedure at another time. It is also helpful in the event that you are no longer able to make healthcare decisions for yourself due to dementia or some other health issue. Although these powers don't typically "expire," the financial or durable power of attorney should be re-executed or updated periodically. Some brokerage firms want you to use their own forms for this, and some title companies may not want to allow your agent to sell real property if they are older than what they would like to see. Some financial institutions want to see language that specifically says you will release them from any liability for allowing your agent to access the funds in your account in reliance upon the power of attorney.

Another document you should have is an advanced directive, often referred to as a living will. This document allows you to express your end-of-life wishes about being kept alive in certain circumstances when there is no reasonable expectation of a recovery or

recapturing a quality of life. If these difficult decisions need to be made, it certainly makes it easier if you have already expressed your preferences to family. That knowledge can be a great source of comfort to those who have to make those tough calls.

Estate Planning

In addition to the documents we've just been discussing that protect you and your estate in the event of disability, an estate plan also needs to address what happens upon your death. Sadly, more than 60% of Americans die without any estate plan whatsoever. In Texas, this means it's likely your heirs will undergo a much more expensive probate process than if you died with a will or a trust. This is true for several reasons. First, a will or a trust says who gets your property upon your death, and who has the responsibility to manage your estate. If there is no plan, the probate court has to figure out who your heirs are. This requires a companion probate proceeding to declare who your lawful heirs are and what portion of your estate they are entitled to, which will require the court to generally appoint another attorney to represent any unknown heirs (and your estate pays for that as well). In addition, since you didn't say who was in charge of managing the estate in probate, there is the potential for litigation over who should have that right if there is no agreement. Second, at least in Texas, the person appointed by the court to manage your estate, called an administrator, may have to serve dependently, which means he or she will have to seek permission from the court for most actions taken as the administrator, and post a bond. This means yet more expense in the administration of your estate, expenses that reduce the money available for your heirs.

Often even those who seek to do some basic planning fail to consider whether they are leaving their property to their children or other loved ones in a responsible way. Generally, simple planning provides for the payment of the debts of the estate, and distributes the remainder outright to the heirs. This isn't always the right thing to do. For instance, what if all the children's inheritance is commingled with their other assets? As time goes on, it may well become impossible to separate what is the child's separate property from the couple's community property. This raises the possibility that a gift left to a child after death is later split
with the child's soon to be ex. If you are recently divorced, think of your ex getting half of your inheritance! Probably not what you want for your children.

Other children need help with money management. Perhaps they aren't responsible with their money. Even as a child, it always seemed to "burn a hole in their pockets." Maybe it would be better if someone managed the funds for them to make sure it lasted their lifetime. Maybe they are not good with money management, and go searching for the next "dot.com" boom. Leaving the inheritance to a trust with a third-party trustee can protect your heirs from these risks. Perhaps they are even disabled, and your gift to them will cost them their government benefits, such as SSI or Medicaid. Special needs trusts can make sure they still get an inheritance, but do so in a way that doesn't jeopardize their benefits. There are lots of reasons to think through how your children should receive an inheritance.

Finally, it's also worth remembering that those who find themselves suddenly alone don't always remain so. Many choose to remarry and start a new life together. As much as you might love your new spouse, you probably would want your estate to go to your kids after your death, rather than to his kids. The typical "ma and pa will" (everything to my spouse, but if my spouse is already deceased, then equally to my children) doesn't usually work for blended families. Spouses in second marriages may choose to keep their money separate in a second marriage, or they may not. If they want to provide for each other during their lifetimes, as many do, they can still do that and know that the survivor's kids won't get all of what was intended for the other spouse's children, if they wisely address this issue in their estate planning.

A "prenup" is something that also might be considered to make sure everyone is on the same page. It's one thing for you and your new spouse to have an understanding about your wishes. But what if those wishes aren't reduced to writing, and are unknown to the children until after the death of a spouse? The children are now having to just take the word of the surviving spouse as to the desires of the couple, and they may not agree to them. This is just another example of why the country folks had a saying that "good fences make good neighbors."

Michael Carroll

Michael G. Carroll has over 30 years experience helping Texas families with their legal needs. Mike graduated from Baylor University School of Law in Waco, Texas in 1982, where he also served as an associate editor of the Baylor Law Review. He also received his BBA from Baylor, graduating magna cum laude in 1980.

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