Work Smarter With Widows

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There is nothing more devastating than the loss of a spouse. No matter how well a couple prepares for this eventuality, losing one's husband or wife is a terrible shock and often requires years of adjustment.

Emotional issues aside, a spouse's death sparks a flurry of unfamiliar financial issues that can exacerbate the stress and sadness related to the loss. And that makes the grieving process profoundly difficult.

A couple of recent studies offer more details on the specific financial challenges that widows face.

In analyzing the financial and emotional toll of losing a spouse, New York Life's "Loss of a Spouse" study found that women are far more unprepared for the loss than men are. Following the loss of a spouse, 68% of widows reported significant life changes. And, not surprisingly, financial issues presented the greatest challenge: Two-thirds of widows reported a significant financial change compared with just half of widowers.

FINANCIAL ADJUSTMENTS

Advisors working with widows can learn from the more specific life changes widows reported in the study. For example, 55% of widows (vs. 34% of widowers) reported challenges adjusting to a change in income level, and 38% of widows (24% of widowers) reported needing to cut discretionary spending. Also of some concern: 21% of widows (compared with 10% of widowers) said they were no longer saving adequately for retirement.

Interestingly, the widows did not attribute these financial stresses to a lack of planning. In fact, the majority of women reported feeling secure about their financial situation before their loss. Still, a number of widows acknowledged that they wished they had saved more (42%), had discussed what might happen financially when one spouse passed away (30%) and had better organized important papers in one central location (18%).

Mathew Greenwald & Associates' "Survey of Recent Widows" offers additional insights. Conducted by the Women's Institute for a Secure Retirement, the survey reflects the views of 246 women age 70 and younger who had become widowed within the last five years and had financial assets of $50,000 to $1 million.

The most telling finding? Three in 10 widows did not have an emergency fund. Another three in 10 widows reported that they had not been primarily responsible for financial planning and investment decisions. And one in four widows found it difficult to locate important documents.

These findings underscore the need for advisors to stress the importance of having couple clients take joint responsibility for financial decisions. They also serve as a reminder that even high-net-worth families should have a liquid account to handle immediate financial needs in the case of an emergency.

EMERGENCY RESERVES

Both a financial cushion and good, honest communication about all financial matters can enhance the couple's relationship by boosting their sense of security and commitment, and ultimately make it easier to deal with the loss of a spouse.

Think about it. We always counsel surviving spouses not to make rash lifestyle decisions — such as selling the house, switching jobs or moving in with the kids — after their partners' death. An emergency fund, with at least six months of expenses in a liquid account, serves as a security blanket to ensure that they don't have to make immediate lifestyle changes.

While the emergency account also affords protection from other unexpected challenges, such as divorce or job loss, it can ease a widow's mind so that she is free to make short-term decisions, unencumbered by the fear that she will run out of money.

Of course, if a widow doesn't have that cushion, your first job in preparing her to handle the finances alone is to build an emergency account. Worth noting, though, is that in times of loss and sadness, I tend to use another, less emotionally charged term to refer to the emergency account — perhaps a "flexible liquid account" or a "personal security account."

Often prompted by well-meaning (but misguided) advice from their children, widows sometimes feel anxious to get their financial house in order. I always counsel them to slow down. The grieving process takes time, and emotions and financial decisions don't mix.

HOW TO HELP

How can advisors help get widows on the right road after losing a spouse? I recommend a few guiding principles.

- **Allow time to grieve.** As tempting as it is to begin with the numbers, a widow's first priority must be dealing with her emotions. Many widows feel a sense of panic, especially if they spent the past months or years in a state of crisis, caring for an ailing spouse. It's wise to avoid making major decisions for at least six months to a year.
- **Stay flexible.** A life insurance disbursement should be placed in a money market fund rather than a certificate of deposit or any other fund that would tie the money up for a period of time.
- **Develop a plan** for bills and paperwork. A widow who has not been the family's chief financial officer may need a crash course in personal finance. Set up a system to deal with bills and evaluate investment account statements. Break down the long list of complex financial issues so that they can be addressed in an orderly fashion.
- **Look beyond financial matters.** In addition to a financial advisor, the widow may also need to work with an attorney, a psychologist, grief counselor or even a career counselor. Certain professionals have greater skill and empathy for working with widows and women in transition. Drawing from your network, offer to coordinate the work of other professionals, monitoring their progress and systematically identifying and addressing any new needs that may emerge in the future.
- **Transition from immediate tasks to long-term planning.** After the immediate concerns of locating the will and filing for life insurance benefits, it's time to deal with life planning, including funding the children's education and retirement and other goals. That's tough when a client is alone. Develop a plan that takes a holistic view of the situation.
- **Take a team approach.** Many recent widows turn to family members and friends for financial advice. But while an individual may provide essential emotional support, it is unlikely he or she can serve as a source of dispassionate expert advice. And if overused, this relationship can create an unhealthy dependency that prevents your client from making her own decisions. No one can take the place of a lost spouse, but you can help a widowed client create a team of experts.
- **Make retirement saving a priority.** Workplace retirement plans mean tax-advantaged savings. So it's a mistake to focus only on investing the life insurance settlement. Encourage widowed clients to contribute the maximum amount to their 401(k)s and, if they are over age 50, to make the additional catch-up contribution.

We’ve all seen that Boston Consulting Group survey that found that an amazing 70% of recent widows fire their current advisors. To avoid losing a client, you must realize that your relationship with a widowed client has changed, and you need to invest the time necessary to lay the groundwork for what ought to become a long-term collaboration.

In this emotionally trying period, you need to ensure that the widow feels comfortable discussing personal issues. Set aside plenty of time, give her your complete attention, patiently explain all issues and fully answer all her questions.

Everyone wants advisors who understand their concerns and goals. Although you think you may have a good relationship with a couple, keep in mind that the widow’s perspective may not have been fully voiced previously — and it may also have changed due to her loss.

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