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How Dad's planning helped us cope with his death

Preparing for the unexpected can make a life crisis easier to bear

By Sharon Epperson Correspondent
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My father had a plan to tackle nearly every situation. I didn't realize what a truly generous and lasting gift that would be until he was gone.

Six weeks ago, my mother called me with the unexpected news. All she could say, "It's not good." She was at a Pittsburgh hospital with my father who had a cardiac arrest while at a meeting. A hospital chaplain took the phone to explain the worst had happened. "Your father has passed," he said.

My dad, who was 76, had suffered from health problems over the past few years. Yet he led an active life in recent months, engaged on the boards of several non-profit organizations in retirement. He and my mom, who is 74, had also spent a significant amount of time planning for the inevitable — their deaths. By making some important decisions while living, my father helped to lessen the overwhelming stress of coping with sudden loss.

Fortunately, while emotionally devastating, dealing with my father’s death has not been financially stressful for my mother, my sister or me. Nobody wants to think about financial matters at a time like this, but I know that my dad would have wanted us to make sure everything he had worked so hard to build was preserved in the best way possible.

After nearly 30 years as a university dean, he had built sufficient retirement savings, had a life insurance policy, a will and had named my mother as the primary beneficiary on all of his retirement accounts. Although he was not sick, he and my mother had also made — and paid for — most of their funeral arrangements, which greatly reduced the cost and stress of dealing with the funeral home and cemetery during a very difficult time.

Over the past few weeks, the importance of empowering oneself and loved ones with proper estate planning has truly hit home for me. Yet, according to a new survey by State Farm Life Insurance, while 81 percent of respondents say having a back-up plan is very important, only 45 percent say they've actually made plans and 35 percent say they have funds on hand to meet financial needs for three months or less.

The bottom line: Everyone needs a financial “Plan B” — a back-up plan for the unexpected or a major life crisis that not only includes adequate life insurance, but also assigns beneficiaries, guardians for minor children, and powers of attorney for financial and health care matters. Your Plan B should also finalize wills and trusts and create a communications system for all of those who need to know your decisions for your final days and events after your death.

Where do you start?
Ideally you should talk to a financial advisor, independent insurance agent and estate planning attorney to make sure you have a well-designed financial plan. You can find a fee-only advisor in your area on the National Association of Personal Financial Advisors website at www.napfa.org, find an insurance agent through the Independent Insurance Agents and Brokers of America at www.trustedchoice.com, and locate an a lawyer who specializes in estate planning through your state’s bar association at www.FindLegalHelp.org.

Buy life insurance
Nearly one-third of U.S. households do not have any life insurance, according to LIMRA, an insurance research and consulting firm. Not having life insurance can potentially set up your family for a huge financial burden, especially during these tough economic times. A life insurance policy can give financial security and stability to your family.

“There are no excuses for not having life insurance. Term insurance is extremely inexpensive even for the most cash strapped individuals,” says New York-based certified financial planner Stacy Francis. “You only pay premiums for the years that you need the insurance. When you no longer need the insurance, you can just stop paying. However, if you have an ongoing need for insurance, look to a permanent policy.”

A financial advisor can help you determine how much life insurance you may need for cash flow, outstanding debts, funeral expenses and possibly estate taxes. The federal estate tax exemption has increased significantly (up to $5 million can be passed on from an individual upon death in 2011), but many states have not increased their estate tax exemptions.

Often, we only think of life insurance in terms of the immediate cash flow needs. But if you’re married, your husband or wife may have to go back to school to gain skills to reenter the job market and it may take a while for them to find a job. Your family may require funds to cover this transition period.

In terms of capital costs, proceeds can also go toward mortgage payments and other debt obligations, including possible medical expenses. Also, an insurance policy should also help to cover college costs or any long-term goals you have for your children. Final expenses are the funeral expenses.

What kind of insurance do you need?
Term insurance is usually sufficient to cover the needs of a growing family. It covers a specific period or term and is the most basic and least expensive type of insurance.

A 40-year-old man making $50,000 a year who doesn't smoke and is in good health can get $500,000 of coverage with a 30-year-term policy for $625 a year, or about $52 a month, says Byron Udell, CEO of Accuquote.com, which offers free quotes on term life insurance coverage. The same coverage for a healthy 40-year-old woman would be about $41 a month.

Permanent insurance, known as whole life or universal life, doesn't have an expiration date as long as you keep up the premiums. These "cash-value" policies, which include insurance and investments, may be more expensive than term insurance.

Update beneficiaries
Make sure that you've updated the beneficiaries so that the person or people that you want get the insurance proceeds. The same is true of retirement accounts. Your spouse is often the primary beneficiary and children become the contingent beneficiaries. As with your retirement accounts, make sure you update your beneficiaries if you remarry or if your spouse precedes you in death so that your primary and secondary beneficiaries align with your current wishes.

Create a will
You don't want family members fighting about money and property when you're gone. Lay out your wishes in a will. If you don't have a will, the laws where of your state will dictate who gets your assets, which may not be where you want those assets to go. You can hire a lawyer to prepare your will, which may cost $500 or more. You can also draft a simple will yourself at LegalZoom.com for about $70.

The key topics that your will should address will be:

— Designating an executor. This person will be responsible for executing your will. This should be a very trustworthy person who will carry out your wishes, collect and distribute your assets, pay your debts, settle any claims against your estate and pay any taxes that may be due. Usually this person is your spouse, but you should have a second and third executor written in your will just in case.

— Deciding who gets what. Your spouse usually gets 100 percent of everything, but you can make other specifications. Your second beneficiaries are usually your children, often in equal parts, but not always.

— Assigning guardians. Your surviving spouse gets custody of your minor children, but then you need to designate who you would want to serve as guardian in case you're both in some horrible disaster. Assign a second guardian too, just in case your first choice can't serve for some reason.

— Designating a trustee. If your children are minors, you'll also need to create a trust and give control of the money to trustee because you'll likely not want to leave them full control of their inheritance until they are 21 or even older. Your trustee can be the same person as the guardian or another individual if the guardian isn't particular good with money or investing.

The next steps will bring peace of mind to your loved ones if you suddenly become ill and are no longer able to care for yourself.

Create a living will and medical power of attorney
A living will, or advance health care directive, gives instructions on what you want to happen if you are incapable of making medical decisions for yourself. Most important, it tells doctors and loved ones whether or not you want life-sustaining treatment. A medical power of attorney or health care proxy assigns someone the legal right to make health care decisions on your behalf. Although a spouse has the right to make decisions for you, your children will not have an automatic right to make medical decisions for you unless you designate one or more of them as your health care agent or medical power of attorney.

Designate a durable power of attorney
This person will handle your financial matters if you are unable to do so. You may have an up-to-date will, but you also need to designate someone to have the legal authority to handle your bills and other financial matters. If not named as your durable power of attorney, your spouse, children or the person you'd like to take care of your financial affairs likely won't be able to get access to your assets to cover nursing home bills and other expenses.

Plan the funeral
Finally, this last step may be too uncomfortable for some people to plan. The five days between my father's death and the funeral were the longest of my life. I barely slept, yet I found it comforting to know that he had already made most of the final arrangements. Choosing the funeral director, cemetery and his final resting place — and prepaying a bulk of those costs — eased the burden for

my mother, my sister and me. Many funerals run well over $10,000. My father had even chosen a casket and the exact space where it would go in the mausoleum. And, he and my mother paid for those expenses before he died. The Federal Trade Commission website offers a guide on planning and prepaying for a funeral.

Communicate your wishes
My dad had told us for years that he wanted his final resting place to be in a cemetery near our home. He told my sister and me about his retirement accounts and the plans he had made to make sure my mother would be able to maintain the same lifestyle after he was gone. But he didn't write any of this information down or store it on a computer.

It's a good idea to "prepare a folder for your children, or send them an e-mail, that includes the location of your original will and any lifetime trust documents; names and account numbers for your bank and other financial institutions; the names of your financial planner, your accountant, your insurance agent and your attorney; where you keep keys to any safe deposit banks and the location of the box; and where in your home you keep your financial papers," says New York trusts and estate attorney Lori J. Perlman.

Also "make sure that you write down your computer passwords, your phone passwords and passwords to any social media (Facebook, Twitter) or medical or financial websites that you have joined so your executor can have access to your computer files and take control over and cancel those web-based accounts," Perlman says.

The grief and loss of a parent can feel unbearable at times. Focusing on financial matters may be the last thing you'll want to do after a loved one dies. But if there is no plan, you'll be making decisions that can be very costly as well as emotionally overwhelming. My father left us a wonderful gift. His desire to make sure he had a Financial "Plan B" in place is a legacy that truly underscores the love he had for his family.

Sharon Epperson is the author of "The Big Payoff: 8 Steps Couples Can Take — And Live Richly Ever After."