Suddenly single? Wait before tackling money matters

By Anna Robaton, special to CNBC.com
Monday, 28 Sep 2015
CNBC.com

Shortly after her husband died two years ago, Mary Lacey Gibson, a San Juan Bautista, California-based certified financial planner who owns her own practice, began applying for a reverse mortgage on her home even though she had no real need for the loan.

When she realized she was acting out of unfounded fear, Gibson promptly dropped the idea. Her experience, she said, underscores how difficult it can be for grief-stricken people—even those with her training—to think clearly right after the death of a spouse or a divorce.

Hans Laubel | Getty Images

"Quite frankly, when in the midst of grief, whether it is related to the death of a loved one or the loss of a marriage, you are not in your right mind," she said. "Decisions that seem very sensible, in the distance of time are shown to be not so much."

Given the emotional consequences of finding yourself suddenly single, it's wise, whenever possible, to defer major decisions for six months to a year, according to advisors. Many newly widowed or divorced people feel compelled to make big changes at a time when their emotions are raw and stress levels high. "There is usually a compulsion to do something big—sell the house, go on that big trip—and very often that involves finances," explained Gibson.

One way to deal with the "noise in your head" if you are newly widowed or divorced, according to advisor Susan Bradley, is to do what Bradley calls a "brain dump." The exercise entails making a list, by keyword, of the issues and obligations you confront and then prioritizing the items by urgency.

"Find the one or two things that really need to be addressed now, such as paying taxes on time," she said.

Where do you stand?

"When you do a brain dump, you get a clearer picture of what will hurt your well-being" if you fail to act, added Bradley, a CFP and founder of the Sudden Money Institute, which trains advisors in financial transitions planning.

One of the first things people should do following the death of a spouse or a divorce is determine where exactly they stand financially, which will impact how they handle various other issues, according to advisors. Making a new budget, based on an analysis of your cash flow and spending habits, is a good place to start.

"You'll want to know whether there is enough money coming in or whether there is money you can tap for the next several months, so that you don't have to make sudden decisions," said Bradley.

If you are newly divorced or widowed, there are other things you'll likely need to do as soon as possible. For instance, if your spouse died, you'll want to locate a will, if there is one, and obtain a death certificate so that you can begin the process of claiming any life-insurance death benefits and other possible benefits.

"Many times, with a divorce, individuals just let the dust settle and don't open the divorce agreement and end up missing critical deadlines."-Lili Vasileff, president of Divorce and Money Matters

If you are the executor of an estate, you'll have a number of obligations, which include making any distributions to beneficiaries and ensuring that debts and taxes on the estate are paid on time.

Just after a divorce or the death of a spouse, another important thing to do is to get an understanding of your "credit identity." In other words, know what's on your credit reports and your credit scores, said Lili Vasileff, a CFP and president of Divorce and Money Matters, a firm specializing in divorce planning.

Your credit profile will obviously impact your ability to do certain things, such as refinancing your home or leasing a car, noted Vasileff.

Those fresh from a divorce should also draft a new will and health-care proxy and update the beneficiary designations on any financial accounts, she said. If they plan to enroll in their ex-spouse's employer-sponsored health insurance plan, they should be aware there are time limits for doing so, added Vasileff.

There can be a lot to do in the aftermath of a divorce or the death of a spouse. Trouble is, many newly divorced or widowed people "freeze" or become "minutiae-driven," explained Vasileff.

"Many times with a divorce, individuals just let the dust settle and don't open the divorce agreement and end up missing critical deadlines," she said.

"The other side of the coin," added Vasileff, "is the minutiae-driven people," who obsess over issues and tasks that don't really contribute to their emotional or financial well-being.

Feeling vulnerable and isolated, many turn to family and friends for advice, which can result in poor financial choices. It may be a better idea to seek out the help of a dispassionate advisor.

But if you do plan to ask family and friends for advice, at the very least make sure they have all the relevant facts, said Ryan Wibberley, an advisor and founder of CIC Wealth Management.

"People tend to ask their friends, maybe their family, for advice, but they often don't give them all the facts," he added. "So the advice they get is based on small amounts of information."

By Anna Robaton, special to CNBC.com
http://www.cnbc.com/2015/09/28/suddenly-single-wait-before-tackling-money-matters.html