

## **AVOIDING MISMANAGEMENT OF DEATH BENEFITS**

### CHAPTER EIGHT:

*Preparing survivors to anticipate how they will invest, spend and manage life insurance and other death benefits when they are received, especially when they are paid in a lump sum, has been the motivation for writing this chapter.*

## AVOIDING MISMANAGEMENT OF DEATH BENEFITS

A \$10,000 check to a person who has never handled that amount of money is a lot of money.

Until it happens to you, I think it is difficult to project what you would do in the midst of grieving with an unfamiliarly large amount of cash; whether it be \$10,000, \$100,000 or more. A widow, age 50, commented,

“Here I was half out of my mind and the mailman delivered a check for \$30,000. You know, it made me mad! It sounds crazy, but it was like a slap in the face. My poor husband had been buried only a few weeks before the check came and then here was this money... as if anything could replace him! Furthermore, I always considered myself knowledgeable when it came to money matters and my husband always had confidence in my judgment when it came to money. To get \$30,000 and have to do something with it at a time when I was crazy seemed ridiculous. I was actually angry at the check! I'd keep looking at it and then I'd throw it on the table and then I'd pick it up, look at it and cry. I knew I had to do something with the check so I did go to the bank, but honestly when you're half out of your mind with grief, you are not thinking straight. It is a terrible time for this money to arrive.”<sup>1</sup>

### Planning Exercise 16

Picture yourself 30 days following your loved one's death receiving a check equal to the face amount of the insurance policy(ies) on his/her life. What would you do with this money?

#### Husband

Amount of life insurance on spouse: \$ \_\_\_\_\_

Here's what I would do with the money: \_\_\_\_\_

Did you set aside enough money for payment of death taxes? \_\_\_\_ yes \_\_\_\_ no

Did you pay the funeral and burial expenses? \_\_\_\_ yes \_\_\_\_ no

Did you pay outstanding medical bills? \_\_\_\_ yes \_\_\_\_ no

#### Wife

Amount of life insurance on spouse: \$ \_\_\_\_\_

Here's what I would do with the money: \_\_\_\_\_

Did you set aside enough money for payment of death taxes? \_\_\_\_ yes \_\_\_\_ no

Did you pay the funeral and burial expenses? \_\_\_\_ yes \_\_\_\_ no

Did you pay outstanding medical bills? \_\_\_\_ yes \_\_\_\_ no

<sup>1</sup> Ibid. p. 144.

Read your spouse's projected use of the money. Would you recommend it to be managed differently?

Husband's Comments Regarding Wife's Plan

Wife's Comments Regarding Husband's Plan

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Do you think death benefits should be paid out in a lump sum to survivors shortly after death?

Husband  
\_\_\_\_\_ yes      \_\_\_\_\_ no

Wife  
\_\_\_\_\_ yes      \_\_\_\_\_ no

Consider the following:

"People are often shocked when a few months after the death has occurred they sit down with their bankbooks only to find that they have spent literally thousands of dollars without realizing it. In particular, young survivors often report their reckless spending...even if they have always been careful with money in the past. How does it happen? Well, you know how some people eat lots when they are nervous? It is an attempt to give something to themselves. The same thing happens with money. In an attempt to make themselves feel better, survivors will spend money in haphazard fashion, not considering the long-term effect of their actions. What do they spend it on? Vacations and more expensive summer camps than they would ordinarily choose for their children are common expenditures. Junking their old, perfectly good car and paying cash for a new one is another sample extravagance. Purchasing an abundance of toys for their children, more expensive bicycles, and paying the full price for such articles as clothes and furniture when they would ordinarily wait for sales are also ways survivors spend money. You see, even though they have only had a fleeting glance of an inflated bank account, they feel suddenly rich. It is the feeling of having received a windfall! After all, most people have never seen so much money at one time in their lives. Instead of holding back in the first few months of bereavement, they become accustomed to writing out large checks and it feels good - it makes them feel rich.

'In the first two months I wrote out checks for thousands of dollars, the casket, the funeral, the cemetery plot - I paid off my car loan. I felt that \$20,000 would last me forever. Never can I remember having so much money. I knew it wasn't true but I felt very, very rich!'"

Widow, age 70<sup>2</sup>

Do you still think death benefits should be paid out in a lump sum to survivors shortly after death?

Husband  
\_\_\_\_\_ yes      \_\_\_\_\_ no

Wife  
\_\_\_\_\_ yes      \_\_\_\_\_ no

Some of the alternatives to payment of a lump sum directly to survivors include:

- A. Establishment of a trust for the benefit of your survivors.
- B. Life insurance owners may use four settlement options to spread out payments.
  - 1) Interest - Interest is paid for a limited period, then another option may be selected. A surviving spouse with young children might use this option while receiving social security benefits, then choose another option when this income ends.
  - 2) Fixed Period - Proceeds are paid over a fixed period in equal installments with fixed interest rate.
  - 3) Fixed Income - Proceeds are paid in fixed dollar amounts for a period of time, with the balance payable under another option.
  - 4) Life Income - An annuity is paid for life. There are three types: for the annuitant's life; for life, but with a number of installments guaranteed; and refund - if the annuitant dies before receiving the principal, the balance goes to a second beneficiary.
- C. You may have another idea.

<sup>2</sup> Ibid. p. 118.