CHAPTER 5

Getting Organized

Bringing Order to Your Financial House

A key to maximizing your inheritance is developing a well-thought-out approach to financial management. Your first step to building a plan is to organize your finances according to a step-by-step procedure. Right now your future is full of financial questions. The secure feeling you had when your spouse was with you is probably gone. One way to begin alleviating your concerns is to determine where you stand financially.

Like most people, you've probably thought you'd be in better financial shape if you had a workable financial plan. However, just the thought of where to start and how to do it was enough to make you shudder. Developing a plan was something you'd do later, but later never came. Now, your lack of planning might mean that you will run out of money before you run out of life.

As mentioned in Chapter 2 you should set up a filing system to keep everything organized. Figure 5.1 lists suggested file topics.

Figure 5.1 Suggested File Headings

Bank statements
Automobile insurance
Charge accounts statements
IRA statements
Health insurance information
Life insurance information
Wills
Living wills
Powers of attorney
Trusts agreements
Social Security records
Divorce agreement
Birth certificates
Death certificates
Marriage certificate
Military discharge papers
Stock brokerage statements
Certificates of deposit
Real estate titles and deeds
Mortgage statements
Investment statements
Income tax information
Title insurance
Auto registrations, etc.
Property and casualty insurance information
Mutual fund info
Prenuptial/Postnuptial agreements
Stock option plans
Pension accounts
Partnership information
401(k) accounts
Business real estate
Safe deposit box information

It takes motivation, time, and effort to put your financial house in order. The method and the worksheets in this chapter will guide you, but first you must learn about, and generate, two important documents:

1. *A net worth statement.* Sometimes called a balance sheet, this is a listing of all the assets you own or are about to receive and their established or estimated value, your liabilities, or what you owe, and your net worth, which is determined by subtracting your liabilities from your assets. Your net worth is an important statement about you. It reveals crucial financial information to which you will refer again and again for future planning. Your net worth indicates what you and your spouse accomplished financially during your lives, and is now the critical amount you have available to plan for your future.
2. *A cash flow statement.* This is simply a list of all the incoming funds from every source, along with a record of all your expenses, usually by category. The cash flow statement will show you how much money is coming in, where it is going, and the impact of taxes on your cash flow resources.

Determining Your Net Worth

The first step in determining your net worth is difficult but important—assembling and organizing all your financial data. A sample net worth statement of Martha Young appears in Figure 5.2.

Your net worth statement can be general or very detailed. Figure 5.3 is a blank net worth form that is simplified and Figure 5.4 is a detailed net worth form. Which form you use depends on the complexity and variety of your assets and your level of financial sophistication. Whichever form you use, be sure you include everything. If you don't know the exact value of an asset, estimate its worth.

As you can see in Figures 5.2–5.4, the basic factors that make up your net worth statement include:

- *Cash reserves*, or money set aside for use in an emergency. These are liquid funds that can be obtained on very short notice.
- *Investment assets* that are all the assets you set aside to generate long-term streams of income, or build toward a particular financial

goal, such as your retirement, inflation hedges, college for children, and travel.

- *Personal use assets* that are resources you use every day—your home or your car, for example—or assets you use for enjoyment, such as a boat or a camper.
- *Liabilities* that are simply what you owe.

As a widowed person, you're likely to have need for liquidity and safety. Often the dollars left to you represent all the money you have, and those funds have to last your lifetime. Your desire for liquidity and safety is counterbalanced by your need for inflation-fighting growth in some of your assets. There is really no correct formula to determine how much cash you should have available for emergencies, but the following approach has worked well for many:

- Retain, in an interest-bearing checking account, sufficient cash to cover one month's expenses. This means that after you have paid all your expenses for one month, you will have the equivalent of one month's funds left in your checking account.
- Keep a minimum of five additional months' expenses in a money market account, or other fairly liquid investment. For example, if your monthly expenses are $3,000, you would keep $15,000 in an easily accessible account. Many widowed persons keep up to a year's equivalent in this type of account.
- If you have other assets to which you have quick access, such as certificates of deposit, insurance, or securities, you can reduce the five-month reserve in a money market account. However, it is wise to stay within your comfort zone; this is intended to be peace-of-mind money.

Figure 5.2 Net Worth Statement of Martha Young

Assets	**Totals**	
Cash Reserves (less than 12 months maturity)		
Checking accounts	$ 20,000	
Money market funds	20,450	
Life insurance proceeds	125,000	
Other: Series EE bonds	7,000	
		$ 172,450
Invested Assets		
Tax deferred annuities	$ 90,000	
Municipal bonds	86,000	
Individual stocks	22,500	
Stock mutual funds	150,000	
Investment real estate	150,000	
401(k) proceeds	17,500	
		516,000
Personal Use Assets		
Home @ market value	$200,000	
Household furnishings	40,000	
Automobiles	15,500	
		255,500
Total Assets		**$ 943,950**
Liabilities (Debts)		
Mortgage on residence	$ 12,500	
Mortgage on rental unit	70,000	
Total Liabilities		**$ 82,500**
Net Worth		
Total assets less total liabilities		**$ 861,450**

Figure 5.3 Simplified Net Worth Statement

A. What You Own:	Current Value	% of Total Assets
Liquid assets		
Checking accounts	$______	
Savings accounts	______	
Money market funds	______	
Cash value of your life insurance	______	
Other	______	
Total Liquid Assets	$______	______%
Investment Assets		
Stocks	$______	
Bonds	______	
Mutual funds	______	
Certificates of deposit	______	
Retirement plans:	______	
IRAs	______	
401(k)	______	
Pension plans	______	
Other	______	
Miscellaneous	______	
Total Investment Assets	$______	______%
Personal Assets		
Residence	$______	
Vacation property	______	
Jewelry	______	
Art/antiques	______	
Other	______	
Total Personal Assets	$______	______%
B. What You Owe (Liabilities):		
Credit cards	$______	
Banks	______	
Car loans	______	
Personal installment loans	______	
Education loans	______	
Mortgages	______	
Other	______	
Total Liabilities	$______	______%

Total assets	$______
Less total liabilities	–______
Your Net Worth	$______

Figure 5.4 Detailed Net Worth Statement

	Current Est. Value	Total		Current Est. Value	Total
Assets			**Personal Use Assets**		
Cash Reserves	$ ____		Home (market value	$ ____	
Checking accounts	____		Home furnishings	____	
Credit union shares	____		2nd residence	____	
Savings accounts	____		Motor vehicles	____	
Money market funds	____		Camper/RV	____	
U.S. savings bonds	____		Jewelry/furs	____	
Treasury bills	____		Art/antiques	____	
Life insurance cash values	____		Time share	____	
Other	____	$ ____	Other	____	
			Total Assets		$ ____
Investment Assets			**Liabilities**		
Stocks	$ ____		Home mortgage	$ ____	
Bonds	____		Other mortgage	____	
Stock mutual funds	____		Auto loans	____	
Bond mutual funds	____		Credit cards	____	
Bond unit trust	____		Installment loans	____	
Certificates of deposit	____		Private loans	____	
Notes receivable	____		Taxes owed	____	
Deferred annuity	____		Brokerage margin accounts	____	
Series E bonds	____		Education loans	____	
Investment real estate	____		Retirement plan loans	____	
Limited partnerships	____		Other	____	
Collectibles	____				
Business value	____		**Total Liabilities**		$ ____
IRA accounts	____				% ____
Keogh accounts	____				
401(k)/403(b)	____		**Total Assets**	$ ____	
Pension/profit sharing	____				
Other	____	$ ____	**Less Total Liabilities**	$ ____	
			Your Net Worth	$ ____	

Analyzing Your Net Worth Statement

First, look at what you have. If you have a high percentage of your assets in easily accessible cash reserves, they may not be producing enough growth for the long term.

If your assets are largely in speculative stocks—perhaps those you inherited—you may be fighting inflation, but risking the loss of principal.

Next, take a look at your liabilities. How do your liabilities compare to your overall assets on a percentage basis? For example, Joan has $90,000 in debts and only $140,000 in assets, mostly in her home. Her debt-to-asset ratio is $90,000 to $140,000, or 64 percent. One of Joan's goals might be to restructure her debts and build up her assets by refinancing her home, using the savings generated from lower mortgage payments to reduce debts or build investments.

Your assets may contain a large amount of cash reserves because of the lump sum life insurance payment resulting from your spouse's death. This should be a temporary situation because a portion of those funds should be invested to provide growth and income to you in future years.

DEVELOPING A CASH FLOW STATEMENT

Most of your cash inflows will be what is usually considered income. The term *inflows* is used because it's all encompassing and includes, for example, a loan that someone is repaying that might not necessarily represent taxable income. The same applies for the term *outflows*. Everything you pay out over a given year is an *outflow*. Some are deductible expenses on your federal and state income tax returns and some are not. For purposes of tracing what's happening to your cash, the term *outflows* yields a more useful picture of where you stand.

For inflows, check your most recent pay stubs if you work outside the home, as well as brokerage accounts, tax returns, bank statements, and retirement survivor statements. Include any rents you receive on real estate, as well as tax refunds and proceeds of any stocks. If you know the monthly amounts from pensions, annuities, Social Security, or other benefits, enter them. If not, you may need to make a few calls to come up with a close estimate.

Total all these items so you will have a total cash inflow figure for the year. Figure 5.5 is a simplified cash flow worksheet; Figure 5.6 is a detailed cash flow

Figure 5.5 Simplified Annual Cash Flow Planning Sheet

	Amount	Total
Cash Inflows		
Wages, salary, commissions	$__________	
Dividends and interest	__________	
Annuities, Social Security, pensions	__________	
Rents	__________	
Other	__________	$__________
Cash Outflows	$__________	
Housing	__________	
Food	__________	
Clothing	__________	
Transportation	__________	
Utilities	__________	
Taxes	__________	
Insurance	__________	
Education	__________	
Child care	__________	
Entertainment	__________	
Vacations/travel	__________	
Gifts/donations	__________	
Other	__________	$__________
	Net Cash Flow	$__________

Subtract your estimated cash outflows from your estimated annual cash inflows. If the result is a plus, you'll likely finish the year in a positive cash flow situation. If the result is a minus, you are spending more than your income and you are headed for trouble.

Figure 5.6 Detailed Annual Cash Flow Planning Sheet

	Amount
INCOME	
Salary	$
Self-employment income	
Interest:	
Savings	
Money market funds	
Credit union	
Certificates of deposit	
Bonds	
Other	
Dividends:	
Stocks	
Bonds	
Mutual Funds	
Rental income	
Partnership income	
Annuity income	
Pension income	
IRA income	
Civil service benefits	
Social Security income	
Veterans benefits income	
Child Support/alimony	
Tax refunds	
Bonuses, gifts	
401(k) or 403(b) income	
Other	
TOTAL INCOME	$
EXPENSES	
Housing Expenses	$
Rent/mortgage/condo fee	
Property taxes	
Homeowner's fee	
Insurance: fire, liability, homeowners, theft	
Assessments, Special Taxes	

	Amount
Housing expenses(continued)	
Other	
Total Housing Expense	$
Household Expenses	
Gas	$
Electricity	
Phone	
Water/sewer	
Trash/Garbage pick up	
Groceries/Supplies	
Cleaning Costs	
Water softener service	
Gardening/lawn service	
Cable TV	
Home Maintenance	
Home Improvements	
Appliance repair	
Major purchases: rugs, furnishings, etc.	
Other	
Total Household Expense	
Personal Expenses	
Miscellaneous & Pocket Cash	$
Clothing	
Dry Cleaning/laundry	
Cosmetics/hair care	
Entertainment/hobbies	
Vacations/Travel	
Education	
Dues/membership fees	
Pets/pet care	
Charity	
Gifts/religious instruction	
Other	
TOTAL PERSONAL EXPENSES	$

Figure 5.6 Detailed Annual Cash Flow Planning Sheet (cont'd)

	Amount
Children's Expenses	
Tuition	$______
Room/board at school	______
Travel to/from school	______
School visitations	______
Books & supplies	______
Summer camp	______
Lessons: music, dance	______
Sports activities	______
Lunch money	______
Allowance	______
Entertainment	______
Child Care/babysitters	______
Other	______
Total Children's Expense	$______
Medical Expenses	______
Doctors	______
Dentists	______
Specialists	______
Prescription drugs	______
Lab fees	______
Glasses	______
Other	______
Total Medical Expenses	$______
Transportation Expenses	
Car loan/lease	______
Car insurance	______
Gas/oil	______
Maintenance	______
Tires	______
Tolls, fares	______
License fees/tags	______
Other	______
Total Transportation Expenses	$______

	Amount
Insurance Expenses	
Life	$______
Disability	______
Group	______
Accident	______
Health	______
Other	______
Total Insurance Expenses	$______
Taxes (If not included elsewhere)	
Federal Income Taxes	$______
FICA (Social Security)	______
State Income Taxes	______
State Sales Taxes	______
City/Local Taxes	______
Personal Property Tax	______
Other	______
Total Tax Expenses	$______
Category Expense Totals	
Housing	$______
Household	$______
Personal	$______
Children	$______
Medical	$______
Transportation	$______
Taxes	$______
Miscellaneous	$______
TOTAL EXPENSES	$______
TOTAL INCOME	$______
Subtract Total Expenses	$______
NET CASH FLOW REMAINING For Savings and Retirement	$______

worksheet. Use the one that's best for your situation to plot the cash that's coming in versus the cash that's going out on an annual basis.

What you want from your cash flow worksheet is a representative snapshot of your best *guesstimate* for the coming year. Outflows have a way of escalating so be sure to include a healthy guesstimate in each area.

After you have the figures, look for categories or expenses that can be controlled. Can you cut back, or is there an unusual expense that won't recur? Will some expenses drop or increase dramatically? High costs in certain areas may indicate that you need to consider a financial step, such as refinancing your home, consolidating loans, or streamlining insurance costs.

Actual Versus Estimate

Your net cash flow can be either positive or negative. As you receive the inflows and spend the outflows, your actual experience may—and in all likelihood *will*—differ from what you put on the planning sheet. If the planning sheet indicates that you will have a surplus of $5,000 at the end of the year and it's clear by May that you've fallen behind, perhaps you understated one or more of your outflow items or overstated one or more of your inflow items.

Examine your checkbook, looking especially at the amount of cash you're withdrawing every week for spending money; perhaps there's seepage somewhere such as an outflow that you did not include in your planning. In any case, continue to revise your cash flow plotting sheets so that they more closely reflect reality and so that you always have the latest figures to use in financial planning.

If you have a serious cash flow shortage consider these nine suggestions:

1. *Rearrange debt payments*. Consider talking with your creditors informally about reducing your debt and/or creating a payment schedule you can manage.
2. *Sell your life insurance policies*. You may be able to sell a life insurance policy for cash (called a senior or viatical settlement), often for much more than the cash value. This money can then be used to reduce debt or be invested to provide income.
3. *Create rental property*. Consider turning your residence into an assisted-living home, or taking in boarders.
4. *Move in with a friend or family member or rent a less expensive space.*

5. *Review your assets and consider selling those that produce little or no income.*
6. *Review your retirement assets to see if you are maximizing the income to increase cash flow.*
7. *Consider a reverse mortgage if there is equity in your house and you are over age 65(Age 62 in special cases).*
8. *Review your house mortgage to see if a lower interest rate may be available by refinancing.* This may lower your monthly payments.
9. *Determine which expenses are necessary and which are discretionary.* Some of the discretionary may be unnecessary once you examine them more closely.

A Cash Flow Control Plan

One way to put yourself in control of your cash flow is to establish two separate checking accounts. The first account can be a money market fund or traditional checking account. This account is to handle all the expenses that always seem to come at the wrong time or in the wrong amounts. These expenses are usually ones that do not recur monthly but can still be programmed. Examples are once-a-year or occasional expenses such as auto insurance, travel and leisure activities, real estate taxes, and estimated tax payments.

One of the first steps in setting up this approach is to identify all these occasional expenses. Most widowed persons feel comfortable with keeping a six-month or one-year reserve in this account to cover these occasional programmed expenses. If you don't have an interest-bearing checking account, you can place some of the funds in a money market fund so that temporarily idle funds are earning some interest. As expenses are covered from this account, replenish the account to always keep the reserve intact.

The second checking account—a traditional checking account or regular account—will be used to pay most of your regular bills and recurring monthly expenses, including cash you withdraw to spend on incidentals.

This system is simple and effective because it helps you separate monthly living costs from occasional expenses and money used for savings and investments. Meanwhile, the programmed account is drawing interest while you are writing fewer checks on it, and the regular account is also drawing interest while you are drawing more checks against it. In this way, you're optimizing the use of your checking accounts.

VALUABLE DOCUMENTS AND SAFE STORAGE

Another aspect of getting organized is physically securing valuables and important documents. These items should be sorted and kept in a fireproof safe or safety-deposit box. A safety-deposit box is the best choice for storage outside your house, though it's wise to keep photocopies of original papers in a file at home.

In general, store only those documents and valuables which are irreplaceable in the safe-deposit box; if they're replaceable, they can be covered by insurance. Figure 5.7 is a list of items to keep in a safe-deposit box.

If you have a power of attorney agreement, which gives someone else the right to act in your behalf should you become incapacitated, don't keep it in your safe-deposit box. It's better for the person to whom you grant the power to retain one copy of the power of attorney and for you to retain another in your personal files at home. Figure 5.8 provides a checklist so you can keep track of the location of all your important documents.

If you've computed your net worth, determined your cash flows, and safely stored what needs to be stored, you can take a deep breath and relax a bit now. The preliminary planning is a great deal of work, but it's done and out of the way.

ESTATE INCOME/EXPENSES RECORD BOOK

Any income received that was due your spouse prior to death should be deposited in a separate bank account (also see Chapter 6 Settling the Estate). This could include dividends and work related income.

Discuss with your bank what is involved in setting up an estate account. Until then, keep track of any checks you receive, including date, amount, and who the payer is. Also keep receipts for expenses incurred to settle the estate and record them.

Figure 5.7 Items to Keep in a Safe-Deposit Box

Adoption papers
Automobile titles
Original birth certificates
Valuable books
Certificates of deposit
Citizenship papers
Coin collections
Contracts
Copyrights
Court decrees
Death certificates
Deeds and titles
Divorce decrees
Employment contracts
Household inventory for insurance purposes
List of life and disability insurance policies
Jewelry
Valued letters
Original marriage certificates
Military discharge papers
Mortgages
Naturalization papers
Patents
Pension certificates
Treasured photo negatives
Promissory notes
Savings certificates
Social Security card
Stock or bond certificates
Trust agreements
Veterans Administration papers
Videotape of household contents
Copies of your will

Figure 5.8 Location of Important Documents

	Safe-Deposit Box	Office	Residence
Wills	________	________	________
Trust agreements	________	________	________
Powers of attorney	________	________	________
Burial instructions	________	________	________
Cemetery deeds	________	________	________
Safe combination	________	________	________
Employment benefits	________	________	________
Employment contracts	________	________	________
Pension records	________	________	________
Social Security records	________	________	________
Life insurance policies	________	________	________
Home & car insurance	________	________	________
Birth certificates	________	________	________
Passports	________	________	________
Naturalization papers	________	________	________
Military discharge	________	________	________
Marriage certificates	________	________	________
Partnership agreements	________	________	________
Checking accounts records	________	________	________
Savings accounts	________	________	________
Credit card records	________	________	________
Certificates of deposit	________	________	________
Record of investments	________	________	________
Stock & bond certificates	________	________	________
Tax returns	________	________	________
Real estate titles and deeds	________	________	________
Mortgage papers	________	________	________
Notes payable/receivable	________	________	________
Ownership records:	________	________	________
Auto	________	________	________
Boat	________	________	________
Recreational property	________	________	________

BUILDING A WORKING BUDGET

Many surviving spouses have found that if they separate their expenses into the category headings listed below they have a better feeling of how to plan for the future.

Absolutely Necessary	*Variable But Important*	*Exciting Luxury*