



YOUR FEDERAL BENEFITS EXPLAINED

Fifth Phase of Retirement

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In the fifth phase of retirement you need to plan for the inevitable. During this phase we must deal with the things that we all frequently put off:

Wills
Trusts
Durable Power of Attorney for Financial Affairs
Advance Directives
Durable Power of Attorney for Medical Affairs
Living Wills
Insurance Policies
Review the Specifics of any Joint and Survivors Annuities Documents

If you don't establish some or all of these documents and/or review existing documents, you will be allowing the state to decide who will inherit your assets and under what circumstances. Additionally, you need to acknowledge the possibility that you may become incapacitated. Each of these documents has a specific purpose.

Wills

The will is a legal document that stipulates to whom and in what percentages or amounts you want your assets to go upon your death. Beware that in a will you cannot establish restrictions; when you will (give) an asset to someone upon your death, the asset is theirs to do with what they wish. Within the will, the maker names an executor/administrator. The person/persons named as executor/administrator has no access to your assets and cannot act on your behalf until after your death.

It is not necessary to have an attorney draw up your will, but it is frequently advisable.

Trusts

There are two broad categories of trusts – living and dead. A living trust is established and “funded” by you during your lifetime; therefore living trusts can be revocable or irrevocable.

A revocable trust can be changed by the trustor. All revocable trusts become irrevocable upon the death of the trustor. A dead trust is established by you as a testamentary trust which is a legal document but no assets are held in the trust until after your death and assets have gone through probate. Every trust has three ‘parties’: the trustor, the person who creates the trust and who puts assets into the trust; the trustee, the person/entity who manages the assets; and the beneficiary or beneficiaries who benefit from the assets held in the trust. A trust allows the trustor (you) to control assets after your death.

Durable Power of Attorney for Financial Affairs

This is an important document for each of us to establish and keep current. The Durable Power of Attorney for Financial Affairs gives another person the right/responsibility to carry on your financial affairs if you should become incapacitated. Many people assume that if they are married their spouse can always transact their financial matters. This is true in most cases, on assets held jointly. However a Durable Power of Attorney would be needed for your spouse to sell your joint-owned home. Otherwise your spouse would need to be appointed as your guardian by the court in the event of your incapacity. Upon your death, the person named as having Durable Power of Attorney has no control over your assets. That is where the executor or administrator of your estate, as named in your will, becomes effective. There are also specific Power of Attorney documents in which you name someone to “act as you” in a specific financial transaction.

Advance Directive

These are actually two documents which are frequently combined:

1. Durable Power of Attorney for Medical Affairs

This document gives someone you name the power to make medical decisions for you when you are incapacitated but not terminally ill. For example, if a medical event renders you vegetative but life could continue, would you want life support devices. That is the responsibility you are giving to the named person. This is not a responsibility you want to surprise someone with. Before you give someone (friend, relative or medical advisor) this responsibility, discuss with them in detail what you would/would not want in the worst case scenario. Make sure that the individual you name will be willing to carry out your wishes even if other friends and family members object.

2. Living Wills

A living will has nothing to do with your assets, it does however give someone the responsibility to make medical decisions for you when you are terminally ill and unable to make your medical decisions. As with the Durable Power of Attorney for Medical Affairs, make sure that the person given this responsibility is willing to carry out your expressed wishes.

Review Insurance Policies

This is something that all of us should do on an ongoing basis; however, frequently we do not. This concept should apply to all types of insurance policies (home owners, auto, health, long-term care), but specifically life insurance. Know the type of life insurance you have. Is it term insurance? Is it universal/whole life? If it is term insurance, what is the "term" – the point at which the value of the policy decreases or disappears. If it decreases, what formula is used to effectuate the decrease.

Review Designation of Beneficiary forms. These forms are your responsibility whether connected to Federal life insurance or private life insurance. A will never supersedes the Designation of Beneficiary. There is also a standing order of precedent which can vary from Federal to private insurance. The standing order of precedent for the Federal Employees' Group Life Insurance is:

- Named beneficiary (even if it no longer makes sense)
- Spouse
- Child/Children (shared equally)
- Parent or Parents
- Executor or Administrator (to become part of your Estate)
- Next of Kin based on the laws of the state of residence at the time of your death

Naming a beneficiary, even if the named person/persons would be in the standing order of precedence, expedites the distribution of the assets.

Review the Specifics of Any Joint and Survivor Annuity Documentation

Any annuity purchased on the open market, or if you have an annuity from your Thrift Savings Plan account, has specific wording which dictates if a survivor's annuity will be paid upon your death and in what amount. Further, the annuity documents will clearly indicate what is to be done with any remaining principal upon your death.

Finally, even though none of us like to think about it, it is inevitable that we will each die. Think about your funeral arrangements. Some people prefer to establish a letter of instruction explaining how they want their "final appearance" carried out. Others prefer to take care of everything and even prepay for the arrangements. Still, others prefer to set money aside specifically earmarked for final expenses. If you are inclined to prepay, check your state's laws governing prepaid funerals: they vary greatly. Some states have little or no protections against the misuse of the funds. There is a resource provided by the Federal Trade Commission – a consumer guide to funerals. It is available at www.ftc.gov and click on the "For Consumers" link. The guide is listed under "Products and Services".