When Misfortune Brings a Client to Your Door

by Nancy Opiela

You hear this from planners all the time—people just don't wake up one morning and decide to go see a financial planner. Very often, it is a life-changing event that brings them in the door. While the catalyst can be a happy event such as a marriage or the birth of a child, bad news also prompts folks to look for professional help with their finances. Dealing with these personal catastrophes—whether it's a major medical problem or the aftermath of natural disaster—can be an intensely emotional challenge for planners, particularly if they have no history with the clients.

"When we've done all the planning and there's an unexpected tragedy, it's certainly difficult," says Eleanor Szymanski, CFP, of Princeton, New Jersey. "But because we've already gone through the financial plan, we are not making the difficult decisions at a trying time. With new clients it's more difficult—we're asking a lot of questions at a difficult time because we don't know their history. Our job in these cases is to help them focus on the most important issues and let them know that there are some decisions they don't need to make right away."

Incurable Illness and Sudden Death

Szymanski has had several clients come to see her when they were facing personal catastrophe. One was a 40-year-old man diagnosed with an incurable illness who wanted help planning for his wife and daughter.

All the client would tell Szymanski about his illness was that it was terminal, not likely to require long-term hospitalization and that he had five or six good years left. "He wanted to come in and plan for the quality time he expected for those five or six years," she says. "He wanted to do some traveling, but at the same time he was a very responsible guy who wanted to rest assured that he was not taking away something that his wife and daughter would need later."

Szymanski notes that developing the family's financial plan required that she and her firm take a very different perspective. "We are accustomed to dealing with the long term—and here we had to deal with the short term for him and the long term for his wife and child. It was difficult to take both perspectives and be gentle and sensitive with him during meetings. Although his wife wanted to live now, he had more concerns about the long-term needs of wife and daughter," she explains.

Szymanski's financial plan included a review of insurance, estate planning, wills, durable power of attorney, medical directives and medical care. Happily, the couple was financially well situated. He had disability insurance and it was covering expenses, and his wife was working. "The plan showed they could do it all," Szymanski says. "They could spend some extra money and do some traveling while he was still well enough, yet still save to educate their child. I did retirement projections for both of them—I had to make that assumption—and it showed they had sufficient assets set aside. That's the message I wanted to give—that they could manage fine with assets they had already amassed."

Szymanski notes that she also did an analysis of whether the husband could survive without his wife. "We had to do that. If you plan and don't cross all the Ts, there will be a surprise," she says. "We looked at her life insurance and found that he could manage if the unthinkable happened."

Although she completed the financial plan nearly a year ago, the couple has yet to travel. "I walked them through the plan. I showed them where the money was to spend—it was really from her earnings," Szymanski explains. "We went through the numbers several times, but he is still reluctant to travel. It's an emotional thing—he's afraid to spend their money."

In another situation, Szymanski worked with a woman with two young children who came in after her husband died unexpectedly from complications from medication he was given. "She is picking up the pieces and trying to figure out how will she provide for the children," Szymanski says.

In addition to setting up an investment account with the life insurance money, Szymanski helped the woman with other satellite financial issues. "After her husband died, her neighbors and family members sent her money, close to $20,000. She wanted to keep this money in a separate place, so we helped her with that," Szymanski explains.

The financial plan covered issues ranging from naming guardians for the children to the question of medical malpractice and living expenses. "She wanted to know how long she could be an at-home mom. That was a big part of the plan—how long could she not work and maintain the investment portfolio and retirement and education accounts," Szymanski says. "We figured she had enough to stay home for at least two years and have sufficient assets. Now she can relax and enjoy the time she has with her small children. I spoke with her yesterday. She's joined a grief group, and that has been helpful."

Expertise in Serious Illness

Some planners, like Patricia Drivanos, CFP, of New York, New York, specialize in dealing with clients with serious medical issues, whose illnesses and financial situation can lend a sense of urgency to their requests for help.

Explains Drivanos: "Normally, people are not coming in with a lot of money. I'll take them through a checklist—employee benefits, health insurance, long-term disability, Social Security disability, and income over the last ten years, so I can give them an estimate of what Social Security disability might be. We also go over pensions, investment income and credit card debt so I can get a picture of where they are. It also helps me to know what kind of illness a client has, although sometimes they won't talk about it."

Typical of the client Drivanos works with is the woman whose husband has Pick's disease, an illness similar to Alzheimer's, but which affects younger people and is fatal. When she came to see Drivanos, her husband was in a nursing home. "She had bills, but she had two life insurance policies on her husband," says Drivanos. "She had gotten the name of a viatical company in Florida and called them. This one, one of the biggest advertisers, made an offer of 40 to 50 percent on the policy and she wasn't happy with that. The viatical company wanted her to transfer the policy from her name to her husband's name and have him sell it. In my mind, she had two other options and, in fact, the outright sale of the policy was the last thing you'd want to do."

Drivanos explained to her client that the best option would be an accelerated benefit where the life insurance company would offer her a settlement on the policy. "They cancel the policy and you get the cash. No more premiums and you have the money," Drivanos explains. "Because the insured has a short life expectancy, the company discounts the policy slightly, pays now and looks like the good guys. However, the policy my client had was a convertible term policy and did not allow for an accelerated benefit. We would have to convert it into a policy that did offer an accelerated benefit. However, the qualification for the accelerated benefit was a letter from a doctor stating that the insured had a life expectancy of one year or less. We couldn't get the doctor to agree to that."

So Drivanos and her client moved on to plan B, a viatical loan against the policy. "She used the life insurance policy as collateral and the company offered her a line of credit against the policy," Drivanos says. "If there is a difference between the outstanding loan balance and the face amount of the policy, the loan document has a beneficiary named in it. For example, if the loan balance is $150,000 and the value of the policy is $200,000, a $50,000 payment upon the insured's death goes to the beneficiary named in the document."

Drivanos notes that while the line of credit was based on a five-year life expectancy, if her client's husband's medical condition became worse, the client could get new medical records and present them to the viatical loan company. "Based on the new information, the company could increase the line of credit on the policy. This solution gave my client a real sense of comfort. She is no longer paying insurance premiums and has the cash to do things she needs to do. She also has the flexibility to take the money as a lump sum, or as she needs it. Finally, if the husband lives longer than expected and the loan balance exceeds the face value of the policy, it is a non-recourse loan, so the company could never come after her to get money," Drivanos says.

Loss of Job, Loss of Self

It's rare that someone becomes a new client after a job loss, but planners have, of course, worked with current clients who have their lost jobs. Across the board, planners note that it's not so much the financial issues, but emotional issues that are troubling at times like these.

Kyra Morris, CFP, of Morris Financial Concepts in Mount Pleasant, South Carolina, saw a number of clients who worked in the local Navy yard suddenly uprooted in the 1990s. The families who had it the toughest were those living just within their means.

As a result of these experiences, Morris does an exercise with clients to identify their lifestyles. "I try to get people to identify the bare minimum they need to survive with some sense of comfort. It's a real help not to have to figure this stuff out in a state of panic. It's more fun to do when you are content," she explains.

Like Morris, Phil Kruzan, CFP, of Foster Capital Management in West Des Moines, Iowa, has had clients lose jobs unexpectedly. However, he reports that more often than not, the clients see "time off" as an opportunity to search for what they really want to do in the years ahead. "You've worked for a hospital system for 20 years, you get a new boss and he eliminates your position. For most of my clients, they would be at a stage in their lives where this would be okay. The emergency fund is in place and they can look for something they enjoy."

Taking time for this healthy reflection is something Kruzan encourages all his clients to do before they retire. Retirement, he says, is a time when some of the same psychological issues that surface after a job loss can present themselves. "People tell us that, after they've reached the end of their career and raised and educated their kids, they look at all they have accomplished and are not entirely satisfied," he says. "If all the people you used to associate with are still working and you're not, you can lose your feeling of self-worth. We all like people to look up to us and we like to believe we are doing something of worth. Self-confidence can be shattered in months, so we work with clients to open up their thought process and help them see that there are a lot of opportunities in retirement."

Coping with Natural Disasters

In certain parts of the country, the possibility of natural disasters is more at the forefront of financial planning. While Morris notes that 2000 was the first year in a long time that South Carolina escaped a hurricane threat, ongoing threats have driven people away from the coast. "Several clients retired here on coastal islands and have moved because of the anxiety that comes each August through early October. There's a lot of stress in deciding what to take and what to leave in an evacuation, wondering what's going to happen to your house. For these clients, the decision to move wasn't really a financial one—it was more emotional," she says.

Morris counsels all her clients on insurance options. "Since Hurricane Hugo, many insurance companies aren't writing insurance on the coast from Florida to North Carolina," she says. "My clients need to understand that they need three insurance policies—regular homeowners, federally mandated flood, plus another policy called wind and hail. This amounts to some pretty outrageous rates to protect yourself. But rather than self-insure, we believe it's better to pay for whatever insurance you can get."

Morris also counsels clients on the benefits of building to hurricane code. "Building to hurricane code is expensive, but the chances of riding successfully through a hurricane increase, so you save on insurance. In Hugo, we had one house built to hurricane code on the Island of Palms, and it suffered very insignificant damage compared with others," she says.

Morris also helps clients look at the issues that come into play while settling claims. "Generally, we help clients find attorneys who deal in this area," she says. "We also help them outline their facts for the attorney who will then fight with the insurance companies."

Small Business and Natural Disaster

It was nearly a decade ago, but Jay Shein, CFP, of Compass Financial Group in Lighthouse Point, Florida, hasn't forgotten the plight suffered by local small business owners after Hurricane Andrew. One client who ran a produce business lost hundreds of thousands of dollars of produce due to the loss of power. "They had been recommended insurance that would have covered this loss, but they felt they were spending enough on insurance," says Shein. "Of course, after it happened, they signed up for the coverage so there wouldn't be a next time."

When it comes to proper insurance for small businesses, Shein leads by example. "We have insurance to cover the cost of setting up temporarily somewhere else. I also have business-overhead-expense insurance for disability. I have my own disability insurance, but this additional coverage pays the salaries of those at my firm in the event I'm out of work for an extended period of time. In addition, we have property and casualty insurance to replace lost income and pay to help reconstruct valuable records," he says.

Shein also keeps all his data on disk and stores it off site each night. "I took the disks with me when we evacuated for Hurricane Andrew," he says. "If our area had been hit, I could have rented an apartment an hour or so away and been up and running in no time."

Shein's involvement with small business owners in the aftermath of Hurricane Andrew included recommending additional services to help them through the tough times. "In times of disaster, you need to emotionally support clients as best you can and make recommendations of other people and services that can keep them going. In some situations, I even recommend that clients see a psychologist I know," he says.

The importance of financial planners being able to point their clients in the right direction is underscored by the following statistic. According to the Federal Emergency Management Agency, 40 percent of all businesses hit by a natural disaster never reopen, and another 25 percent close within a year.

Explains Gary Gleason, public affairs officer with the Federal Emergency Management Agency (FEMA), Region VIII, "Many small businesses operate on a small margin to begin with, so disaster is often their death knell. Businesses that decide to reopen are often crippled by increased debt, reduced distribution capability, staff turnover, and disaster-caused regional economic downturns."

Gleason has served as a public information officer during the Colorado wildfires, Hurricane Floyd in North Carolina and the Salt Lake City tornado. He lists the following as the most critical issues for planners to cover with small business owners preparing for recovery. (See sidebar for additional sources of information.)

1. Inventory: Do you have salvageable inventory, and are you insured for inventory losses?
2. Production facilities: What will it take to get your production facilities back online? Are you insured for any of those capital losses?
3. Distribution infrastructure: If it was a major disaster, were your distributors affected? Are there lines of transportation by which you can bring salvageable inventory to market quickly?
4. Staff retention: How well prepared was your staff? When will they be able to return to work? How much of your staff will make a substantive change in their work or residence as a result of the disaster?
5. Cash flow: If you plan to stay in business, you need to put together some strategies for maintaining positive cash flow, or at least minimizing negative cash flow.

No Substitute for a Sound Financial Plan

Gleason's checklist for small business owners in peril is not unlike the one Drivanos uses. Both are intended to get a quick picture of someone's financial situation, and to provide a foundation for the rest of the financial plan. Morris stresses that the importance of this most basic information in a crisis should serve as a reminder to planners to attend to the basics of financial planning with all their clients—new and old.

Says Morris, "We can get so wrapped up in the fun stuff—the investment world or envisioning retirement. It's important to remember, however, that we need to pull back and go through a basic financial planning checklist with clients. Do they have an emergency fund? Can they make it through three months with no income from other sources? What is the insurance base they have in place? The basics of financial planning should be checked with clients regularly. Once a year, we need to check in on the things that may seem boring."

Nancy Opiela is an associate editor of the Journal of Financial Planning and is based in Medfield, Massachusetts.

Sidebar: Natural-Disaster Resources for Small-Business Owners

Gary Gleason, public affairs officer with the Federal Emergency Management Agency, Region VIII, offers the following sources of assistance for small business owners in the aftermath of a major natural disaster:

- **SBA:** The U.S. Small Business Administration may be able to provide low interest loans to assist in disaster recovery.
- **IRS:** The Internal Revenue Service, under presidential disaster declarations, will allow businesses to amend their previous year's taxes to claim disaster-related casualty losses. This is a mechanism by which businesses can receive a quick cash infusion.
- **FEMA:** The Federal Emergency Management Agency, under a presidential disaster declaration, may be able to provide disaster unemployment benefits to individuals who do not otherwise qualify for unemployment benefits. FEMA also has a variety of loan and grant programs targeted to individuals affected by disaster, which may help with employee retention. FEMA may be able to assist businesses hoping to reduce future disaster risks through their Flood Mitigation Assistance Program and the state-administered Hazard Mitigation Grant Program.
- **USDA:** The United States Department of Agriculture (USDA), through the Rural Business-Cooperative Services (RBS), may be able to provide loans and grants to businesses in rural areas to finance business facilities and community development projects.
- **HUD:** The Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds provide annual grants to cities and counties for the development of viable urban communities. The focus of the program is on housing, livability, and economic opportunities, principally for low- and moderate-income persons.
- **EDA:** Your state or local Economic Development Agency also may be able to provide some type of disaster relief. The following Web sites offer additional information and links:
- www.fema.gov
- www.sba.gov/disaster
- www.sustainable.doe.gov/freshstart/other.htm