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July 2007 issue

The Financially Illiterate Spouse

How do you plan for a couple when one spouse won't participate?
By Dave J. Drucker

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How do you plan for a couple when one spouse won't participate?

I don't have to search my client archives for examples to explain to you the dilemma of planning for a nonfinancial, or financially illiterate, spouse; I live that scenario. Mention anything financial to my wife and her eyes glaze over, then roll back into her head and she quietly slumps to the floor.

Well, perhaps that's a little exaggerated, but if anything happened to me, let's just say she would be ill-prepared to take the household's financial reins. To provide some relief, I recently wrote for her a concise but meaty three-page explanation of our finances (what we've got and where it is) that I'll revise annually. Upon giving her the inaugural copy of this document the other day, she said, "Are you planning to die soon?" Nonfinancial spouses not only don't want to take control, they prefer never to think about it.

When you have clients who exhibit these tendencies, you need to recognize them and add an extra layer of safeguards to your planning. And you have options when it comes to safeguards. Some advisors try to bring the nonfinancial spouse up to speed; others believe that's a waste of time and establish formal or informal backup systems, instead.

The first step, say advisors, is just getting both spouses to come to your office for the initial meeting. The nonfinancial spouse may not want to accompany the financially literate spouse to the meeting, says Lauren Gadowski of Personal Financial Advisors, LLC in Covington, La. "If that's the case, we ask whether that spouse would be more comfortable meeting alone."

However it's done, most advisors agree that it's critical to have both spouses involved. Says John Henry McDonald of Austin Asset Management Co. in Austin, Texas, "If only one spouse is present at our engagement meeting, we demand that both spouses attend the presentation of the final plan or the first working plan meeting. No exceptions."

So you've got both clients in the door. Next comes the old "leading the horse to water" phenomenon. If the nonfinancial spouse isn't participating, says McDonald, "I engage them. I might say, 'Mr. Jones, it seems to me we've spent the last 30 minutes talking about everything but your wants and needs.'"

Other ways advisors attempt to engage the nonfinancial spouse in the planning process include focused communication and relationship building. Vivian Honeycutt of Honeycutt Financial LLC in Chesapeake, Va., writes up her meeting notes and recommendations and then e-mails them to both parties. "Sometimes, the spouse who didn't want to know or be bothered with the facts will start to ask questions and provide input. I always meet with both spouses initially to establish who I am planning for and explain the process. I try to at least get the noninterested spouse involved in the 'feeling' questions, since the real issue is usually that they don't want to be bothered with figures and investment decisions."

In the case of one of Honeycutt's couples, the wife had inherited a sizable estate but wanted Honeycutt to talk only with her husband about what to do with the money. "She stated she didn't have an interest in making financial decisions," says Honeycutt. "I started asking her questions about the future, her children from a previous marriage, and how or if she wanted [the planning process] to impact them." After three months of copying the wife on all correspondence and recommendations, Honeycutt learned from the husband that his wife was expressing more of an interest. "She's still not interested in the investment recommendations, per se, but she is now very interested in how much income [her inheritance will throw off] and how much gifting she can do for the children. And she has elected to be at every meeting, even though she stated at the first meeting that it would be the only time she'd come in."

Once involved, can the nonfinancial spouse be educated? Opinions vary on this, but Jane Young of Pinnacle Financial Concepts Inc. in Colorado Springs, Colo., believes it can be done. "I have offered to provide a separate meeting to help educate the [nonfinancial] spouse on the basics of investing and financial planning. I do this one on one without the more informed spouse present. This way, he or she can learn and ask questions without feeling intimidated or foolish. Once there is a greater understanding of basic investment concepts, the client is more likely to participate and engage in the process."

Cheryl Hancock of Rinehart & Associates in Charlotte, N.C., says some clients are educable and others are not. "We do see couples where, typically, the husband realizes that the knowledge base is lopsided and chooses our firm specifically because he wants our help in educating his less-experienced spouse. We become the knowledge base for the surviving spouse and we work hard to take the time to help educate that spouse as the relationship progresses."

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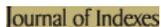
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When would Hancock not attempt to educate the nonfinancial spouse? "When we have a Type A [financial] spouse who wants to continue to handle all the details. They often view educating their spouse as a waste of time." This doesn't mean, though, that the spouse's input should not be sought or considered. "In our introductory meeting, we have both spouses complete financial goals and money histories," says Hancock. "This gives the [nonfinancial] spouse permission to express their viewpoint. In some cases, it may be the first time anyone has been willing to consider their goals."

Another step Honeycutt takes is to have couples sign a joint representation statement, which lets them know there will always be full disclosure by her to both spouses. "In other words, no secret meetings with only one spouse. If one spouse consistently shows up to meetings without the other spouse and we feel concern that the information is not being shared, we will take the time to schedule an additional meeting with the [nonfinancial] spouse" to get them up to speed.

Of course, most planners like to assume that a surviving, financially illiterate spouse will simply continue working with them, making them—in effect—a substitute for their deceased partner. The most common scenario is that the husband, who's got all the details of the couple's financial life nestled comfortably in his cerebral cortex, suffers a heart attack while watching Jim Cramer on TV, and the first person his widow calls is you.

"We don't try to educate the nonfinancial spouse," says Andrew Tignanelli of The Financial Consulate in Lutherville, Md. "It's our job to let them know we care about them, we want a relationship with them and, if anything happens to the nonfinancial spouse, we'll step in and make sure they're taken care of as best as possible." Over time, the nonfinancial spouse comes to understand that he or she is a safe person, says Tignanelli, and may even start to enjoy coming to the meetings.

Tignanelli's firm will handle the survivor's investments, tax preparation, estate planning, and even car purchases, but has the spouse handle his or her own bills. George Middleton's firm—Limoges Investment Management PC of Vancouver, Wash.—becomes, in many ways, a surrogate for the deceased spouse. "Honestly, a lot of it is just listening," says Middleton. "In one case, the surviving [nonfinancial] wife was trying to decide whether to stay in the Northwest or move closer to her relatives. We went through the pros and cons of that and I helped her sell her home. We went through the budgeting process too. Now I make sure that her monthly income check is dispersed on time."

Middleton has discovered that many of his widow's issues aren't purely financial. "They're just day-to-day decisions she was accustomed to having her husband help her with. I've already sensed that she's making decisions on her own more easily, though she still likes to run the financial ones by me."

Of course, estate planning mechanisms shouldn't be ignored as a way of dealing with this problem. "One of the questions included in our financial planning organizer asks about each spouse's ability to manage the finances and what they envision when one spouse dies," says Peter Traphagen Jr. of Traphagen Investment Advisors LLC in Oradell, N.J. "That question may generate changes in or the creation of testamentary documents, wills and/or trusts."

As Hal Schweiger of Capital Financial Advisors LLC in San Diego points out, "Opposites tend to attract, so the issue of lopsided couples [a financial spouse paired with a nonfinancial spouse] is a very frequent thing to run into in financial planning." That means we need to recognize it as commonplace and, if we haven't already, build a framework to support the financially illiterate spouse. Educating him or her is good but, at the very least, making sure we create an effective financial support system is essential.

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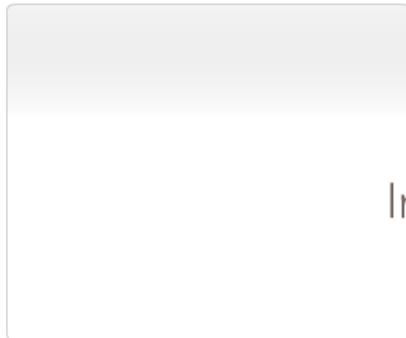
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