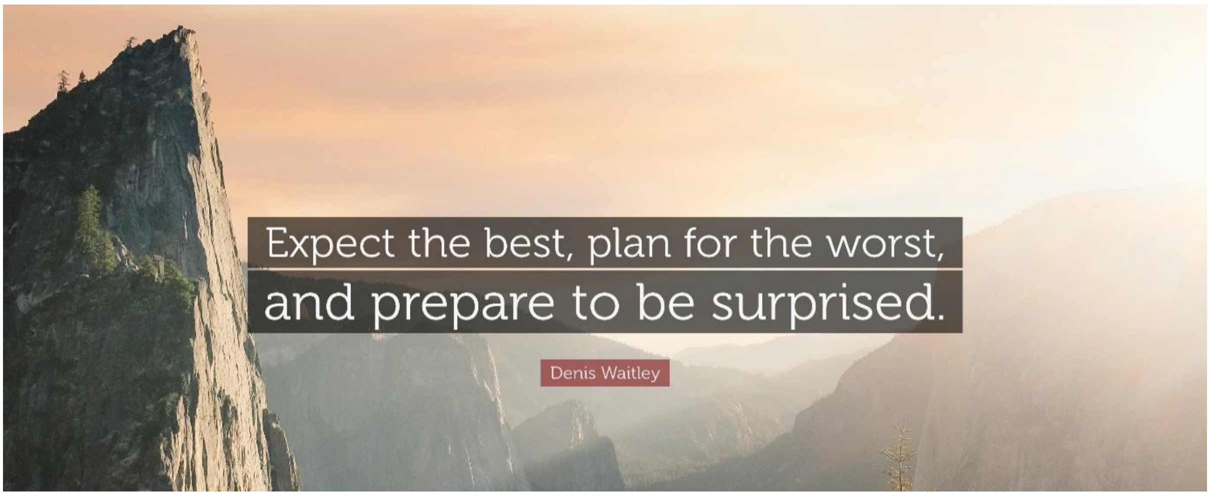

Human nature is such that - we ‘expect the best’, ‘ignore the worst’ and are almost ‘always surprised’.

Life has become increasingly unpredictable and uncertain. Increasingly we hear of friends and colleagues passing away due to accidents and illnesses. When these tragedies happen, we are suddenly reminded of our own mortality and the fragility of life. We promise ourselves to eat better, exercise more, spend more time with the family and take on less stress. But with the passage of time, we go back to norm and live as though ‘nothing will happen’ - till the next tragedy happens.

These tragedies are traumatic. Dreams are broken and with a life partner no longer present, all the responsibility for the children falls on the lady of the house. In many instances the husband is the sole earning member with the entire future and the wellbeing of the spouse and children dependant on the earning capacity of this single person.

Once the surviving spouse comes out of the initial emotional shock and grief of the passing away of a loved one, the practical questions of life arise. Life after all must go on.

1. Where do I live, can I afford to live in this house.
2. How much money do I have
3. To whom do I owe money
4. Was there any insurance
5. Was there a will
6. What are the benefits I should expect from the employer
7. Where did he keep all the records

(Note: for the sake of simplicity, I have assumed that the husband has passed away and is survived by his wife and children. It could be the other way too. Apologies, if I have created offense in making this assumption)

This list is not exhaustive and there are many more questions that arise. Very often in such circumstances family members step in and assist the family in resolving the financial matters. But this then becomes an obligation and moreover the extended family members too have a job / business to take care of and cannot spend a lot of time resolving these matters.

So, what should we do. How should we arrange our financial affairs, so that if the ‘worst’ happens, our financial matters do not pose a challenge for our loved ones. Indeed, this is our responsibility and one which 99% of us are presently not fulfilling.

"The time to fix the roof is when the sun is shining"
- John F. Kennedy

This action plan into two parts. Part A is what should we be doing to 'plan for the worst' i.e. *'to fix the roof'* and Part B deals with what should be done if the 'worst happens'.

Part A

"Plan for the Worst"

Include your spouse in financial decisions

In more instances than not, the husband tends to take the financial decisions for the family and usually doesn't even tell his wife what he is up to. If she asks, the response usually is 'Don't worry, relax – I am taking care of it'. After asking a few times she gives up. As years go by and as financial matters of the family become more complex the wife becomes more and more clueless about the state of affairs.

So as a first step start talking finance at home. Slowly but surely bring her up to speed on how the family 'balance sheet' is structured. An annual conversation (maybe on the weekend of the wedding anniversary) can be scheduled to do a deep dive into what's the status and what are the plans for the year ahead. Answer questions patiently, remember she is not questioning your decisions, she just wants to know. If she doesn't know, you as a husband have failed to 'plan for the worse'. You might just end up with some sane advice as an unexpected benefit.

[A study of over 12 million folios by Fidelity Investments in the US has shown that when involved, the long-term return generated by women is higher than that the return generated by men – but that's a topic for another time]

Improve your 'Financial Hygiene'

'Scattered, haphazard and disorganised' is how many of us would describe our 'housekeeping' of investments and financial matters. Deep down we know that our records and details are a mess and keep promising to ourselves that we must straighten it out. But we keep deprioritising this, till its sometimes too late.

Here are some ways to improve our financial hygiene:

a. Consolidate using technology:
There are several trading and investing platforms today that enable this. As I invest on my own, I use ICICIDirect.com but many banks have their own platforms that can be used. HDFC Securities and Kotak just to name a couple.

The main advantage of using on-line platforms is that all investments in equities, mutual funds, bonds, fixed deposits can be consolidated. Your portfolio can be tracked at a click of a button and most importantly you can give access to your spouse. This will give her an idea of the status.

Even if you use an investment advisor, most of them offer a portfolio tracking system. If they don't, you can create your own portfolio for free at sites such as CNBC.com or valueresearchonline.com. There are many others that do the job just as well – but make sure that your identity is protected on these websites.

b. Consolidate your EPF's

I remember a colleague telling me that though he had not changed employment over the past 10 years, he had moved through 5 legal entities in the same organisation. This resulted in his PF balance being spread across 5 different legal entities. He subsequently left his job and moved abroad. I am sure the PF balances are still where they were. This is our hard-earned money we just cannot afford to be so neglectful. If a tragedy occurred can you imagine the pain his wife will go through to get hold of the EPF money.

The EPFO has become more efficient recently and you need to spend the time and effort to consolidate all your accounts. As Nike says - "Just do it", it will be worth it.

c. Track your Net Worth

As a finance professional, I used to prepare the financial statements for the organisation every month in the greatest detail. I realised that while I was doing this for the Company, I was not doing this for myself. Which was stupid, when you come to think of it.

Prepare your half yearly / annual statement of net worth. It will contain all your assets and liabilities. Progressively keep adding on more and more detail. Keep adding on a file for each update and it will give you a good idea of the financial progress you have made over the years. If the worse should happen, then this Net worth statement will be an excellent reference point.

d. Complete the "What my Family should know" document. You can access it here. Regularly update this for changes in the state of your financial affairs.

e. Passwords

Given that all bank accounts, demat accounts and mutual funds can be accessed online it would be a good idea to maintain the passwords in a central repository either manually or online. Even if this is not strictly in line with standard InfoSec practice, it will help track the latest status of various financial assets. Let your spouse know where you keep your passwords. Everybody has some place where they store them.

Nominate your heirs

Once you simplify and consolidate your finances ensure that your nominations are in place. Ideally you should hold all the investments jointly with your wife / husband. But even if this is not the case, make sure you complete the process of nomination. Don't forget your nominations in Demat accounts, Bonds and Bank accounts. I have seen that these are the ones that are usually missed out.

Write a will

Most of us don't think about this till relatively late in life, if at all. It would be good 'financial hygiene' to write your will now. It ensures that the assets are distributed as per the wishes of the person who has passed away. In the absence of a will, the law takes over. The law of inheritance is different based on the religion you belong to. These matters could get incredibly complicated and its best that you write a will so that your wishes are acted upon and an impersonal law (and the court) is kept at bay.

Writing a will is not complex. There are several websites that help you to do so. While it is not necessary by law to register a will, it would be a good idea to do so. Appoint a good lawyer who will make sure that there are no legal deficiencies in the document and who will assist you to register the will. This will save a huge amount of pain to your loved ones and you will be assured that your assets are distributed as per your wishes.

<u>Note</u>: If there is no nomination and / or a will then a 'Succession Certificate' must be obtained from the jurisdictional civil court. This will take time ('tareek pe tareek') and will involve costs. It is therefore imperative that nominations be completed and a will be written. You owe it to your heirs.

<u>Insure your life:</u>

There is lots of material on Insurance on the internet. Only to reiterate some key principles here:

a. The sum assured must be sufficient to cover at least 10 times your annual income (remember as your income keeps increasing the sum assured must also be revised)

b. Ensure your home loan is insured against death or permanent disability

c. Buy only Term insurance and NOT Investment linked insurance. (Insurance agents will try to sell you the latter as their commissions are higher)

d. Understand the riders available and if the additional premium (cost) for these riders is not too high, go for it.

e. Shop around and drive a hard bargain. Competition amongst the various insurance providers in India is intense.

<u>Part B</u>

<u>If the "worst happens":</u>

- If there is a tragedy and a loved one passes away, here is a checklist to be gone through:

No.	Task	Authority / Inst.	Notes
1	Obtain the death certificate	• Municipal Corporation • Gram Panchayat	• Must be applied for within 21 days • Each state has its own procedure. Can be accessed on the Internet • This is a critical document. The process of asset transfer cannot start till this document is obtained. • All institutions will require a copy of the Death Certificate before they start any process of settlement.
2	Start the process of applying for the asset transfer	• Bank (SB Accounts, Lockers) • Asset Mgt Co. (Mutual Funds) • Depository Participant (Equity, bonds etc.) • EPFO (PPF) • NPS	• If we have prepared our Net worth statement regularly then the assets to be transferred would be readily available • If we have ensured that nominations have been made, then the transfer of the financial assets will be much simpler.

		• Courts (immovable property – house, land etc.) • Etc. etc.	• This process would be further aided with the availability of a will. • The process of transfer of immovable properties is more complex than movable properties and a lawyer might have to be engaged for this.
3.	Open a bank account (if not available)	• Bank	• A bank account will need to be opened in your name (probably in single name) to deposit all the amounts that are received due to the claims settlement.
4.	Open a Demat account	• Depository	• A demat account should be opened to deposit all the dematerialised securities. The Depository will guide you with this.
5.	Inform the institution from whom the Housing Loan was taken (if any)	• Bank	• Usually the Bank insures the remaining balance of the housing loan against death etc. • Find out the process to file a claim and get the remaining balance paid out of this claim
6.	Inform your tax consultant	• CA etc.	• If there is no tax consultant who assists you, then appoint one • You need to keep an eye on the tax implications of inheritance and ensure that there are no adverse tax implications later. • The Tax consultant will also advise you on the documents to be obtained to file the tax return for the deceased

- If the person who passed away was self-employed or running a business, then depending on whether the organisation was a proprietorship, a partnership or an incorporated company a discussion should be taken up with the partners / directors (in addition to the above) as to how the share of the deceased shall be dealt with.

- If the person who passed away was employed, then these additional matters need to be taken care off -

No.	Task	What / How / Who	Notes
1.	Ask for a single point of contact in the HR department where you can address all your questions and doubts. Also, request a friend / colleague who worked in the same function/department to assist you.	• Obtain the mobile number and email address of both the individuals	• A lot of to and fro will happen with the organisation till matters are bought to a conclusion. These contacts are therefore very essential
2.	Usually these are the amounts due from the organisation in case of death.	a. Salary for the last month[1] b. Accumulated leave[2] c. Bonus[3] d. Gratuity[4] e. Provident Fund[5] f. Superannuation Fund[6] g. Medical claims[7] h. Stock options[8] i. Post-retirement medical benefits[9]	• Refer the 'notes' section at the end of this table • These 'notes' are based on the practices usually followed. There certainly could be differences depending on the organisation.
3.	Check the status of perquisites	a. Company owned/ leased house [10] b. Company provided car c. Phone d. Loan from the Company	• Refer the 'Notes'

Notes:

1. Usually organisations pay salary till the end of the month in which the employee passed away
2. Accumulated leave encashment on death is tax free.
3. Bonus is usually paid at 100% on a prorata basis
4. Gratuity is computed as per the Payment of Gratuity Act and is tax free (on death)
5. Provident Fund could be maintained either in-house by the Company in a PF Trust or could be kept with the EPFO. If it is an in-house 'trust' then the process is relatively simple and your HR Contact will take you through the process. In most organisations these days the PF is managed by the EPFO. In most cases organisations appoint a PF consultant to assist them with EPFO procedures. Request the HR Contact to ask this consultant to help you to get the PF dues. This consultant will guide you through the process. Remember irrespective of whether it's a Trust or the EPFO a nomination will make the process much much smoother.

6. If the organisation has a superannuation (pension) scheme – most do not have one these days. However, if there is a superannuation scheme then the balance in this scheme will be stated in the 'Net Worth Statement' ref: Part A (c). Usually the Superannuation Fund is maintained by an external agency. In most cases, it is LIC of India.

   Please note that even if the current employer might not have a superannuation scheme a prior employer might have had one. The Superannuation payments usually commence on retirement i.e. age 58 or 60 as the case maybe. If a prior employer did have a Pension Scheme, then the balance will be sitting with LIC getting annual interest. In case of death the balance should be paid to the heirs and the prior organisation must be contacted to assist with this.

   A decision must be made on whether to immediately take 1/3 of the corpus (which is tax free) and the rest as annuities (taxable) or to convert the entire corpus into annuities (taxable). Usually most people prefer to take the 1/3 amount upfront (as its tax free) and invest it appropriately for future returns.

7. If the organisation reimburses medical expenses, then the appropriate medical claims should be submitted along with the required documentation.

8. In most organisation at relatively senior levels employees are awarded stock options. These schemes are not standard and are different based on the organisation. The vesting conditions of these stock options can get very complicated. However, if these stock options vest on death of the awardee then the pay-out can be significant. Therefore, the HR contact must be asked if any payment on stock options is due. It would also be a good idea to make a note of these awards in the "Net Worth Tracker".

9. Some organisations provide post-retirement benefits to their employees. These are largely in the nature of medical benefits for the employee and the family. These benefits are also provided to the family in case of the death of the employee while in service. No harm in asking the HR contact if there are such benefits available.

10. The organisation, on humanitarian grounds, will not usually ask the family to immediately move out of the accommodation till other arrangements are made. In many instances schools and the academic year drives this decision. It would be good to ask the organisation to clarify the situation in this regard so that planning can be done in advance.

From a plain reading of Part B, it's clear that the process of asset transfer is complex - even if all good practices mentioned in Part A had been diligently followed. However, if Part A has been ignored, then the asset transfer becomes hugely complex and there is a possibility that some assets may not be transferred for many a year (and maybe even permanently lost). You have worked hard to build your wealth and you must take all steps to ensure that it is distributed as per your wishes. It would be therefore sensible, prudent and indeed a responsibility to immediately start working on the action plan in Part A.

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