

# A TALE OF BAD PLANNING

## - Allistar Walker

01/10/10

Three years ago I wrote an article titled 'Beware Guaranteeing the Kids'. A few months ago a friend of mine came to me after his wife had died, to seek help with his embarrassing financial position. The story is interesting, although sad, and there are a number of lessons (too late for my friend) that came out of it.

Adela (not real name) was a highly successful employee of a large import company. She had reached senior management levels with the accompanying high salary. On her way to the top she had a messy divorce, as she hooked with a new man – my friend. At the time her teenage children were not happy with her and there was a sort of reconciliation process over the next twenty years of what seemed a very successful marriage. Adela continued her climb to the top. She was much respected in the community and by her peers. Her husband adored her and because she was the real breadwinner, he left all the financial decisions up to her. In fact he confidently left her to make investment decisions even with his own earnings.

Some two years before retirement, Adela contracted an illness and was given up to twelve months of reasonable but deteriorating health, and then it would be all downhill. She in fact survived for 16 months. I and many others attended the funeral and all the nice words were said. A week after the funeral, her husband came to me considerably distressed. His loving wife had lent out money to a number of different entities as well as her son, who had taken, taken, taken, without it seems, any intent to give any back.

Adela's husband was left with a freehold home some of which was willed to Adela's children on her husband's death. That was the asset. The liabilities were surprising and unexpected. She had lent a considerable sum of money to a developer, and some smaller reasonably substantial amounts to some others. Also she had made several guarantees to banks. There was no written agreement with the developer, who was in financial strife, while other lenders pursued him. There was the odd second mortgage for other lending, but payments were not being made. The son obviously had a hold over Mum as he had milked her for a few hundred thousand to prop up his sad business. What is more her son had a history of financial mishandling and inability to honour agreements.

The cost to my friend was he had to sell his property and shift his suburb, to be able to afford only a small flat, after paying off debt that Adela had guaranteed at the bank. He had little more than national superannuation to survive for the next 25 years of his life expectancy.

The point here is that so often people can get sucked in by those closest to them and that a marriage is a partnership of sharing and caring. Husband and wife should always be a party to the crucial financial decisions and expenditure that affect them both. Adela could have had life insurance on herself to cover her early departure. Sadly she and my friend were not clients of mine. Had they been, I would have been able to discover the true position, point out the 'what if' risks and cover as appropriate. I would also have stopped any further lending or guarantees for the son, plus made sure that the credit card he was using on his mothers account was cancelled.

We could not have prevented the damage that was already done, but probably have limited the carnage. Adela was too proud to admit she needed advice and my friend was oblivious to the true impact of her dealings. If nothing else, this 'close to home' episode made me realise how important our role is in facilitating professional estate planning advice and covering individuals' risks as best as can be done.

My plea to the reader is make sure you have your financial matters sorted if you should die. If not, the upshot is those years of goodwill you built up while alive, will all go out the window and you will be regarded somewhat differently. A memory none of us wants to leave behind.

*Care has been taken to ensure that any information is accurate. No liability is accepted for its use. Enquiries are welcome. Allistar Walker is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available at [www.mortgagehelp.co.nz](http://www.mortgagehelp.co.nz) or he can be contacted at 410 6023 and [enquiry@mortgagehelp.co.nz](mailto:enquiry@mortgagehelp.co.nz).*