

Love and bereavement

Dealing with finances after losing a loved one



If you are handling a loved one's estate, be sure to consult with an attorney.

Dealing with the death of a loved one can be difficult enough without the additional responsibilities of settling the deceased's estate, particularly when it comes to bills, taxes and other outstanding debt.

Legal requirements regarding a decedent's expenses can vary widely state by state. So if you are handling a loved one's estate, be sure to consult with an attorney. Here are some important factors to keep in mind.

The deceased's estate will be liable for expenses

Assets in the deceased's estate must be used to pay off outstanding debts, including federal and applicable state and local income taxes. The priority in which these bills must be paid is usually determined at the state level. Once debts are settled, any remaining assets can then be divided among the beneficiaries.

Funeral expenses are considered a priority obligation—and may be reimbursable

Family members and/or friends who pay out of pocket to help cover "reasonable" funeral expenses can be reimbursed from the estate, assuming the estate has the assets to cover the costs. Funeral costs usually are given priority status over other creditors, but the rules can vary from state to state.

Beware of debt collectors

For the most part, a deceased person's debts do not automatically transfer to a spouse, child or other family member. Unscrupulous collection agencies will often try to convince family members that they are responsible for a loved one's bills. Unless you have co-signed a loan or are named on a joint account that is in arrears (such as a credit card account), do not be coerced into settling. Surviving spouses should be sure to consult with an attorney, particularly if they reside in one of the nine community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin). If you are being hounded by collection agencies, refer them to your attorney or to the executor of the estate. If the agencies continue to call, you can file a complaint with the Federal Trade Commission.

Some accounts are exempt from creditors

Assets held in certain types of accounts, such as irrevocable trusts, insurance policies and retirement accounts, are typically excluded from the deceased's estate and pass directly to the beneficiaries.

Mortgage debt transfers to the new owner

If a beneficiary inherits property—such as a residence—that beneficiary is typically responsible for any outstanding liens on the property, including a mortgage. If the deceased had a reverse mortgage and the home is sold or transferred to a non-spouse beneficiary, the borrowed amount must be repaid to the lender. Note that the amount due cannot exceed the home's current appraised value.

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