Even When a Spouse Dies, Debt Lives On

The death of a loved one is a paralyzing event. Many survivors find it difficult, if not impossible to start dealing with the financial afterlife of a spouse even if they've planned extraordinarily well.

Consider then, the one single element that can turn this difficult process into a lengthy nightmare and potential financial disaster for a surviving spouse – the deceased's outstanding debt.

Married couples -- particularly those who hold credit cards jointly and keep month-to-month balances on them – really need to pay attention. And we're not simply talking about elderly spouses. A spouse can die at any time.

The earlier a married couple focuses on the joint issues of credit management and estate planning, the better. And a financial advisor like a CERTIFIED FINANCIAL PLANNER™ can tie the necessary elements of estate, retirement and debt planning together because they absolutely need to be.

While the following information can be a guide for individuals who have lost a spouse, it's a much better guide for couples in good health who want to alleviate major financial problems for their survivors later on.

Just remember: The worst time to deal with joint or separate credit issues is after the funeral. Some key points to consider:

Joint credit in moderation…or not at all: If spouses have separate credit, then their rating won't be affected by the spouse's bad credit behavior (late payments, charge-offs, bankruptcies, etc.). Joint credit leaves the surviving spouse with a total obligation for any debt remaining on a car loan, credit card, mortgage or any other kind of debt.

Watch those "additional card" offers: Again, it might seem like a great idea for both spouses to carry credit cards on the same account, but in death, outstanding balances are often treated the same way as joint account is. It's not unusual for an issuer to come after the holder of the additional card for that outstanding debt.

They will find you: You've never met Big Brother until you've tussled with today's toughened-up lenders. Particularly as problem credit has grown to epidemic proportions, credit card companies in particular have gotten a lot better about determining whether customers have died so they can make a claim against the deceased's assets. Most states have specific laws that put a timetable on a lender's ability to make claims against an estate, and executors may have certain responsibilities under those laws to inform those creditors. A planner or estate attorney can help you go over those requirements in your home state as you're addressing your estate, retirement and debt issues.

Keep in mind that keeping separate credit won't protect the estate's assets: Granted, a deceased partner's bad credit may not affect your ratings on your separate accounts, but creditors will go after the assets of your shared estate to settle up. So what's the message here? Keep debt under control at all times.

If the worst happens, what's the process? It's important to contact all lenders swiftly to let them know your spouse has died for several reasons. First, identity thieves are getting more sophisticated about checking death notices and tracing that information to their credit accounts. Dealing with a deceased spouse's debt is one problem. Dealing with an identity theft calamity based on your spouse's accounts is even worse. Also, if you do have joint accounts, ask the issuer if it will issue the card in your name only, and keep in mind that you will still need to maintain payments on those balances to preserve your credit rating as a single person. Lastly, lenders tend to look askance at customers who fail to make disclosure of a spouse's death. So matter how tough things are, you need to make these calls.

What about the last joint accounts? For joint accounts, removing the deceased's name from the account should have no impact on the survivor's credit score, but the survivor should think twice before he or she closes the account, because it cuts back the amount of credit available to the survivor.

Just get rid of the debt: Debt-free is the best way to go through any crisis. Couples should strive to be debt-free not only for the good times, but for the awful ones as well.

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