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17 MISTAKES WIDOWS AND WIDOWERS MAKE

By: Mia Taylor - January 12, 2021

The days and weeks after the loss of a spouse can be overwhelming, a time filled with grief, confusion, and uncertainty about the future. It's also a time when it's easy to make mistakes that have long lasting impacts, even falling prey to scams, particularly if much of the financial planning was handled by the deceased spouse. To help navigate such a stressful and challenging life chapter, we asked financial planners and money management experts to identify some of the biggest mistakes widows and widowers make in the aftermath of a spouse's passing.

Not Knowing About the Family Finances

Often in any relationship, there's one spouse who tends to manage the finances for the household and another who doesn't. All too often, the spouse who's not involved in the finances knows very little about household assets, income, and liabilities, says Neel Shah, estate planning attorney at Shah & Associates. "What happens when the spouse who's managing the finances is unable to do so due to a death or disability? One of the biggest mistakes I see widows and widowers suffer from is not taking an interest in the household finances before they become widows or widowers. To the extent that you can have a high-level understanding of your personal finances, you can avoid most of the mistakes made when the 'financial' spouse does pass away or become incapacitated."

Being Unaware of Income Sources

When a widow or widower has not been involved or infrequently involved in the household finances he or she may not be aware of all of the income sources they're entitled to and may overlook sources of income, says financial coach Anita Wright. "For example, when my late husband passed away, I was reading through his emails and I inadvertently discovered an employer sponsored health savings account (HSA) that he had not designated a beneficiary for," says Wright. "I would have lost about $1,800 if I had not discovered it. Both spouses should be aware of all entities that each one has and beneficiaries should always be current."

Missing Out on Social Security Benefits

A surviving spouse, even if they are not old enough to collect Social Security benefits yet, should check in with the Social Security administration as soon as they can after the death of their partner, says Wright. "There is a lump-sum survivor benefit of $255 that is available, but has to be claimed within two years of the spouse passing or you lose it," explains Wright. "Also, there are slightly different rules for widows and widowers to be able to start collecting Social Security benefits earlier than the average person. Benefits become available at age 60 for the surviving spouse and there are options that he or she need to look at so that the best-informed decision can be made regarding Social Security benefits."

Leaving Outdated Financial Plans Intact

The loss of a spouse may inspire lifestyle changes for the surviving partner including pursuing new interests or hobbies. These types of changes may require adapting or altering whatever financial plans were put into place as a couple. "When a spouse has become widowed, often the financial needs are going to change. This may be because of a change of desires or options," says Shah, of Shah & Associates. "For example, if a spouse was taking care of a husband or wife who was ill, they may not have been able to do certain things for a period of time. Now with more time freedom and flexibility you may have different intentions with your finances such as traveling or helping other family members." If your finances were set up in a certain way but your goals and desires have changed, it may be time to take a look at your plan and see if you're still on track, says Shah. Too many people simply leave their financial plan in place without regard for changed circumstances.

Focusing on Kids Over Your Own Financial Stability

Women in particular tend to fall prey to this problem, says Dennis Doble, a CFP and co-founder of Doble LeBranti Financial Group. "They start worrying about the kids' inheritance and well-being even though they have just been dealt a difficult situation and are now responsible for all of the assets," says Doble. "Rather than going through a well-thought-out income plan for their own future well-being, they feel secure as they now see bigger numbers in their own accounts with one, rather than two, people to take care of long-term. So, they start giving things away, putting their own financial independence success at risk."

Transferring IRA Assets

When a spouse passes away, it may seem easier to streamline your financial affairs, putting everything in the name of the surviving partner. But you'll want to be careful how you do this. If one partner passes away, leaving money in his or her IRA with the surviving partner named as the beneficiary, it may be tempting to take that money and transfer it into your own IRA account for simplicity's sake. This could be a mistake, however, if you're under the age of 59 1/2, says Doble of Doble LeBranti Financial Group. If you end up needing the money to help pay living expenses, there will be steep early withdrawal penalties. "If the surviving spouse starts withdrawing $50,000 a year to pay for the mortgage, there will be taxes and early withdrawal penalties of 10% due," says Doble. A wiser course of action is to establish an IRA-Beneficiary Designated Account for the money, through which you avoid the 10% penalty on early withdrawals.

Making Big Decisions Too Soon

It can be very difficult to cope with the emotional stress of having a loved one pass away and acting on your emotions without rationally thinking them through, can have devastating consequences, says Jacob Dayan, CEO and co-founder of Community Tax. It's best to take your time with significant decisions. "For example, do not sell investments you do not fully understand and save major decisions for later in the process," says Dayan.

Closing Joint Accounts

Though it may be tempting to immediately set about cancelling any credit card accounts that were held by your deceased loved one, or perhaps jointly held credit card accounts, this can often backfire, says John Davis of ScoreSense. "It can harm your credit scores and reduce credit lines available to you," explains Davis. "To maintain your total available credit and retain your credit history, ask your lender about removing your spouse from the joint cardholder account rather than opening a new single cardholder account in your name."

Failing to Notify Credit Bureaus

The surviving partner may not be fully aware of all the debts a spouse may have had, which can lead to defaulting or late payment fees, says Davis of ScoreSense. "By notifying all three credit bureaus of the death you will become aware of remaining debts in his or her name," explains Davis. "To notify the bureaus send a letter with a copy of the death notice to each."

Underestimating Debt

One of the easiest mistakes to make is in underestimating how much debt a spouse has, says Jake Hill, CEO of DebtHammer. "Unless you were very, very open about finances in your marriage, you may be unprepared for the burden you're taking on," says Hill. "In some cases, spouses won't be legally obligated to account for the debt. But if the estate transfers the debt to the spouse, or if you cosigned any of their loans, you will unfortunately be held responsible." It's a good idea to talk to a debt counselor once you've had a chance to grieve. "No one likes to talk about the debt their spouse leaves behind, but it's important to do so in order to make it manageable for you," says Hill.

Neglecting to Review Benefits

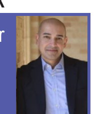
If your spouse was employed, it's important to reach out to their workplace to discuss benefits and outstanding payments you may be owed, says Aviva Pinto, managing director of Wealthspire Advisors. "Ask his or her employer about any payments that may be due for unused vacation or sick leave," says Pinto. "If the employer provided life, health, or accident insurance, you may be entitled to receive payments under these policies. If your spouse belonged to a union or professional organization, ask about death benefits for members. If the death was work-related, you may be entitled to worker's compensation benefits."

Forgetting to Contact Past Employers

It's not just your spouse's most recent employer you'll want to get in touch with, suggests Pinto of Wealthspire Advisors. "Contact all past employers to determine whether you're entitled to any payments from a pension plan," she says. "If your spouse was already retired and receiving a pension, check with the employer about whether you will continue to receive a pension payment, and the amount."

Read the whole article at https://bit.ly/39uBsck

Neel Shah, managing attorney of the law firm of Shah & Associates is an attorney, financial advisor and author who provides insightful analysis and actionable strategies for Business Owners, Entrepreneurs, and Investors.



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