13 Financial Moves to Make After Losing a Spouse

Kiplinger

Janet Kidd Stewart, Contributing Writer, Kiplinger's Retirement Report, Kiplinger • April 29, 2020

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Nothing upends your world like the death of a spouse, leaving you at a loss for what to do next. When death comes before you realize your retirement plans, it can be particularly devastating.

Of the roughly 15 million widows and widowers in the United States, about 2.8 million women and 800,000 men are younger than age 65, according to Census Bureau data. But whether you are of retirement age or not, making the right financial moves early can set you up for greater financial stability later on.

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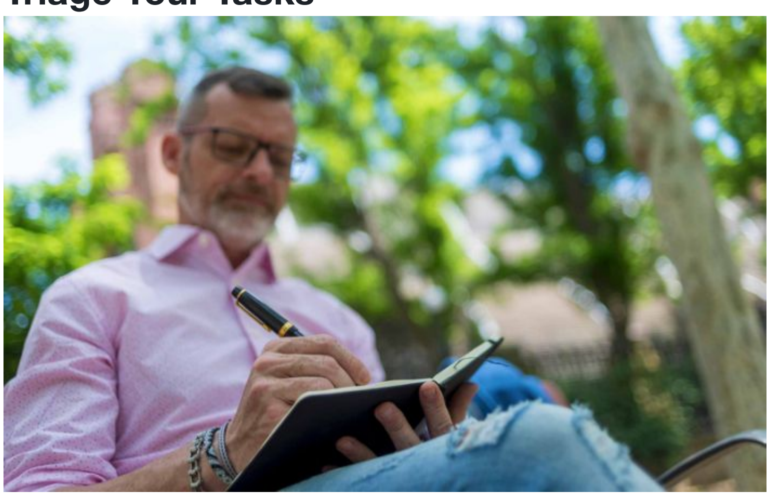
Triage Your Tasks



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The oft-quoted mantra of telling grieving spouses not to make any financial decisions for a year is misguided at best and disastrous at worst. Many decisions simply can't be postponed for a year, and others shouldn't be rushed into. "We advocate a much more nuanced timeline," says Susan Bradley, founder of the Sudden Money Institute, which trains financial advisers to work with clients in transition.

She recommends breaking tasks down into three piles -- urgent, soon and later -- with those in the last pile being perhaps two years or more down the road, depending on individual circumstances. A surviving stay-at-home spouse with school-age kids may have the resources to keep the family home until the youngest graduates, for example, but then may need (or want) to downsize and head back to work. An empty nester who had been counting on a few more years of a spouse's income before retirement -- and at least a few years of dual Social Security checks -- may need to adjust more quickly.

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Gather Documents

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Now, for the practical matters. If it's still early days, begin by making sure the funeral director you're working with has notified the Social Security Administration of the death and ordered 15 to 20 certified copies of the death certificate for tasks such as retitling the mortgage and changing owner names on financial accounts.

You'll need one or more of these documents to apply for Social Security benefits, work with your spouse's employer to distribute life insurance and other benefits such as final pay and retirement plan savings, collect private life insurance proceeds and create a cash flow statement and household budget.

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Keep Good Records

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Get a notebook for logging conversations with your spouse's employer, Social Security clerks and others. Advisers and survivors say this is essential in the foggy, early days of grief.

"I kept notes on everything," says Sue Knight Deutsch, who lost her husband Michael to colon cancer in 2009. He was 55; she was 53. "I had a notebook and every time I made a call I wrote down a date and case number for the call so when I would call again and get a new person I could tell them the number."

Also, keep an expandable file near the notebook. The file should hold the death certificates and other important papers, correspondence related to the spouse's death and current bills due and paid.

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Organize the Bills

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If your spouse handled the bills and you need a new system, create one box or tray for unopened mail and make sure every piece goes into that box. Look through the checkbook or online banking account for past or recurring payments. If you have access to your spouse's email account, look for electronic notifications of bills due. Make a list of all the utility, credit card, rent or mortgage and other bills you can find. Cancel any subscriptions or services that pertain only to your spouse. And understand that each service may have a different process for cancelling contracts. Car leases and mobile-phone contracts can be particularly maddening to exit.

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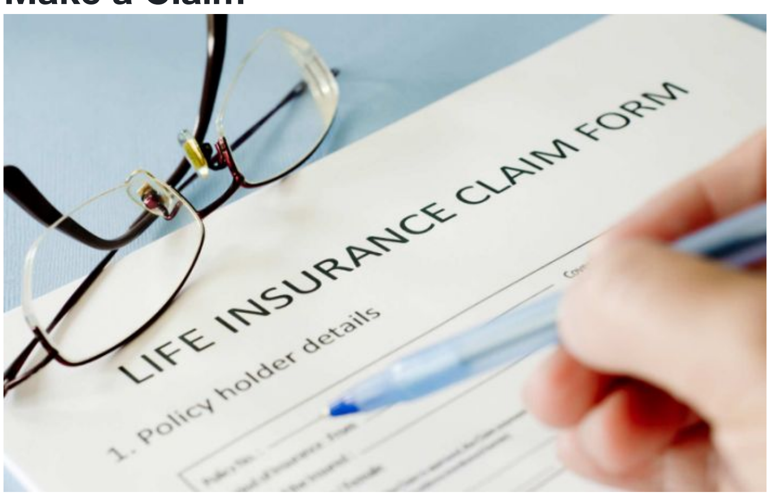
Make a Claim



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Contact the life insurance agent for any policies you own and make a claim. You'll likely be offered an account to hold the money until you have an investment plan, but it probably won't be federally insured and will pay very little interest. Consider rolling it to a higher-interest savings or money market account backed by the Federal Deposit Insurance Corp. Remember the coverage limit is generally $250,000 per institution, so you may need more than one bank. Or, if you already have a taxable account that you and your spouse previously vetted as a safe place for shorter-term savings, use that.

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Apply for Benefits

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If your spouse was already collecting benefits, the Social Security notification will trigger a one-time $255 death benefit. It will also terminate the deceased's monthly benefits, beginning with the month of death. For example, if he or she had already received a check for January and then passes away in January, those benefits must be returned. If you had already begun collecting and your benefit was lower, it will be increased to match your spouse's benefit.

If you have minor children, make an appointment at a local Social Security office as soon as possible to apply for survivor benefits for the kids because the benefit clock begins at the date of application, not the date of death. You may also qualify for benefits as the caretaker of your spouse's children under age 16. Otherwise, you can apply for survivor benefits if you are at least 60, or 50 if you are disabled.

You have an option -- no longer available to married couples -- to receive a survivor benefit first, letting your own work-record retirement benefit grow and earn delayed retirement credits until age 70, then switch to the higher benefit. Or, if your survivor benefit will be larger, you can collect your work-record benefit at age 62, switching to the survivor benefit at full retirement age.

Make your preferred strategy known and double check the work of the Social Security office because the department's own Office of the Inspector General has issued scathing reports in recent years about survivors being misinformed about their options or having their benefits calculated incorrectly.

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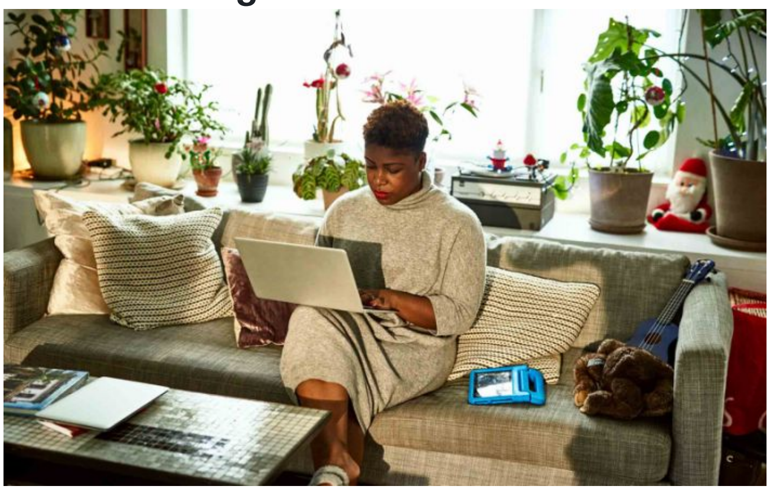
Create a Budget



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You should assess how the loss of your partner will affect your overall financial situation and decide if big changes will need to happen soon. Create a list of monthly expenses and income. Include work income or any Social Security benefits and pensions you already have or can activate now and all expenses that will continue, including contributions to retirement accounts if you were still in the contribution years.

If there is a shortfall, that's the amount you will need to draw off savings accounts to maintain your current lifestyle. If this amount would clearly wipe out your financial assets within a few years, you will likely need to make some major changes to expenses--or work income--fairly soon.

Be frank and conservative when evaluating the big expenses ahead, says Ginita Wall, a financial planner in San Diego who specializes in advising people going through transitions. "If there are kids at home, project their needs now and through the college years" and consider how your finances might look under different scenarios--for example, if you don't go back to work or decide to keep working part time, she says. "Then you can see what adjustments you need to make."

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Think Long Term About Assets

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If you want to refuse or "disclaim" assets that would push you into a higher tax bracket, you generally need to do so within nine months of a spouse's death. Tread carefully here, experts say, because giving up assets so early into widowhood can be fraught with regret.

The recently passed SECURE Act creates another wrinkle to the disclaiming decision, notes Philip Herzberg, a financial planner in Miami with The Lubitz Financial Group. The law forbids nonspouse IRA beneficiaries to stretch distributions over their lifetimes, potentially delaying tax payments for several decades. Now, the money must be distributed and taxes paid within 10 years. "A couple of years ago we advised a 61-year-old widow with a couple of adult kids in high-tax brackets to disclaim an IRA for the kids, who were in their 30s," he says. "Today we wouldn't do that" because the faster liquidation would create big tax bills for the kids.

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Change Names on Most Accounts

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Formally notifying banks and other financial institutions of your spouse's death can be particularly frustrating because each institution has different policies about the documents needed and varies in how well it trains employees to treat widowed spouses. Even if you had joint accounts, for example, requirements for removing one of the names vary across institutions. Don't feel pressure to do this immediately. In fact, keeping some accounts open and in the name of the deceased spouse is important if you'll be receiving money in that name.

It's only money, but this process can be raw and emotional.

"Sitting in the bank taking my wife off all our accounts," widower Jason Sevy posted to an online grief support group. The post garnered 544 reactions from other survivors.

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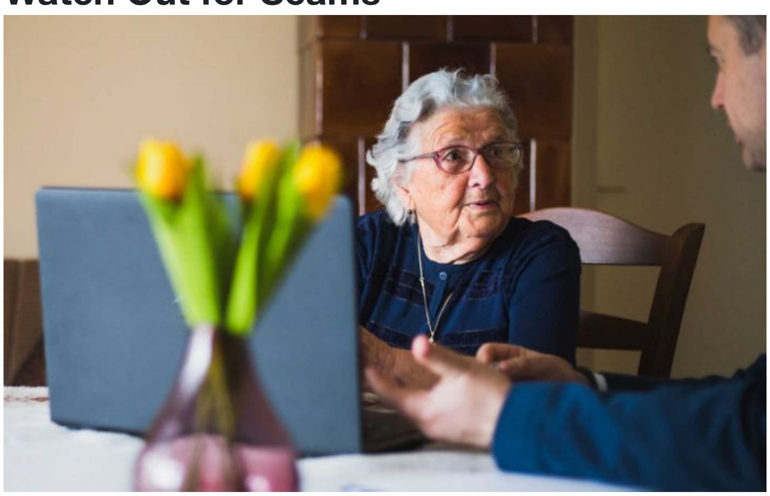
Watch Out for Scams



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Scam artists and unscrupulous debt collectors often prey on the recently bereaved, warns Cindy Hounsell, president of the Women's Institute for a Secure Retirement.

"We still hear stories about people coming to widows' doors with a shady document about debts owed and [a surviving spouse] feels bad and writes a check on the spot," says Hounsell, whose organization recently published a financial guide for widows.

And it's not always strangers who present a threat.

"The more affluent the family, the more the adult kids suddenly need a new house or to start a new business" when a parent dies, says Larry Stein, a financial adviser in Deerfield, Ill. "The doors to the 'family bank' are wide open."

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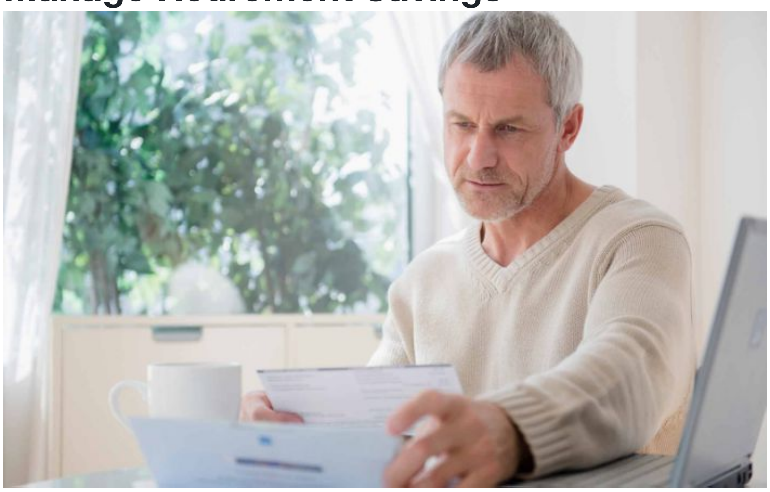
Manage Retirement Savings



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For a retirement snapshot, tally the accounts you are planning to use for retirement, and figure out what multiple of your new living expenses that represents. As a general rule of thumb, financial advisers often recommend having 25 times your projected annual living expenses at retirement.

If you're the beneficiary of your spouse's 401(k) or IRA, are younger than 59½ and will need to access the money before you retire, you may want to establish an inherited IRA, which allows withdrawals without the typical 10% penalty for accessing the money early.

If you are certain you won't need these funds before 59½, or you have already passed that threshold, you can roll the money into your own IRA and reset the clock for making required minimum distributions, using your own age, not your spouse's.

If your spouse's 401(k) plan allows it, you can leave the money in the plan, taking withdrawals if needed without an early withdrawal penalty, though you'll still owe ordinary income taxes. If you're 72 or older, you will need to take required minimum distributions, though they have been waived for 2020. If the plan offers lots of low-cost investment options, make sure anyone who suggests rolling the money out of the plan has an alternative that is at least equally attractive.

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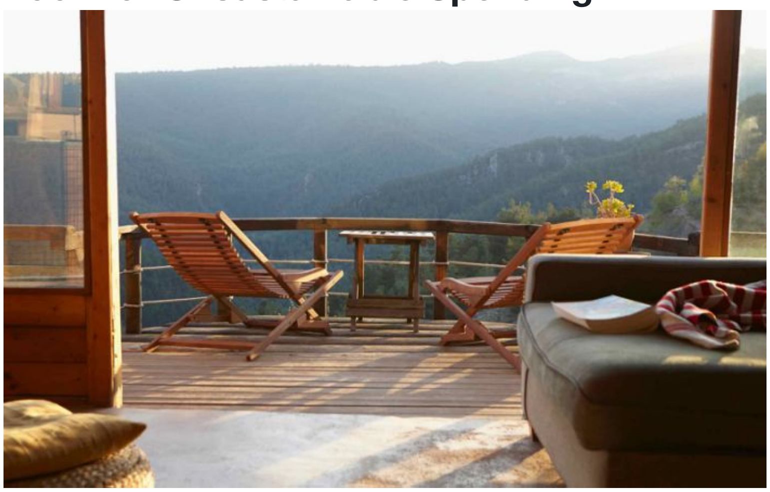
Look for Unsustainable Spending



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Financial adviser Robin Young has worked with widows in their 40s and 50s who wanted to keep up their previous lifestyle while children were still at home, with a plan to scale back spending and possibly go back to work later on to replenish retirement savings. That strategy can work, but see if the spending is truly sustainable.

For a client who was widowed at 55, Young ran projections on her cash flow, determining the client could continue making payments on her main home and a vacation home she loved sharing with her young adult children. But down the road, the expenses took a toll on her retirement picture, according to portfolio simulations Young performed.

The widow had a talk with her family, sold the vacation home, and ended up renting a place. The family memories continued, and so did her portfolio, Young says.

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Understand Investment Risks

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Figuring out your own tolerance for investment risk is a tricky business. It becomes even more complex if the loss of your spouse was at an unusually young age and you have many decades to plan, your job security is uncertain or you just haven't thought about it before. So take the time to think through your ability to withstand market gyrations.

"The basic way to think about it is how much of your spending do you want to expose to the stock market?" says Wade Pfau, a professor at The American College of Financial Services and author of Safety-First Retirement Planning: An Integrated Approach for a Worry-Free Retirement. For people living on a portfolio, he generally recommends covering basic living expenses with annuities and Social Security (if available), then investing the remainder in stocks to keep ahead of inflation. Be aware that some annuities are complex, expensive products, so you may want to stick with low- or no-commission fixed annuities.

While completely ignoring your financial picture for a year is risky, remember this is a marathon, not a sprint. Along the way, expect to encounter a few different paths to retirement, and don't be surprised if your ultimate destination changes over time.