

A To-Do List for the Surviving Spouse

Kiplinger By Susan B. Garland | Kiplinger – Mon, Aug 29, 2011 3:00 AM EDT

The death of a spouse is one of the most devastating events of a person's life. To make matters worse, at a time when you feel incapable of dealing with life's routines, you're slammed with an avalanche of financial tasks that require immediate attention. This can be particularly stressful if the surviving spouse, usually the wife, did not play an active role in the household finances.

But despite the pressure to do so, this is precisely the wrong time to make major financial decisions. If you act precipitously, you may make costly mistakes that will be tough to unwind later. "I tell my clients that they should be in a decision-free zone for six months to a year," says Karen Folk, a certified financial planner in Urbana, Ill.

Don't put your house on the market. Don't give away money to your children or charity. Don't sell stocks or bonds. And don't agree to move in with an adult child, says Folk. Eventually, any of these steps may make perfect sense. But take a breather in the overwhelming weeks and months after a spouse dies.

One other no-no: Don't allow a salesperson to talk you into buying financial products, such as an annuity or life insurance. "Ambulance chasers will catch you when you are vulnerable," warns Kathleen Rehl, a certified financial planner in Land O'Lakes, Fla. Rehl wrote "Moving Forward on Your Own: A Financial Guidebook for Widows" (Rehl Financial Advisors, \$20) after the death of her husband in 2007. To drive home her point, Rehl recounts the story of a widowed client who was paid a visit by an insurance agent. The agent came to deliver the proceeds from her husband's life insurance policy, and he persuaded her to sign over the check for a new policy that she did not need.

A case in point for not making big decisions soon after a spouse's death is Maureen Saunders. The financial chores following the death of her husband, Hubert, from pancreatic cancer in 2006 at age 65 were crushing enough. Although Saunders, now 58, balanced the checkbook, her husband was the main financial decision-maker, especially when it came to investments. His death left her "in uncharted waters, not only emotionally and spiritually but also financially."

Saunders had to wrangle with the life insurance company, which didn't believe she was her husband's beneficiary. She had a "total meltdown" in the bank when she discovered, after bouncing some checks, that the Social Security Administration had rescinded Hubert's latest direct-deposit benefit payment. She proved that her husband died after the deadline to be eligible for that month's payment, but it took weeks for the government to return the money. She did not realize that she would not be eligible for a survivor benefit until she turned 60. "You're so vulnerable and raw, and there is always another form to fill out," says Saunders, who lives in St. Petersburg, Fla.

The checklist below can help surviving spouses figure out which tasks to address early on. The tips apply to husbands and wives.

Gather the documents. If your late spouse ran the household finances, it would be great if he left behind an organized filing system as well as all the passwords you need to access computer files. But if you need to dig through the piles yourself, Rehl recommends starting a filing system using colored manila folders. Among the headings: banking, bills, credit-card statements, taxes, life insurance policies and estate documents.

You'll need to gather Social Security numbers, birth and marriage certificates, military discharge papers, company benefits

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booklets, car titles, powers of attorney, and current statements for bank, brokerage and retirement accounts. Get 10 to 25 copies of your spouse's death certificate. The funeral director can help with this. Many financial institutions require a death certificate to close an account or to change ownership of investments.

You'll need the certificate to transfer title on real estate and to claim life insurance and veterans benefits. Make sure to pay your bills for credit cards, utilities, car loans, property tax, insurance premiums and the mortgage. You could incur late charges if you let these tasks slide. (If you are hit with such charges, ask for a waiver due to the circumstances.) Notify Medicare and other health insurance companies that you will no longer pay your spouse's premiums. Also cancel club memberships and magazine subscriptions that you don't need. Explain the situation and you may get a partial refund. Folk suggests that you keep a joint checking account for at least a year. "Occasionally, odd checks to the deceased spouse come in," she says. "If you close or retitle the account, there won't be a place to put them."

Get some help. Charles Simon, a certified financial planner with Taconic Advisors in Poughkeepsie, N.Y., suggests creating a "financial support team." The group could include an accountant, a lawyer, a financial planner, and a trusted friend or family member who has good financial skills. "In the first six months, you're in a state of shock," says Simon, a widower who counts many surviving spouses among his clients. "Your team can help you when you're least able to attend to details."

Before Veronica Cavalla's husband, Peter, died in 2008 at age 68, he managed part of the couple's investments while a broker handled the rest. Cavalla, 64, says the broker wanted to take control of more of the investments, so she began initialing documents. She didn't know what she owned. In addition, the new widow couldn't follow her lawyer's instructions to retitle property or take other steps to prepare the estate for probate and estate taxes. "Part of my problem was that I was so embarrassed because I didn't know what people were talking about," says Cavalla, who lives in Poughkeepsie and recently retired as a registered nurse. "Unless it was a simple matter, I avoided it."

Eventually, Cavalla's frustrated lawyer recommended that she see Simon, a fee-only planner who helped her plow through the paperwork. "I should have hired him right away," she says. If you need to find a fee-only planner, contact the National Association of Personal Financial Advisors (www.napfa.org; 847-483-5400).

Assess your cash flow. While you should postpone big financial decisions, you should take stock quickly of your expenses and income. Make a list of your income sources: Social Security, pension payments, dividends, interest, job earnings and IRA distributions.

Write down your fixed expenses, such as groceries, mortgage payments, utilities and insurance. "Look at your checkbook to see if there are recurring payments on your credit card," says Simon. Check your deceased spouse's check register, too. Make a separate list for your discretionary costs, such as gifts and travel.

Some income payments may decline. For instance, if your husband was receiving a Social Security benefit and you were getting a 50% spousal benefit, the spousal benefit will disappear. But some expenses will end as well, such as your spouse's Medicare premiums.

If you are short on cash, start chipping away on the discretionary spending. "I used to have a 32-foot boat," says Saunders. "Now I have two kayaks."

Rehl says new widows should build a reserve for one to two years of expenses in a liquid account, such as a bank money-market account. "Widows worry, 'Will I be a bag lady?'" Rehl says. "With a liquid account, no matter how the market is going, they will feel secure."

Collect life insurance benefits. If you can't find the life insurance policy and you don't have an agent, go through checkbook registers and canceled checks to see if there were any checks written to an insurance company. For a fee, the MIB Solutions' Policy Locator Service (www.policylocator.com) might help you find the application. Your spouse also may have

had a group policy through an employer or former employer or professional or fraternal organizations.

When you file a claim, you may have choices regarding how you will receive the money. Read the fine print carefully. In some cases, an insurance company will place your funds into its own money-market funds and send you a checkbook. Turn down this option, and then place the money in a federally insured bank account or a money-market fund. If you're instead considering guaranteed monthly payments for life, seek the advice of your lawyer or financial adviser.

Prepare the estate. Until you meet with your estate lawyer, hold off on placing your spouse's assets in your own name, says Wynne Whitman, an estate lawyer with Schenck, Price, Smith & King, in Florham Park, N.J. If you touch assets in your spouse's name, you'll lose any opportunity to "disclaim" the property — that is, allowing those assets to go directly to your children or other heirs. If you forgo these assets, they will not count against your federal or state estate-tax exemption when you die.

You have nine months from the date of your spouse's death to file a federal estate-tax return. Some states have earlier deadlines for filing returns for state estate and inheritance taxes.

Whitman suggests that you save all receipts related to the estate, especially if the estate's value is close to or exceeds the estate-tax exemption. "The funeral is a legitimate expense and so is a post-funeral gathering," says Whitman. "You will need every single deduction."

Assuming you had named your spouse to make financial and health-care decisions on your behalf in the event you became incapacitated, you will need to designate a new agent for your financial power of attorney, health-care power of attorney and health-care directive.

Check with the employer. If your spouse was employed at the time of his death, call the benefits administrator to ask about benefits due to you. Besides life insurance, these can include unpaid salary and bonuses, accrued vacation and sick pay, left over funds in a medical flexible spending account, and stock options.

You'll also need to check on pension benefits. Assuming your spouse was retired and you were both receiving monthly pension benefits in the form of a joint and survivor annuity, notify the plan administrator immediately, says Rebecca Davis, a lawyer with the Pension Rights Center, in Washington, D.C. Depending on the type of annuity you chose, you could be due 50%, 75% or 100% of what both of you were receiving before your spouse died. "If you have a 50% option and the plan keeps paying the 100% benefit, it could expect you to send back the overpayment," says Davis.

If your spouse had a 401(k), it makes the most sense to roll the account into an IRA — assuming you get the go — ahead from your estate lawyer. If your spouse still had accounts from former employers, consolidate them into one IRA. The custodial firm that holds your IRA can help with the paperwork.

The 401(k)-to-IRA rollover can be dicey. Ask the 401(k) administrator to make a direct transfer to the IRA. If the plan instead sends you a check, get it into the IRA within 60 days. If you miss the 60-day cutoff, the IRS will consider the money to be a withdrawal and you will pay tax on the entire amount.

If you were receiving health coverage under your spouse's employer plan, you may be able to continue on the group plan for 36 months through COBRA coverage. (An employer with fewer than 20 employees is not required to provide COBRA coverage.) Ask the plan administrator if the company will continue picking up the employer's premium subsidy.

Roll over an IRA. If you are the only beneficiary of your spouse's IRA, you can roll the retirement plan into your own IRA tax-free. (There are other steps you must take if you are one of several beneficiaries.) Before doing so, make sure your spouse, if he was 70 1/2 or older, took his required minimum distribution before he died. If he didn't, you must take his RMD by December 31 in the year he died or pay a penalty.

In the following years, after you've rolled the plan into your own IRA, you can skip distributions until you're 70 1/2,

allowing the account to grow tax-free. Once you turn 70 1/2, your required distributions will be based on your life expectancy.

It may be wise to forgo a rollover if you're younger than 59 1/2 and need to tap the account. By leaving the account in your spouse's name and remaining as a "beneficiary," you will not pay a 10% penalty on any withdrawals. After you turn 59 1/2, you can roll the account into your own. If your spouse left you a Roth IRA, you can claim the Roth IRA as your own, in which case distributions are never required during your lifetime.

Claim a Social Security benefit. A widow or widower is entitled to a survivor benefit that is equal to 100% of the deceased spouse's benefit, as long as the survivor waits until full retirement age to collect. You can collect a survivor benefit as early as 60, but your benefit will be permanently reduced a bit for each month you claim before your full retirement age. (It's reduced by 28.5% if you claim at 60.)

If you were collecting a spousal benefit, you can "step up" to a survivor benefit. At that point, the spousal benefit will disappear. If you are younger than full retirement age and decide to wait to claim the full survivor benefit, you will stop receiving the spousal benefit. If your husband dies before claiming a benefit, you will be eligible for a survivor benefit equal to the benefit he was entitled to at the time of his death.

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