Provided by

Rocky Mountain Financial Professionals

This is What Happens to Your Unpaid Debts If You Pass Away

According to one recent study, consumer debt in the United States was approaching an incredible $14 trillion as of the second quarter of 2019. Mortgage debt alone had increased by about $407 billion from a few years earlier in 2017, and credit cards themselves had crossed the $1 trillion mark during the same period of time. If you're currently among the millions upon millions of Americans who have a significant amount of unpaid debt, the good news is that you're certainly not alone. But of course, that demands the question:

What happens to that debt if you were to suddenly pass away?

Whenever someone dies, all of their assets - including not only financial accounts but also real estate and other possessions - become what is then known as their estate. If you were to unfortunately die and leave behind unpaid debt, that estate (and its total value) is what creditors would go after to try to recoup some of their losses.

Of course, exactly what happens to your unpaid debt also depends entirely on the kind of debt you're talking about - which is why to best understand this topic, there are a few important things you'll need to keep in mind.

Unpaid Debts and Death: Breaking Things Down

For the most part, nobody is legally obligated to repay someone else's debt in the event that they pass away - which means that you don't need to spend time worrying about saddling those loved ones you leave behind with bills that they weren't expecting.

However, there are some exceptions to that idea that you need to be aware of moving forward. These include situations like:

- If someone else like a spouse acted as a co-signer on a loan with you, they would then continue to owe on that debt.
- If you had a credit card with someone else, the joint account holder would now owe the debt. Keep in mind that a joint account holder and an authorized user are not the same thing.
- If you live in a state where the law requires the spouse of a deceased person to pay a particular type of his or her debt. This is common in community property states, for example, where you may need to use community property to pay off the debts of your deceased loved one. Currently those states include Arizona, California, Nevada, Texas and Wisconsin, among others.
- Finally, you may live in a state where the executor of the deceased person's estate will now need to pay an outstanding bill out of property that was co-owned by the executor and the party who passed away.

Indeed, this is a large part of the reason why people invest in things like life insurance in the first place. Not only are they trying to leave something behind for their loved ones to soften the financial blow, but this is also a great way to help them handle any debt and final expenses that may be in play.

Of course, none of this means that your debts will just "go away" after you die. They're still your responsibility – except now they're the responsibility of your estate. The executor of your estate will use any remaining assets you leave behind to pay off those debts. If you have a piece of property in your name, for example, it may need to be sold to get the money. Anything that is left after all debts are settled is called probate, and that will likely be distributed to your loved ones in accordance to your will (if you have one).

To that end, it's important to note that every state will have its own unique rules in terms of prioritizing what type of debt needs to be paid out from an estate and in what order. In most situations, funeral expenses will take top priority. After that, the costs associated with actually administering the state will be given the emphasis. Third usually involves paying off any state or federal taxes that are still in question, and many states include things like hospital and healthcare-related bills, too.

If the executor of your state begins to work his or her way through that list and ultimately runs out of money, creditors can't just go after life insurance policies or qualified retirement accounts. No matter what, those assets will go directly to whoever was named as the beneficiary - usually your surviving spouse. Likewise, jointly owned property is usually allowed to pass outside of probate so they can't go after that, either.

If the money runs out, creditors are usually out of luck at that point. There are unique situations that may fall outside the guidelines listed above depending on things like state and local laws, but more often than not this is how things work out in terms of your unpaid debts after you die.

If you have any questions about planning your finances for the future, please contact us.