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What happens to debt (and rewards) after you die?

By Aaron Broverman

If you die with debt, a common assumption is your family will be responsible for paying it back. However, no matter what collection agencies, creditors or anyone else may have you believe, that's simply not the case.

"If someone passes away, are their kids, spouse or next of kin going to be responsible for their debt? Most people think yes, but the answer is no," says Blair Martin, licensed insolvency trustee at [Sands & Associates](#) in Vancouver.

Instead, any outstanding debt is paid with assets of the deceased's estate before any money or saleable assets are distributed among the next of kin. A trustee can be appointed as an independent officer of the court who can make sure that everything has been done correctly and all statutory obligations are met.

"Say a person is \$50,000 in debt, but has \$40,000 in assets -- that \$40,000 can't go to the beneficiaries, it needs to be used to pay the debts off first," says Andy Fisher, a partner and licensed insolvency trustee at [A. Farber and Partners Inc.](#) in Toronto. "In that case, the beneficiaries would get nothing."

The only reason someone else would be on the hook for your debt when you die is if they've guaranteed, co-signed or been joint on that debt.

Certain assets are exempt

There are some assets that are exempt from going directly to your creditors, though, and can go straight to your beneficiaries in full. These include any registered asset in which a beneficiary has been named, such as a life insurance policy, a Registered Education Savings Plan (RESP) or a trust opened in someone's name.

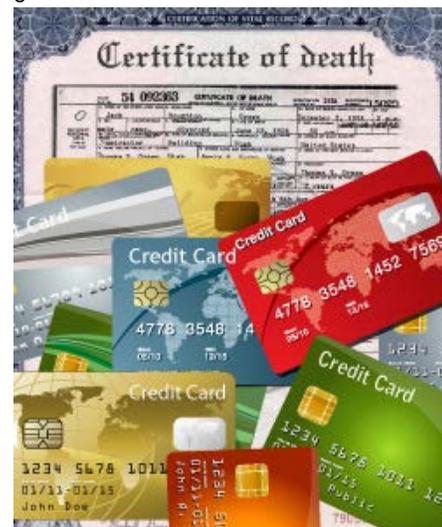
"With a life insurance policy, it depends who the beneficiary is," says Fisher. "If the beneficiary is the deceased person's estate, then the money goes into the estate and is used to pay the debt." You or a loved one may choose to name the estate your beneficiary simply as a means of paying off outstanding debts you know you will have after death.

Others would rather see their money shielded from creditors and guaranteed to loved ones. "If the beneficiary is somebody named specifically, like a spouse or a child, then the money goes directly to that beneficiary," Fisher says.

How debts are paid if there are no assets in the estate

If there are no assets in the estate or there is still an amount owing after all the assets have been liquidated, the estate's executor should consider seeking legal advice on how to proceed.

"One of the options, if there are assets in the estate but not enough to pay the liabilities, is for the deceased person's estate to file for a bankruptcy," says Fisher. The executor of the estate is not on the hook for the deceased's debts, but if the executor distributes any of the money (say, to a dependent or someone named in the



will), before debts are paid, the executor then becomes liable for the distributed money until the debt is paid.

"The estate filing for bankruptcy takes the executor off the hook of any liabilities and it allows for the assets in the estate to be distributed in an appropriate manner so that everyone is protected," Fisher says.

However, Martin says a bankruptcy filing by the estate is largely unnecessary -- unless there are significant assets to deal with.

"Without any assets, a deceased person won't be able to pay the debt anyway, so filing for bankruptcy won't help anyone and if someone else co-signed on the debt in question, a bankruptcy filing on the estate does not remove the co-signer's responsibility to pay back what's owed," he says.

With no significant assets in the estate, a simple letter to creditors explaining that the debtor is deceased, along with a copy of the death certificate, will suffice in ceasing pursuit from creditors.

Are credit card reward points fair game?

Credit card rewards are certainly assets to the person who collects them, but they have no true monetary value that can be redeemed by anyone but the account holder, so they can't be used as assets to pay a debt. However, there are ways that they may be passed on to family members.

"Different rewards programs have different rules about what you can do with them when the account holder dies," says Martin.

Some rewards programs, such as Air Miles, allow a deceased person's miles to be merged with a beneficiary's account. You will likely need to provide proof of death. Some programs charge a fee for every mile being transferred. For instance, Aeroplan charges a \$30 flat fee, plus one cent for every mile being transferred, which can add up if your loved one accumulated many miles over the years. Aeroplan also allows you to set up an estate account for a \$30 fee that family members of the estate holder can use. However, all the miles in the account must be used within one year.

"Due to the expense and the difficulty, sometimes you might be better off not telling the rewards program that the person passed and if you have their access information, you could potentially use those points yourself," says Fisher.

See related: [When and how to use joint credit successfully](#), [Balance protection may be more hassle than help](#), [Starting a credit life after a spouse's death](#)

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