The Family and Financial Security

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Retirement and financial planning usually focuses on the household, assumes that individuals will remain connected for life, and excludes relatives beyond the household. Households come in many shapes and sizes. Very often, the makeup of a household changes over time, whether due to death, divorce or the building of new relationships. So, while a plan should work for the household as presently constituted, it should also work for each member of the household in the event change occurs.

Women are very focused on their families and feel responsible for them. Often, they put their families first and do not look out for their own future, only to discover that they should have done more for themselves. When the household composition changes, women can find themselves in a difficult position.

This article discusses family issues and retirement planning tips related to marriage, divorce and widowhood. It also suggests that you pay particular attention when it comes to helping family members.

Unfortunately, very few people have prepared financially for potential family events and challenges.[1]

MARRIAGE

Marriage affects your financial security in many ways, including your ability to accumulate assets, plan for retirement, and capitalize on tax- and insurance-related benefits. As you begin your life together, you may be considering short-term financial goals, such as paying for your wedding and repaying student loans, but it is also important to consider long-term financial goals, such as buying a house, raising a family and ensuring a secure retirement. It is important that you and your spouse agree on decisions about money, spending and saving.

Most property or income that you or your spouse acquire or earn during marriage will belong to both of you. Property that either of you owned before the marriage may stay separate. You may both be responsible for debts that either of you incur during marriage.* It will depend on the type of debt, whether you both signed for the debt, and whether you live in a "community property" state. If you live in such a state, you should understand how its rules affect property ownership.[2] For example, in a community property state, all earnings during marriage are generally considered to be owned equally by each spouse.

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[1] Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017.

[2] Community property states are those where assets and property acquired during the marriage are divided more or less equally. Common law property states are those where the judge may consider a wide range of factors before ordering a division. Among those factors are each spouse's earning ability, the length of the marriage, and how much each spouse contributed to building household assets. Most states follow the common law principle. The exceptions are Alaska (community property optional), Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

Building retirement security as a couple

If both you and your spouse are employed, having two salaries can be a considerable benefit in building retirement savings. For example, if you each have access to employer-sponsored retirement plans and each contribute $18,000 a year to a 401(k), you as a couple are contributing $36,000 per year, far in excess of the maximum contribution of an individual. Once you turn 50 or older, you can each contribute an additional $6,000 annually to a 401(k). A married couple, both over 50 and with 401(k) accounts, could defer paying income tax on as much as $48,000 of income in a single year. See Table 1 for 2017 annual retirement-account contribution limits for singles and couples.

Table 1: 2017 annual retirement-account contribution limits: singles vs. couples

	Singles	Couples
401(k), 403(b) and most 457 plan salary-deferral limits		
Under age 50	$18,000	$36,000
Age 50 or over	$24,000	$48,000
Roth and Traditional IRA contribution limits		
Under age 50	$5,500	$11,000
Age 50 or over	$6,500	$13,000
Spousal IRA contribution limits		
Under age 50	NA	$5,500
Age 50 or over	NA	$6,500

Note: Pay limits apply for contributing to an IRA. For additional details, refer to 2016 IRA Contribution and Deduction Limits.
Source: Internal Revenue Service, 2017.

When you get married, state and federal laws on these subjects provide default positions. Some of these baseline conditions

may be modified by a prenuptial agreement—a contract that permits a couple to keep their finances separate, protect each other from debt, and take other actions that could protect the rights of either partner. Such an agreement is particularly important for second marriages where either or both partners have children.[3]

Living together as an unmarried couple may affect your rights to various retirement benefits and assets. Make sure you understand and evaluate the consequences of your decision.[4]

TIPS

- Both spouses need to stay involved in financial decisions and share financial security arrangements.
- Exchange credit reports with your prospective spouse. Stay aware of your spouse's debts, because they may become yours someday—if you divorce or lose your spouse.
- Having your own savings accounts and access to funds can be a benefit throughout marriage. In the event you divorce or lose your spouse, it would be even more important to have direct access to those accounts.
- With your spouse, work through what would happen to each of you and your finances if either spouse outlived the other. Make sure you have an intended beneficiary and that designations are up-to-date. It will often be the spouse, but it may not be. For example, in a blended family, partners may often care for each other and also children from prior marriages. They may also have obligations to partners from prior marriages.

[3] For additional discussion on this topic, refer to "The New Love Deal: Everything You Must Know before Marrying, Moving In, or Moving On," by Gemma Allen, Michele Lowrance and Terry Savage, 2014.

[4] For example, Social Security provides for unmarried couples living together, merely on account of them living together, in community.

DIVORCE

Divorce is a major life event, and it's likely to bring about changes to your lifestyle, your hopes and dreams, your children's lives, and much more. Using 2006-2010 data, the National Survey of Family Growth forecast a 40% chance that first marriages among women aged 15–44 would end in divorce within 15 years.[5]

If you're considering divorce or in the process of divorcing, many decisions lie ahead. It is recommended that you get expert legal advice and specialized professional help to deal with the financial issues.

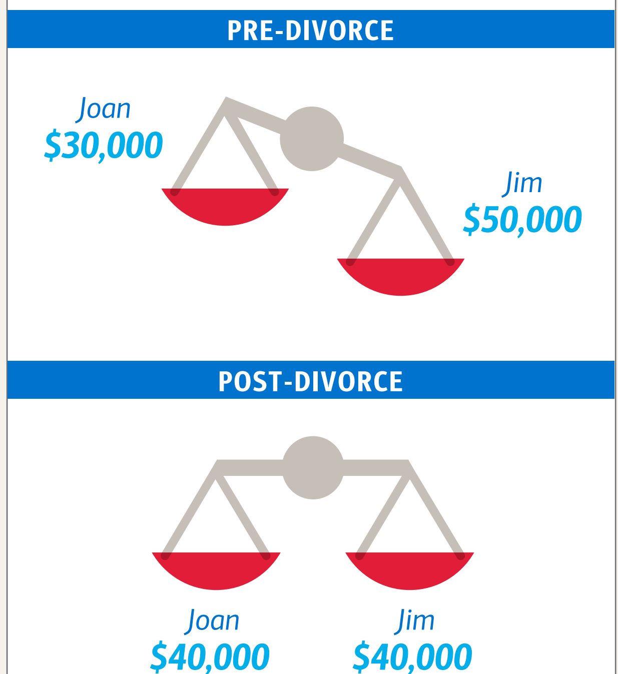
TIPS

- Write a description of your financial contributions to the marriage. Be sure you understand your income, assets and liabilities. The pension or retirement plan earned during the marriage can be the most valuable property to be divided in a divorce.
- Money in either spouse's 401(k) or pension plan may legally be divided during a divorce. To claim a share of a spouse's 401(k) or pension plan benefit, you need to obtain a court order called a Qualified Domestic Relations Order (QDRO) and provide it to your spouse's plan sponsor before distributions are completed to your spouse. Be sure to use an attorney who is knowledgeable about pension matters.
- Learn whether you live in an "equitable distribution" or "community property" state and what that means for the division of your home, retirement plans and other marital assets.
- If you are covered by your spouse's health insurance, you will likely lose that coverage. However, you are eligible to continue coverage under a federal law called the Consolidated Omnibus Budget Reconciliation Act (COBRA) for up to 36 months, although you will have to pay the premiums and an administrative fee. You may have several options for health coverage, so be sure to investigate the differences.
- If you were married for 10 years or more, and are unmarried when you apply to collect Social Security benefits, you can apply to receive benefits based on your ex-spouse's work record.

A family adjustment and retirement benefits

Joan and Jim have been married for 15 years and have two daughters, ages 8 and 13. Joan has filed for divorce and worries about the impact it will have on her financial goals. Each spouse has a retirement account, and one option is to "equalize" those accounts. Jim's retirement account has a total value of $50,000 and Joan's totals $30,000. The property settlement agreement could indicate that Joan will keep all her retirement assets and get $10,000 of Jim's assets. In this scenario, each of them "equalizes" at $40,000. See Figure 1 for an illustration of Joan's and Jim's retirement benefits pre- and post-divorce.

Figure 1: Retirement benefits before and after Joan and Jim's divorce



For illustrative purposes only
Source: Chief Investment Office.

[5] Centers for Disease Control and Prevention, D Listing, "Key Statistics from the National Survey of Family Growth," February 27, 2012.

LOSING A SPOUSE

Losing your spouse is incredibly painful, and a major disruption in the life you had planned together. Many women spend years alone in old age, often as widows. Just a third of women between the ages of 75 and 84 are married—and for those 85 and older that number drops to just 13 percent.[6] Women are also 80% more likely than men to be impoverished at age 65 and older.[7]

After a spouse has died, having to focus on legal or financial concerns can feel overwhelming. Many decisions can wait a while. Some, though, need to be addressed immediately to help protect your financial future (for example, identifying sources of income available to you).

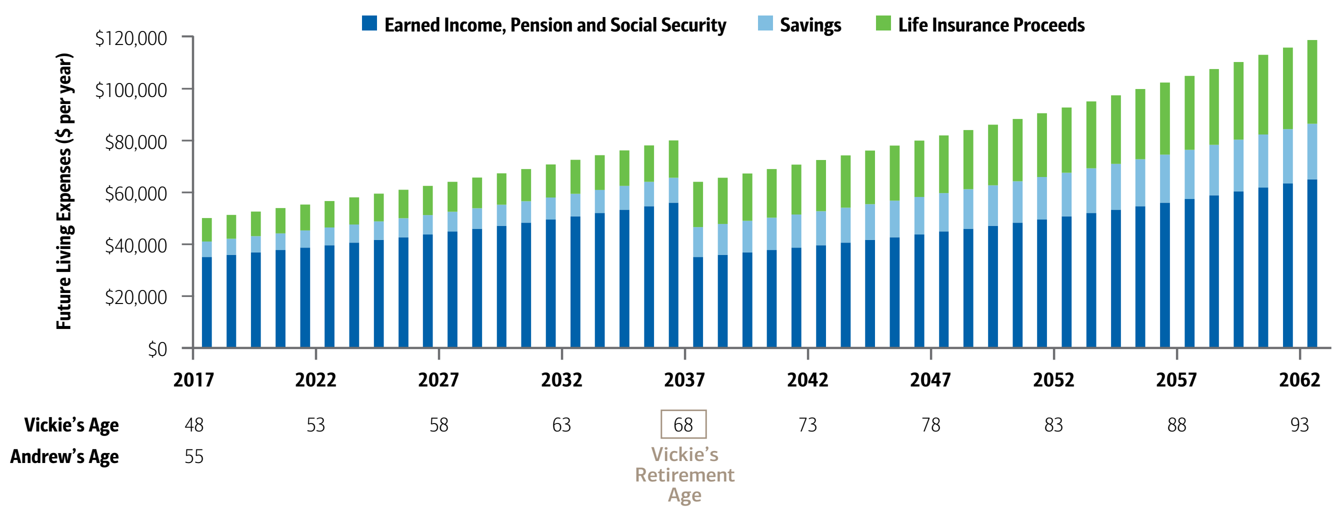
TIPS

- If your spouse passes away, contact any financial institutions that your spouse did business with to inform them. Have your spouse's name taken off joint accounts. Record your ownership of real estate, cars and other property.
- Identify sources of income available to you as a widow or widower and find out how to access them right away. These may include Social Security, veterans' benefits, pension benefits, other employee benefits, life insurance and investments.
- Speak with the executor of your spouse's will (if it's someone other than you) and your attorney to make sure you understand what you have inherited and what you owe.
- Make sure to review and update relevant documents, an advance medical directive, a durable power of attorney and a health care proxy.

Meeting the financial challenges of losing a spouse

Vickie, a 48-year-old school teacher, thought she was ready for the day her husband, Andrew, 55 years old, would lose his battle with illness. Fortunately, Vickie and Andrew were financially prepared, something they deemed important because they had a blended family with three adult children from previous marriages. Andrew had a salary of $50,000, a life insurance policy of $500,000, and retirement savings of $200,000. After Andrew's passing, Vickie used $200,000 from Andrew's life insurance policy to pay off their mortgage. Vickie plans to retire in 2037, when she will be 68 years old. Figure 2 shows how Vickie will be able to meet her future living expenses through a combination of her earned income, pension, Social Security and retirement savings, and proceeds from Andrew's life insurance policy.

Figure 2: Prepared to meet future expenses



Note: The analysis assumes future expenses grow at 2.5% per year. Vickie's income pre-retirement is represented by earned income and her post-retirement income consists of Social Security and pension income. Vickie's retirement expenses are 80% of her pre-retirement expenses. Her expenses in retirement decrease due to a reduction in the following expenses: taxes, retirement contributions and transportation costs. For illustrative purposes only. Source: Chief Investment Office.

[6] Women's Institute for a Secure Retirement, "What Women Need to Know About Retirement," 2016.

[7] National Institute on Retirement Security, "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," March 2016.

FAMILY BANK

56%

of people 50+ believe there is a “family bank” in their family

&

62%

of people 50+ are providing financial assistance to family members.

HELPING FAMILY MEMBERS

Situations vary greatly when it comes to family members helping each other. Some families are large and tight-knit and exchange quite of lot of help. Some communities and places of worship take the place of family when help is needed and no family is there. For many Americans, family support is a part of retirement spending. But it can also contribute to retirement security. It is often not planned, and funds used to help family members can interfere with other spending.

Merrill Lynch, in partnership with AgeWave, conducted a survey of the links between retirement and family issues.[8] The survey found strong links and introduced the idea of a “family bank”—the household that family members most often turn to for help. Fifty-six percent of respondents age 50+ held the belief that there is a “family bank” in their family. That study indicated that 62% of people age 50+ are providing financial assistance to family members, whether one-time, on-going or sporadic. The families providing such support are generally not factoring it into their retirement plans. Therefore, they may be underestimating their retirement spending requirements.

Better planning recognition of these issues is needed, especially among women who are very focused on their families and feel responsible for them. Often, by putting their families first, women do not look out for their own longer-term future.[9]

While women are often caregivers, they may fail to consider that they themselves may need care and support as they age or if they become ill. Although relatively few people plan for the family to help them as they age, women may find that their children are an important source of help and support if they reach a very advanced age. Situations vary greatly with regard to the availability of family helpers and caregivers. It is important to identify who will help you with medical and financial decisions if you are unable to make them. For people with more than one child, it may be best for the children to work together. For those without children, or whose children may not be available to help, it can be difficult and costly to find such support.

CONCLUSION

Marriage, living together, divorce, and the death of a spouse are life events that require financial decisions; they will make a significant difference in the assets and income you’ll have before and in retirement. It is worthwhile to understand how decisions about marriage and divorce can affect your financial security. Financial plans can help individuals, whether single or in a relationship, achieve their financial and life goals. Couples may decide to marry or remain unmarried, and they may decide to share finances or keep them totally or partly separate. Women choosing to help family members should understand the long-term consequences of such decisions. Failure to pay attention to their finances may leave women in difficult situations later on.

[8] Age Wave/Merrill Lynch, “Finances in Retirement: New Challenges, New Solutions,” 2017.

[9] Refer to Anna Rappaport and Nevenka Vrdoljak, Financial Security for the Caregiver, Chief Investment Office, Fall 2016, for tips and focus on women as caregivers while they need to plan for their own retirement.

RESOURCES

Age Wave/Merrill Lynch, "**Finances in Retirement: New Challenges, New Solutions**," 2017.

Centers for Disease Control and Prevention, D Listing, "Key Statistics from the National Survey of Family Growth," February 27, 2012.

National Institute on Retirement Security, "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," March 2016.

Refer to Anna Rappaport and Nevenka Vrdoljak, **Financial Security for the Caregiver**, Chief Investment Office, Fall 2016, for tips and focus on women as caregivers while they plan for their own retirement.

"The New Love Deal: Everything You Must Know before Marrying, Moving In, or Moving On," by Gemma Allen, Michele Lowrance and Terry Savage, 2014. This book by an attorney, judge and financial planner lays out financial planning issues for couples.

Women's Institute for a Secure Retirement, Pensions and Divorce.

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2016 IRA Contribution and Deduction Limits.

Anna Rappaport is an internationally recognized expert on the impact of change on retirement systems and workforce issues. Following a 28-year career with Mercer Human Resource Consulting, Anna established her own firm specializing in strategies for better retirement systems. She is committed to improving America's retirement systems, with special focus on women's retirement security. Anna has been a leader in the planning, management, and execution of a major research program by the actuarial profession, focused on enhancing retirement security in America. She is a Past President of the Society of Actuaries (1997-98) and has chaired the Society of Actuaries Committee on Post-Retirement Needs and Risks for more than 15 years. Anna is a frequent speaker and contributor to business and trade publications, and is the co-author of three books on various retirement issues. Anna serves on the boards of the Women's Institute for a Secure Retirement (WISER) and the Pension Research Council. She is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. Anna holds a master's in business administration from the University of Chicago.

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Related Research Publications from the Chief Investment Office

Spring	2017	The Family and Financial Security	Rappaport/Vrdoljak
Spring	2017	Pitfalls in Retirement	Laster/Suri/Vrdoljak
Winter	2017	Target Date Asset Allocation Methodology	Laster/Vrdoljak/Wang
Spring	2016	Tackling Retirement Risks	Laster/ Vrdoljak/Suri
Winter	2016	Claiming Social Security	Laster/Suri
Fall	2016	Financial Security for the Caregiver	Rappaport/Vrdoljak
Summer	2016	Women and Life-Defining Financial Decisions	Rappaport/Vrdoljak
Summer	2016	A Path to Retirement Success	Laster/Suri/Vrdoljak
Spring	2016	How Immediate Annuities Can Help Meet Retirement Goals	Laster/Suri

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