SEVEN LIFE-DEFINING FINANCIAL DECISIONS

A Joint Project of The Actuarial Foundation and WISER, the Women’s Institute for a Secure Retirement
Getting married, living together, getting divorced, and raising children all require financial decisions that will make a big difference in the assets and income you’ll have before and after retirement.
Both of you need to stay involved in financial decisions because they affect the family’s future economic well-being.

**Rules of the road**

When you get married, most property or income that you or your spouse acquire or earn during the marriage will belong to both of you. Individual property that you owned before the marriage may often stay separate.

You may both be responsible for debts that either of you incur during the 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.

When others are depending on you for financial support, you need to consider life, disability, and health insurance. In addition, you need to review survivorship provisions, that is, find out whether either of you can receive benefits from your spouse’s pension, IRA, and other retirement plans and accounts.

Both spouses need to be aware of the financial security arrangements that are in place, and both should participate in any significant changes.

**Decisions**

Property ownership changes with marriage. If you want to maintain property you bring into marriage as individual property, you will need to state that in a legal document.

If you live in a community property state — Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin — you should understand how those rules affect property ownership. For example, in community property states, all earnings during marriage are generally considered to be owned equally by each spouse.

Exchange credit reports with your prospective spouse before you get married. Stay aware of your spouse’s debts, because they may become yours some day — if you should divorce or become widowed.

With your spouse, work through what would happen to each of you and your finances if either spouse should outlive the other. Make sure you have each designated your
spouse as a beneficiary for life insurance, any Individual Retirement Accounts you have, 401(k)s, or other pension plans, and consider writing a will and a power of attorney for health care decisions.

Remarriage may also affect access to benefits and to the other spouse’s current and future income, as well as property ownership rights. A previous divorce may bring with it financial obligations for children or for an ex-spouse. In addition, the timing of getting married a second time may affect your ability to collect Social Security or pension benefits based on your first spouse’s benefits or work record.

**CHILDREN**

*Raising children requires time and money (among other things), often requiring trade-offs with other obligations.*
Rules of the road

As parents, you and your spouse may find yourselves making changes in your careers and the number of hours you work. If either of you stops working or cuts back to part-time, you will have less income and lower potential retirement benefits. You may find it difficult to return to work when your children are older.

You may find that paying for your children’s expenses and saving for their education are now competing with what you want to save for retirement.

Finally, you need to protect your family against the possibility that one parent may die or become disabled and unable to work or care for your children.

Decisions

Some types of savings accounts are designed to be tax-deferred and also allow you to withdraw money without penalty for child-related expenses. These include Education IRAs, Medical Expense Accounts, and U.S. savings bonds. Read up on available savings options for education including their tax implications and how they affect potential grants and loans.

Keep in mind that college savings should not come at the expense of your own financial security or saving for retirement. Consider asking your children to help pay for their education themselves, with earnings from summer and part-time jobs, student loans, and outside sources of financing.

Review the life and disability insurance coverage that you and your spouse have through your employers or which you purchase independently, and consider purchasing additional coverage if you think it is needed.
When dividing property and assets during a divorce, pensions and retirement plans may be the most valuable items on the table.

Rules of the road

Divorce can change your whole financial road map. During a divorce, the married couple has to make decisions about dividing the property that was acquired during the marriage. In addition, they may need to address whether either one will provide child and/or spousal support and how much.

State law governs divorce and each state has different laws that determine how property is divided at the time of divorce. However, if you or your spouse earned a pension during your marriage, it may be divided along with other property acquired during the marriage, such as your home. Federal pension law known as ERISA permits the division of pension benefits earned while working for a private company and includes requirements about how it is divided. Federal, state, and local government employee plans have different requirements.

If you are covered by your spouse’s health insurance, you are likely to lose that coverage. However, you are eligible to continue coverage under a federal law called COBRA, although you will have to pay the premiums and an administrative fee. Additional information about health insurance is in Section 7.

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. While your ex-spouse is living, you can receive a benefit equal to half of that benefit. If your ex-spouse should die before you, you can receive a benefit equal to the full benefit. The Social Security Administration can calculate your benefits based on both your work record and your ex-spouse’s and you can receive the larger of the two — but you cannot receive both. See chart on page 51.

Decisions

During a divorce, it is important to get good legal advice and specialized professional help to deal with the financial issues. Although this can be expensive, going without such help can be even more costly in the long run.

The pension or retirement plan earned during the marriage can be the most valuable property to be divided at divorce. Be sure to consider all pensions from current and previous jobs and consider hiring an expert to determine the value of the pension or retirement plan.
LIVING TOGETHER

If you and your partner are living together but are not married, you can take steps to protect your relationship and your finances.

.rules of the road

Couples who are living together but are not legally married do not usually receive the same legal protection or have access to benefits that legally married couples have. Non-married couples should look for other ways to provide the financial protections that they believe are important and then decide how they would pay for them. For example, couples can draw up legal documents to show who owns what property or to set down plans for household expenses or other financial matters.

Some employers extend health insurance and other benefits to domestic partners. Some pension plans will allow the employee to designate someone other than a spouse for a survivor benefit, but not all do.

Social Security provides spousal or survivor benefits to individuals in common-law marriages that are recognized under state law, just as the agency provides benefits to married couples, described in Appendix B. However, Social Security provides nothing for couples living together in non-common-law states or for same-sex domestic partners.

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Some states recognize common-law marriages. In those states that do, if you and your partner should split up, you need to determine if the state views you as married. If so, you will be required to go through a legal divorce to end the marriage and divide marital property.

If your relationship is not a common-law marriage, consider whether you want to formalize any property ownership or financial obligations. With your partner, investigate your options for protecting each against the death or disability of the other. Looking down the road, consider provisions for making health and financial decisions for the other, as well as financial plans to provide for each other to compensate for the lack of Social Security or pension survivor benefits.
Caring for Parents

When your parents need assistance, whether in their home or in another setting, look into all of the resources that are out there for you and them.

⚠️ Rules of the road

It is important to talk with your parents to understand their wishes and their plans. You should ask whether they have long-term care insurance. If they are willing, talk to them about what income they have and how they plan to make ends meet throughout their retirement. If they are thinking about moving or selling their home, make sure they have thought through the expenses involved. You may also want to discuss and review any medical and legal documents to be sure they are up-to-date and properly written.

If you need to find some help for your parents, contact the Eldercare Locator and investigate other resources listed in Appendix C.

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Alice Turner, who had emphysema, was meticulous about her health insurance planning. But her daughters, who lived at the other end of the country, never realized that she had purchased a long-term care insurance policy and assumed she only had Medicare coverage. As a result, when she had a health crisis, she went to the hospital’s Intensive Care Unit, was discharged to a nursing home for 20 days, and then was sent home. This sequence was repeated with each medical crisis. If her family or doctors had known about her long-term care insurance, she could have received the ongoing home care or nursing home care she needed.

Ask whether they have a power of attorney for finances and health care, or a living will.

Check on your parents’ health insurance coverage and whether it will continue into their later years.

Talk to your siblings to see if they would be willing to pitch in, either by spending time caring for your parents or compensating you for your time.
Wills, Directives, and Powers of Attorney Detour/Roadside Assistance

Almost everyone should have a will, regardless of the amount of your assets. A will is the only effective means of directing how your property will pass after your death.

A healthcare directive or living will states what medical care you do or do not wish to receive if you should ever become incapacitated and unable to communicate directly with the doctor. If you want to designate a person to supervise your care, you can do so through a document called a durable power of attorney for healthcare. In a few states, the healthcare directive and durable power of attorney can be combined in a document called an advance directive.

You can use a durable power of attorney for finances to designate one person to oversee your finances if you become unable to do so.

You can contact the American Bar Association for names of local organizations that can assist you in preparing these documents.