

Tribune News Service

The Journey: 2nd or 3rd time around — money matters

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If gray divorce doesn't rain down enough financial stress on a retirement plan, a second (or third) marriage or domestic partnership certainly will. What to do?

Heading into a new committed relationship means both partners need to take stock of their retirement plans and legal documents, having detailed conversations not only about how to split monthly expenses, but how to plan for future health care needs, how heirs will factor into the estate and how aggressively they'll need to invest to stay ahead of inflation.

In a just-released book – "How Much Can I Spend in Retirement?" – veteran retirement income researcher Wade Pfau, a professor at the American College of Financial Services, cautions against relying too heavily on the assumption that a household's spending will go down as old age approaches.

Citing a J.P. Morgan Asset Management study of 613,000 households headed by people 55 and older that found big differences in spending patterns, Pfau urges retirees to consider whether they may be heading for a high-spending retirement.

In the study, 39 percent of households were categorized as relatively frugal, while 29 percent spent pretty freely on pricey homes, 5 percent traveled extensively, 4 percent had high health care bills and the rest had unique spending preferences that couldn't be lumped into a category.

Think about it: If you spent decades never daring to touch the minibar while traveling for work, how will it feel to check into a hotel in retirement and have your new partner ordering room service and a movie? If your 401k is flush enough to not need too much stock exposure, how will it feel to increase the volatility to make up for a partner's skimpier account?

Pfau's book discusses some strategies for all retirees, not just the newly hitched, to deal with fluctuations in spending and in investment returns, and also getting to a fundamental understanding about how to blend more than a century's worth of money habits (assuming you're both older than 50) is no easy feat.

"It's all about the conversation," says Janis Cowhey, an attorney and co-leader of the Modern Family & LGBT Services practice at accounting firm Marcum LLP. Just as millennials are perhaps more comfortable talking about money and inheritance issues than previous generations, she says, couples need to talk more freely with each other.

Her advice: Certainly, get a prenuptial agreement if at all possible for a second marriage, or a similar legal document if you are unmarried but living together. If for some reason that isn't possible or warranted, having updated wills or trusts is a good second option. At the very least,

consider life insurance policies that could take care of children from previous marriages when you die and your new spouse inherits most of the estate.

Consider the timing of any second marriage as well, Cowhey suggests. While a couple is still unmarried, for example, they can sell assets to each other to avoid wash-sale rules on capital gains. Or someone planning to adopt a fiance's children may consider doing so before the wedding to take advantage of the adoption tax credit.

And remember to talk about debt, she says, which has been a big factor for retirees in recent years. Young couples who start planning a life together might have decades to bail one partner out of a debt hole, but older couples don't have the luxury of time or rising income.

Finally, retirees trying to avoid these conversations to keep peace in a blended family should be aware how devastating the silence can be for their families after death, she says.

"We took on an estate where the father was remarried for more than 20 years so he trusted her to take care of all the kids and he left her everything. Once he died within a few years she had transferred everything into accounts with just her name and her own daughter's name. The client's kids had had a good relationship with her, until this happened, of course. And it happens more often than people realize."

ABOUT THE WRITER

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