money matters

Retirement plans

by J. Lynn Davidson
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It would be nice to think decades of hard work and planning will lead to a comfortable, financially secure retirement. With proper saving and investing, that's generally the case. However, important financial planning decisions remain even in retirement. And for members of the gay/lesbian community, a few extra steps can be involved — especially for couples.

Same-sex couples entering retirement face some additional decisions to help ensure financial security. A variety of factors impact different types of retirement programs differently.

The first consideration is Social Security. Under current law, gay/lesbian couples are ineligible for Social Security spousal or survivorship benefits. This is true even for couples who may be married or joined by a civil union under state or foreign law. If you and your partner have planned for retirement jointly, treat Social Security benefits accordingly. If Social Security is an important part of your retirement strategy, have a contingency plan in place in case one partner dies prematurely; his or her benefits also would end prematurely. Additional savings or life insurance can often fill this role.

The second difficulty gay/lesbian couples face in retirement planning is presented by traditional employer pensions — defined benefit plans. These plans promise to pay an amount generally equal to a percentage of an employee's pre-retirement salary, assuming the employee has worked enough years to qualify. While these plans are becoming less common, many Americans remain covered by them. The issues here are not unlike those presented by Social Security: generally, the law does not require these plans to recognize surviving partners as beneficiaries. Thus, if a covered partner dies before benefit payments begin, the surviving partner probably will not be eligible for survivor benefits. Again, if a defined benefit pension is a substantial component of the retirement plan, contingency strategies should be explored.

Finally, what happens when it's time for an employer plan to start paying out? Here, the challenge lies in identifying a payment schedule that protects both partners. These considerations need to be taken into account in all employer retirement plans — defined benefit plans mentioned above, but also 401(k)s and 403(b)s.

When it's time to start drawing benefits from an employer-sponsored retirement plan, a retiree's choices can include: a lump-sum payment, an annuity for life (perhaps with a guaranteed payment for a certain number of years), or an annuity over two lives (again, perhaps with a payment guarantee). It's important for gay/lesbian couples to understand all the plan's distribution options fully and to choose the option that best tracks their retirement plan.

If an annuity payout is permitted and desired, a retiree should confirm with his or her employer that it is permissible to use a non-spouse as a joint annuitant. This is a critical step. If your employer's plan will not allow you to cover your partner, and if you two are counting on income from that plan to fund your retirement, you'll have to rely on different payout options. It might make sense to draw an annuity for your own life with a guaranteed payout for 10 or 20 years, on the theory the guarantee will protect your surviving partner if you die prematurely. However, it may make more sense to opt for the lump-sum payment; just be sure you've considered whether the payment should be rolled to an individual retirement account (IRA).

In addition to protecting a partner, there may be other reasons for rolling some or all of your plan assets to an IRA: perhaps the rate of return is less than you could earn on your own if the funds were in an IRA, or you would prefer to be more active in managing your finances in retirement.

Retirement plan withdrawals generally are very complicated — investment options, tax consequences and payout decisions can all be daunting. Add to that the complications the system can create for gay/lesbian couples, and it's easy to see where a financial advisor could help you make the most of your assets. ▼

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