THEDMLOREPORT

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How to Keep Your Spouse in the Loop, Financially

It's critical to ensure your spouse remains in solid financial shape should he or she outlive you. To make this happen, there are a variety of important areas to consider.

Social Security

Many people know that, if they start Social Security payments *before* they reach full retirement age, their benefits are reduced. What's less well known, but critical to understand, is the impact on your spouse's benefits: They're also reduced. And this reduction continues even if the primary beneficiary dies. The benefit to the surviving spouse (called "the survivor's benefit") remains lower.

This can be a particular concern for those spouses with little or no earnings record, who may need to rely more heavily on survivor's benefits in the event their spouse dies.

Pensions

Employees fortunate enough to participate in a defined benefit pension plan have several options to choose from when they retire. Federal law requires these plans to offer benefits to married participants through what's called a qualified joint and survivor annuity (QJSA). Under a QJSA, payments continue for the life of both the pension plan participant and his or her spouse — though the spousal payments may be reduced if the pensioned participant is the first to pass away.

It may be possible to choose another option, such as a lump-sum distribution or single-life annuity, if the spouse agrees in writing to the choice. These can be tempting, as they offer more money upfront.

But both carry risks. Choosing the lump-sum option means taking on the work and risk of managing the money. And, under the single-life annuity option, the monthly benefits stop when the participant in the plan passes away. Again, that can create a hardship for a surviving spouse.

Beneficiary designations

It's critical that the beneficiary designations on all financial assets, such as checking, savings and investment accounts, as well as IRAs, be updated and correct. That's because these documents typically override any provisions in your will. It's not uncommon for account holders to forget to update their beneficiary designations following a divorce to remove the ex-spouse's name and add the new spouse.

Interestingly, the rules differ with 401(k) plans. Spouses automatically receive this asset unless they waive their rights to it.

Some financial assets can be registered to transfer on death. This registration allows the assets to pass directly to the beneficiary on the death of the asset owner, without going through probate.

Dual participation

To ensure a surviving spouse doesn't face a paperwork nightmare if the first spouse dies unexpectedly, both partners should participate in managing the couple's finances. They should know how and when bills are paid, and have an idea of the typical amounts.

For those who handle accounts online, both partners should know the log-in criteria. Even if an account is in one spouse's name, the other should be aware of it and know how to cancel it.

Similarly, each partner should have information on such financial assets as checking, savings and investment accounts. This should include the financial institutions at which they're held, any log-in requirements and the balances.

Furthermore, both partners should know how to access their wills, tax returns and similar documents, as well as how to contact the couple's CPA, attorney and any other professional advisors.

Take care of each other

A little preparation now can save a surviving spouse worry and hardship during an already difficult time. Your financial advisor can help guide you through the important process of getting both parties up to speed and keeping both of you well informed about your mutual monetary interests.