

The Financial Planning Look for Two Earners

Financial planning for two-earner couples can include prioritization and attention to insurance coverage, maximizing retirement plan distributions, and the segregation of assets.

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BY JEFF STIMPSON

"I try to get across to people that they need to take care of themselves first," says Dave Herbeck, a financial advisor at Blanski Peter Kronlage & Zoch, in Minneapolis, the broker/dealer for which is H.D.Vest Investment Services and H.D.Vest Advisory Services. "If their finances are in bad shape as far as them being able to retire, I advise them to work on their own retirement before worrying about college for their children. When they are retired and living on nothing but Social Security, I highly doubt the kids will be sending them a monthly check." Avery Neumark, partner-in-charge for employee benefits and executive compensation, and Alan Willinger, partner-in-charge of the tax practice for New York-based Rosen Seymour Shapss Martin & Company, confirm that two-earner families are a growing area in financial planning and tax practices, and that they typically see three types of engagements:

- **Two-Earner Families:** Young professional couples concerned about education expenses for their children, estate planning and financial planning, with their main goals being to buy their first home and paying for the children's education. This category can also include older couples with substantial revenue and third generation families, the latter two groups concerned with estate planning, and coming to the engagement with "some sense" of investment planning. Concentrations in these engagements are on retirement planning, planning for distributions from plans, gift planning, succession planning for businesses, and long-term care and healthcare planning.
- **Two-Earner Families in a Second Marriage:** This group has unique issues in estate planning, such as children from a first marriage, prenuptial agreements, beneficiary designation issues, health and insurance issues, and educational issues because they may have their own children from a previous marriage/relationship. Also, a young child may be the product of this second marriage.
- **Two-Earner Non-Traditional Couple:** This group is complicated because federal law doesn't provide the same tax benefits as for married couples. Tax planning becomes crucial because they can't file jointly, nor can they gift without serious gift-tax consequences. Estate planning becomes

an issue because they aren't eligible for the marital deduction. Lastly, the beneficiary-designation issue needs to be considered for non-spouses.

Engagement Specifics

Robert Greenberger, tax principal with Tauber & Balsler in Atlanta, says two-earner families make up the majority of the firm's practice, "but the issues surrounding the two-earner families make them each unique from a planning standpoint. Many are involved in our family business niche, where issues surrounding the family business are prevalent. The key with our family business niche clients is in understanding that the family business system is driven by the values of the family system. On the other hand, two-earner families that have accumulated significant wealth, whether or not business owners, will have their engagements focus on financial planning, retirement planning, and estate planning." He says his firm will "quarterback" this three-prong planning, partnering with full-time financial planning firms, insurance agents, and attorneys. "For example, our firm provides estate planning strategies and advice, and works hand-in-hand with estate tax attorneys," Greenberger adds.

Kevin Meehan, president of Summit Wealth Advisors, associated with the Itasca, Ill., firm Corbett, Duncan & Hubly, says, "Once it's mutually determined that we're going to work together, we'll charge a financial planning fee to do an analysis on their goals and objectives and their current situation on tax, investment, insurance, retirement, and, if applicable, education, and charitable strategies," Meehan says.

"Once this assessment is done, we'll develop a listing of recommendations sequenced by what we perceive to be most and least important. This series of recommendations would be implemented over a reasonable timeframe, with the objectives of having most of the initial recommendations implemented within a year," Meehan adds.

Peri Ann Aptaker, director of tax services at Providence, R.I.-based Kahn, Litwin, Renza & Co., says a "significant portion" of her financial planning practice is dedicated to two-earner families. Her process in these engagements involves an initial phone conference with the client followed by an estate and financial planning questionnaire. From that questionnaire, Aptaker identifies assets, sources and uses of income, and short- and long-term financial needs, and analyzes estate planning documents and insurance to help identify financial planning issues. She also prepares a financial plan and an action plan, then meets with the client.

Hot Topics

Neumark and Willinger feel the hottest subjects for financial planning are cash flow, education, insurance, healthcare, estate, retirement, and investment. Specific tools and specialized software are personalized for each case, they add. Some of the hottest areas for these clients typically revolve around two major objectives, says Meehan. "The first is, if there are children, the most strategic way to fund and pay for children's education. The second most-common objective is how much money do they need to achieve a level of financial independence that the client will find appropriate? Issues that can cause people to not achieve these objectives involve the strategies of how to structure their investments, how to control their taxes, and how to protect from unexpected disaster."

"College planning is generally a hot item with two-earner families with children," says Herbeck. "It's important to analyze if they'll be eligible for financial aid, and, if so, how to structure their finances to take the greatest advantage of it. The other decision is how much to contribute, in other words how much skin do you want your child to have in the game? One couple I met with recently is going to pay half of the education if the child has a C average, 62.5 percent if they have a B average, and 75 percent if they maintain an A average. Another couple said they would pay for two years of college, but it had to be the junior and senior years."

"Most two-earner families I deal with are struggling with balancing the need to take care of parents, their children, and themselves," Aptaker points out. "I help couples prioritize where their limited dollars can be spent. There is a constant struggle with saving for their retirement as well as their children's education. In addition, couples with an aging parent that may need assistance (financial or otherwise) adds stress to the equation. I help these couples find assistance in the community such as home care or assisted living facilities. Dealing with aging parents often leads to a discussion of purchasing long-term care insurance."

The Asset-Segregation Question

"I often recommend couples segregate assets for estate planning purposes, and that they establish and fund revocable living trusts during their lifetimes," Aptaker says. "During the financial planning process, I determine the current estate of the parties, and the most beneficial forms of ownership for estate planning. I also look at forms of ownership from an asset-protection viewpoint. Frequently, asset protection may be more important to a client than saving estate taxes."

The trend with young couples seems to be toward holding finances jointly, while older couples tend to have separate accounts and a joint account that they fund from separate accounts to pay joint expenses, according to Neumark and Willinger, who add that they also see another trend when one person in a marriage receives separate funds, such as gifts or an inheritance, and tends to keep those funds in a separate account.

"I usually don't see clients segregating assets except for assets protection or estate equalization purposes," says Greenberger.

Meehan likewise doesn't see a significant segregation of assets among two-income families. "Where we do find this to be most common is where people have been married either before, or have gotten married later in their work life and have established some very independent patterns," he says. "Additionally, as it's becoming more common for people to receive inheritances, we generally encourage, and people generally feel more comfortable with, keeping those assets separate, so they would not become part of a potential divorce settlement."

Herbeck doesn't encourage segregating assets. "It seems like you're planning ahead for divorce, and is one more issue that may cause marital problems," he says.

Retirement Plan Distribution Decisions

Neumark and Willinger review different types of distribution options that the client's plan makes available, and which options work best for their situation. They also ensure that the proper beneficiary designation is in place, as clients may be subject to major tax bills when the proper designation isn't in place. Proper designation is especially important for second marriages to provide for children of the first marriage, they add.

Meehan will evaluate pension levels of any income a client has, or pension-like income, including Social Security, to then determine whether any guaranteed income stream could come in the form of an annuity or in the form of one of the many annuity type benefits. "Much of this is often determined by the desire for the client to maintain control over assets, or the comfort that would come from having a guaranteed base income," he adds. "This varies greatly, yet we find that the higher-net-worth individual is often uncomfortable with some contractual components of annuitization."

Aptaker looks at the current lifestyle of the client, their expected earnings and savings until retirement, and their retirement income needs. "I then provide a conservative estimate of the funds needed at retirement," she says. "I assist clients with decisions associated with retirement plans they have, taking into account all of the other available assets. The health of the parties can also be a major factor in determining how a retirement benefit will be taken, such as single life or joint and survivor annuity."

Says Herbeck, "When deciding on retirement distributions, you need to consider the health and the life expectancy of the retiree. If you have a healthy retiree with a not-so-healthy spouse, you may want to stay away from the joint and survivor option, or take a smaller guaranteed payout to the survivor to increase the amount of the payout. If both spouses are in good health, I would tend to go with a joint and survivor, with at least a 50 percent benefit, maybe 75 percent depending on what other assets are available. The more assets available, the more likely I'd be to choose the 50 percent option."

Capitalizing on Future Trends

Neumark and Willinger say they feel all dual earners are more proactive when it applies to financial, investment, and estate planning. They also see a growing trend toward non-traditional two-earner families, those technically not husband and wife who don't get the benefit of a married couple but, with changes in the legal environment and with the new IRA distribution rules for non-spouses, may present an opportunity for tax planning. The new Congress and the expectation of upcoming tax changes, such as possible increases in the estate tax rule and the changes in the pension rules, may also provide for "more aggressive" planning opportunities, they say.

"Retirement is being redesigned," Meehan notes, with the "typical lifeline" of education until the mid-20s, work until the mid-60s, then recreate no longer being the typical case.

"We're finding with two-earner professional families, and with business owners or self-employed professionals, that they're not necessarily looking to stop working as much as they're considering whether what they're doing is really their passion, and whether there may be something else that they'd like to participate in from a work standpoint. We see more of a balance of work and recreation moving into the retirement years," Meehan says, "which is also a very good strategy to maintain financial stability in the assets."

The large number of Boomers now considering retirement will be the big factor in the growth of this niche, Aptaker says.

"A substantial number of these Boomers haven't saved enough for retirement, either because they've been taking care of parents and children or because they've been negligent with their own savings," she says. "Another factor facing them is longer life expectancy, which requires that more money be saved. These individuals will seek out and need advice to help them."