RETIREMENT

How to Plan for Retirement When Only One Spouse Works

When you're married but only one spouse works, leaving retirement planning to the working partner puts financial security at risk. A joint effort is vital.

These days, it’s not uncommon for the spouse with the highest income potential to provide for the family financially while the other spouse stays home to manage the household.

Although this arrangement can work well for child-rearing or eldercare responsibilities in the short term, it can present long-term retirement income planning risk for the non-working spouse. To mitigate this risk, it’s crucial for both spouses to be informed and actively involved in retirement planning decisions.

Understanding spousal rights related to retirement planning is a key step in ensuring financial security for the non-working spouse.

Pension decisions for married couples

In a traditional pension plan, a worker is typically entitled to a normal benefit, payable for their lifetime and equal to a percentage of their final pay, assuming they meet certain work and retirement age requirements. For instance, a plan might stipulate that a participant will receive 50% of their final pay for life, provided they work for 30 years and retire at age 65.

However, when the participant is married, federal law generally requires that the pension be paid as a qualified joint and survivor annuity (QJSA), unless the non-working spouse agrees to a different arrangement. A QJSA ensures that the pension continues to be paid to the surviving spouse after the participant's death, typically at a reduced rate.

For example, Joe, who retires at age 65 with a final pay of $100,000, may be entitled to a $50,000 annual benefit for his lifetime. If he chooses a QJSA with a 50% survivor benefit, he might receive $45,000 annually during his lifetime, with $22,500 continuing to his spouse, Mary, if he predeceases her. The couple may also opt for a larger survivor benefit, though this will further reduce the initial pension amount.

It's essential for both spouses to understand the implications of these choices. Selecting a QJSA may mean receiving a lower benefit during their joint lives, but it may help provide financial protection for the surviving spouse.

Spousal IRAs: An important tool for non-working spouses

A spousal IRA is another valuable tool for a non-working spouse. Even without their own earned income, the non-working spouse can contribute to an IRA, provided the couple files a joint tax return. Over time, consistent contributions to a spousal IRA can grow into a significant source of retirement income, helping to ensure financial independence.

For example, in 2024, Mary (age 45) and Mike (age 50) file a joint federal income tax return. Mary earns $100,000, while Mike stays home to care for ill parents. Mary can contribute $7,000 to her IRA (or Roth IRA), and Mike can also contribute up to $8,000 to his IRA, thanks to the spousal IRA rules. Since Mike is at least 50 years old, he is allowed the catch-up provision above the traditional IRA contribution limit.

If you file a joint federal income tax return, your contribution eligibility is based on your combined modified adjusted gross income (MAGI), allowing a non-working spouse to contribute to a traditional IRA or Roth IRA even without personal earnings, if the combined MAGI falls within the allowable income thresholds. In 2024, for married couples filing jointly, you can contribute the full $7,000 if your MAGI is below $230,000. If your MAGI is between $230,000 and $240,000, your ability to contribute or deduct is gradually reduced. If either spouse is over 50, they can contribute an additional $1,000 as a catch-up contribution, bringing the total to $8,000.

Qualified domestic relations orders (QDROs)

While everyone hopes for a lasting marriage, it's essential for both parties to consider how retirement assets will be divided in the event of divorce, especially for a spouse with little or no retirement savings. Under federal law, retirement plan benefits generally cannot be assigned to someone other than the participant, except through a qualified domestic relations order (QDRO). This legal document allows a non-working spouse to claim a portion of the participant's retirement benefits in the event of divorce.

For instance, a QDRO could allocate a portion of a 401(k) or pension plan to the non-working spouse. Given the complexities of dividing retirement benefits in divorce, particularly with defined benefit plans, it’s crucial to consult with an experienced attorney who can draft a QDRO that addresses important aspects like survivor benefits and plan subsidies during or after divorce proceedings.

How to ensure retirement income for a non-working spouse

To help ensure that your non-working spouse is financially secure in retirement, consider taking the following steps:

Review pension plan options together. Sit down as a couple and thoroughly review the pension plan options, particularly the Qualified Joint and Survivor Annuity (QJSA). Ensure both spouses understand the implications of each option and choose the one that best secures the non-working spouse’s financial future.

Establish a spousal IRA. If you’re a non-working spouse, make sure to establish and contribute to a spousal IRA (traditional or Roth, if you qualify). Even small, regular contributions can grow over time and provide an important source of retirement income, enhancing your financial independence.

Create a QDRO in the event of divorce. If divorce is a possibility, ensure that you work with an experienced attorney to draft a QDRO. This legal document will protect your rights to your spouse’s retirement benefits and ensure you receive your fair share.

Consult a financial adviser. Engage a financial adviser who will provide personalized advice and navigate complex decisions, such as pension selections, spousal IRAs and retirement income strategies.

Stay informed and involved. Regularly review your family’s financial situation, retirement accounts and plans. Attend meetings with financial advisers together to ensure both spouses are equally informed about the decisions being made. Being proactive and involved will help everyone feel secure and prepared for the future.

This could be one of the most important financial decisions you will make as a couple, and ensuring that both spouses are informed is essential for a comfortable and stress-free retirement.

NYSUT NOTE: Keeping a close eye on your finances is even more important when only one spouse is in the workforce. The NYSUT Member Benefits Corporation–endorsed Financial Counseling Program can advise on a wide range of topics from estate planning to basic budgeting. It's only $260 annually for a full-service plan with unbiased, objective insight.

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