

# TRUE

Unmarried couples face some unique retirement planning issues

# Love

For unmarried couples, retirement planning may be a bit more challenging than for married couples. That's because neither partner will be eligible for spousal benefits from two key sources of retirement income: Social Security and traditional pension plans. However, there are some planning alternatives you can consider that will allow you to provide each other with an adequate living in retirement. Here's a quick overview:

- You can designate your partner as the beneficiary of your retirement plan if permitted under plan rules. In some cases, you can name each other as beneficiaries of retirement plans such as 401(k)s, IRAs and 403(b)s. Check with your Plan Administrator for details.
- You may want to consider increasing your contribution rate. Plan to save more now to replace the spousal benefits your partner won't receive from Social Security and any pension plan you may have.
- Consider using life insurance or an annuity to fund your partner's retirement. Life insurance can help you provide significant replacement income for your partner.

Make sure you understand what retirement benefits you can expect to receive from one another. Also, make sure you consider all the possibilities. It may seem unlikely now, but your relationship could end before you retire. That could leave one or both of you without enough retirement income. In some cases, it may be wise for each of you to plan for retirement on your own, even though you plan on being together forever.

## Additional Resources

(Available at your local bookstore or on amazon.com):

- *Living Together: A Legal Guide For Unmarried Couples* by Ralph Warner, Toni Ihara & Frederick Hertz
- *Unmarried to Each Other: The Essential Guide to Living Together as an Unmarried Couple* by Dorian Solot and Marshall Miller

## The True Cost of Tapping Your Nest Egg

Suppose you need to take a \$10,000 hardship withdrawal to get you through a tough financial period. In addition, suppose you and your spouse file a joint tax return and you earn \$50,000 combined. That means your income falls into the 27% bracket for 2003.

If you take the \$10,000 withdrawal, you will owe \$2,700 in federal income taxes and an additional \$1,000 to cover the 10% early withdrawal penalty. You'll be left with a net amount of only \$6,300. That's only 63 cents on the dollar—and even less if you owe state or local income taxes.

# CRISIS MANAGEMENT

During tough economic times, a hardship withdrawal from your 401(k) should be considered only as a last resort

Most of us will likely be faced with a financial crisis at some point in our lives. Perhaps even more than once. During these tough economic times you may be tempted to tap into your financial future—by taking what is known as a hardship withdrawal from your 401(k).

A hardship withdrawal is not like a Plan loan. The withdrawal may be difficult to get—and very costly if you receive it. Here's a brief overview of how hardship withdrawals work:

## Hard Times Mean Hard Choices

Two types of hardship withdrawals are allowed from 401(k) plans. One is called a financial hardship withdrawal. It is subject to any applicable income taxes (federal, state and local) as well as an additional 10% penalty if you are younger than 59 ½.

Financial hardship withdrawals are allowed for the following reasons:

- To buy a primary residence (the most common reason cited, according to the Investment Company Institute).
- To prevent foreclosure or eviction from your home.
- To pay college tuition for yourself or a dependent, provided the tuition is due within the next 12 months.
- To pay unreimbursed medical expenses for you or your dependents.

The other type of hardship withdrawal is a penalty-free withdrawal, made under Section 72(t) of the Internal Revenue Code. With this type of withdrawal, you must pay income taxes. However, the 10% early withdrawal penalty is not applied. You may qualify to take a penalty-free withdrawal if you meet one of the following exceptions:

- You become totally disabled.
- You are in debt for medical expenses that exceed 7.5% of your adjusted gross income (AGI).
- You are required by court order to give the money to your divorced spouse, a child or a dependent.
- You are separated from service (through permanent layoff, termination, quitting or taking early retirement) in the year you turn 55 or later.
- You are separated from service and you have set up a payment schedule to withdraw money in substantially equal amounts over the course of your life expectancy. Once you begin taking this kind of distribution you are required to continue for five years or until you reach age 59 ½ (whichever is longer).

Employers are not required to offer either type of hardship withdrawal, so you need to check with your Plan Administrator to find out which type, if any, is available. And, of course, you need to think carefully before you decide what to do. Although a withdrawal may be unavoidable under certain circumstances, in most cases you'll be short-changing your financial future.