Money matters

Special Issues for Two–Earner Families

In recent years it's become very common for American families to have two people working. In most cases, they have different jobs, different employers, different incomes and different retirement savings plans, pensions and health benefits. If you're in this situation, you need to plan carefully to coordinate your financial plans throughout your working years and for retirement.

Start by organizing your family's financial information. Set up a filing system that's easy for you both to use so you have an accurate picture of how much money you have now, and how much you'll be able to save for the future. Share your financial history with each other, especially if there have been problems with debt or bankruptcy.

Then spend some time discussing and making the joint decisions you face now and will face in the future as a two-earner family.

Paying Expenses

You probably have joint expenses, but you probably don't have the same salary, especially if one of you works part-time. So you need to discuss and agree on which expenses you'll share—such as the mortgage or rent, and utilities—and how much each of you will contribute. It may be useful to set up one or more joint accounts for paying these types of expenses, as well as an emergency account that could cover expenses for three to six months in the case of job loss, disability, or other family crisis.

Some two-earner families may want to combine all of their income and hold their financial resources jointly. But it's often a good idea for each earner to have their own accounts to cover personal expenses and priorities. Don't avoid the tough issues you need to agree on. Some examples of these are:

- **Debt:** How much debt do you have individually and jointly, and what is your plan for paying it off?
- **Real estate:** If you own rental property individually or jointly, how will you divide up the income and expenses?

Setting Financial Priorities

Hopefully, after you pay your basic bills every month, you have some money left over. This is often called discretionary (extra) income. What will you do with this money? Buy a new house or car? Take an expensive family vacation every year? Send the children to private school, or set up a college fund? Save for retirement? The best way to get the most out of your discretionary income is to list all the ways you both would like to spend it, and agree on your joint priorities. An absolute "must" on the list should be making regular contributions to your retirement savings.

Health Insurance

The number of Americans who get health insurance paid for, at least partially, through their job, has been declining. Two-earner families who do have access to this coverage should carefully compare the benefits and costs of the policies they are offered, and choose the coverage that's best for the family.

Retirement Planning

Now you're living on two salaries. Is it best for one of you to retire first, or for both of you to retire at the same time? There is no one answer to this question. It depends on personal situations and preferences, such as whether you really want to keep working, the retirement lifestyle you want to have, your ages, and your financial situation. Here are some steps you can take to start your joint retirement planning:

- Respond individually to the questions in AARP's online Retirement Roadmap at www.aarp.org_finance, and then compare your answers. The answers can reveal how much you agree on issues such as how long you want to work, how much time to spend with family, and the types of retirement activities you want, such as hobbies, travel and lifelong learning.

- Review your annual Social Security Statements to estimate the amount of Social Security you'll receive at different retirement ages. For a more exact estimate, use the calculators on the agency's website, www.ssa.gov.
- Do some trial runs on AARP's online Retirement Planning Calculator at www.aarp.org_finance to figure out the financial steps you must take to be prepared for the retirement scenarios you're considering. Try using the calculator more than once, with different assumptions, such as both retiring at the same time, or one of you retiring before the other.

To use the AARP calculator, you'll have to organize some basic information such as your current income, how much you expect to earn in the future, and how much you can save for retirement by various target dates.

Investing

Your joint economic future will depend a lot on decisions you make about where and how to invest the money you're counting on for retirement. At a minimum, you'll probably have to make investment decisions for the money in retirement accounts.

Compare the options in both of your 401(k)s, IRAs or other retirement accounts, and your combined risk by putting the money into different types of investments. For example, both of you should not put all your money into only large-company funds, because you could end up investing in the same companies. If large-company stocks in general should slide, you could both lose a lot of money.

Tax Planning

If you are married, you may choose to file your taxes jointly or individually. The IRS advises that if you are married, you will probably qualify for more and higher deductions and pay the lowest combined tax by filing jointly. However, before filing, you should do your taxes both ways to make sure you've chosen the more economical option. If you are not legally married, even though you may live together and share income and expenses, you may not choose to file a joint tax return.

Also consider what type of retirement accounts each of you should have, and what portion of your savings should go into each type. Each type of retirement account has different rules that can make a big difference in your tax bill, both before and after retirement. For specifics to help you decide, see AARP's Tip Sheets on 401(k)s and IRAs.

Your To-Do List:

- ☐ If you're married, read Internal Revenue Service Publication 17, "Your Federal Income Tax," to figure out whether you should file jointly or individually. It's available on the Internet at www.irs.gov/pub/irs-pdf/p17.pdf, or in printed form by calling the IRS at 1-800-829-3676.
- ☐ For tips on investing, see AARP's Tip Sheets on Investing, Mutual Funds, and Stocks and Bonds.
- ☐ To keep your finances under control, use the forms on the financial section of the AARP web-site to create a budget and track your cash flow: www.aarp.org/money/financial_planning/sessionthree/your_cash_flow_picture.html.
- ☐ Two-earner families who need professional help to sort out their finances should contact the Certified Financial Planner Board of Standards for a list of questions to ask when interviewing professionals that you may hire. Call them at 1-888-237-6275 or go to the website, www.cfp.net/learn.
- ☐ Read "Your Money" by Sandra Block in *USA Today* at www.usatoday.com/money/perfi/columnist/block/2006-07-before-retiring.