

Love and marriage can change your finances

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Thomas J. O'Connell, Correspondent | August 10, 2016



Summer is upon us which means it's wedding season. To all who have recently tied the knot or are about to, congratulations. Other than your birth and the birth of your kids, getting married is one of the biggest events of your life. May it be a happy and blissful day for you.

What does this have to do with my financial column? Well, a lot actually. Once you are married the financial landscape changes. Deductions, credits, contributions all are now based on a new set of numbers. Some call it “The Marriage Penalty.”

As an example, with the help of my friends at Ed Slott & Co., here are six IRA rules to be aware of after you get married:

Spouse contributions — By getting married, you gain a new way to fund IRA contributions.

Generally, to make an IRA contribution as an individual, you must have earned income and a special rate applies to married couples. Now, a spouse's income counts towards funding an IRA contribution. If a married couple has enough income, each spouse may be able to fully fund an IRA for the year.

Roth IRA contributions — Unfortunately, after the wedding, some may no longer qualify to make Roth IRA Contributions. That's because the joint income level is a lower threshold than as a single. Here are the Roth IRA Contribution limits for 2016 for adjusted gross income: \$117,000 to \$132,000, single; \$184,000 to \$194,000, married. If filing married-separate, the phase-out range is \$0-\$10,000.

Deducting traditional IRA contributions — On a traditional IRA side, getting married may mean that you may no longer be able to deduct contributions. Here are the phase-out limits (AGI) for active participation company plans for 2016: \$61,000 to \$71,000, single; \$98,000 to \$118,000, married joint.

Penalty free distributions — Marriage has benefits when it comes to accessing IRA funds penalty free. While an IRA is intended for retirement, distributions can be taken at any time. In most cases, if an IRA owner is under 59 ½ those distributions will be taxable and subject to a 10 percent early distribution penalty. However, there are exceptions to the 10 percent penalty. Some of those exceptions take a spouse's need into consideration.

Penalty-free distributions are available to pay for deductible medical expenses. Those deductible medical expenses can include a spouse's medical expenses. You can also take a penalty-free distribution to pay for their spouse's higher education expenses.

Smaller Required Minimum Distribution (RMD) for some IRA owners — At 70 ½, it is time to start taking money out of an IRA or the government will not be happy with you. If you get married at this age (It happens), then the RMD amount may change. If the spouse is more than 10 years younger and the sole primary beneficiary of the IRA, there is a special rule that could make the RMD smaller. This can be an advantage for those who do not need the money and want to avoid taxable income.

Spouse beneficiary options — This is where we see the biggest and most common mistakes, so please listen carefully. If you want the new spouse to be the IRA beneficiary, then the IRA beneficiary forms must be changed and sent to the IRA custodian. Your IRA beneficiary will be whoever is named on the beneficiary form; it is NOT automatically your spouse.

Your IRA does NOT pass through your will. Your IRA beneficiary does NOT change unless one of these three things happens: YOU change the names on the beneficiary forms, the beneficiary dies or the IRA custodian loses your beneficiary form. If you do not have a beneficiary form on file, then the default language in the IRA agreement determines the beneficiary. It frequently is your estate and that is typically bad news for your retirement account. Your spouse as a beneficiary will have options not available to non-spouse beneficiaries that could prolong and enhance those IRAs for many years to come.

It only makes sense that marriage can have a significant effect on your IRA, as well as other retirement accounts. It is important to understand what and how these differences affect you. Congratulations on your nuptials. May it last 100 years!

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