Retirement planning for dual-income families

Have you considered how to make the most of two incomes in your retirement planning? Review these 3 income scenarios and the strategies for each.

Do you and your partner both have careers? Do you run a business together? Is one person working full time and the other part time? Accounting for how your family makes money — who is working and how much — can help you to plan your retirement and build your family's savings.

The most important step you can take is discussing your future together. After that, it's all in your income details and how you tailor your mix of retirement accounts to your particular situation.

Here are three different scenarios and planning options for each.

1. The two-salary family

Scenario

Both you and your partner are full-time, salaried employees with access to employer-sponsored retirement plans. For this type of family income, considering your age is essential.

2. The self-employed family

Scenario

You, your partner, or both of you run a business.

3. The one full-time and one part-time salary family

Scenario

One partner earns a salary, and the other works part time.

Strategies

The two-salary family

Save and invest according to your age

- When you have more income, you have a greater chance of benefiting from equity growth over your working life.
  - When you're young, consider keeping your retirement accounts allocated to higher-risk investments, like growth stocks.
  - As you get closer to retirement, consider reallocating your retirement savings to lower-risk investments, like bonds.
- Consider contributing the yearly maximum to your 401k/403b/457 — the current limit is $19,000, if you're under age 50. If you're over age 50, you can add an extra $6,000.

Don't overspend

- Consider living off one salary and saving the other, if you can.

Plan to defer Social Security payments

- Don't claim your Social Security benefits until age 70, if you can get by on your savings and/or distributions from your retirement accounts.
- If you claim at your full retirement age, which varies based on the year you were born, you receive 100% of your benefits. However, if you wait and claim at age 70, you could receive 132%.[1]

The self-employed family

Consider your self-employed retirement account options

- **A self-employed or solo 401(k)** works well if you don't have employees for your business, as you can make tax-deductible contributions.
- Look at your options for **IRAs:**[2]
  - A **traditional or Roth IRA** will allow you to save $6,000 for 2019 toward retirement ($7,000 if you are age 50 or older). Contributions to Roth IRAs are post-tax, while traditional IRAs are pre-tax, so a tax specialist can help you decide what works best depending on your self-employed business income.
  - A **self-employed or SEP IRA** allows you to contribute up to $56,000 for 2019 or 25% of your income, whichever is less, toward retirement. Only income up to $280,000 for 2019 is taken into account for determining SEP contributions.

Keep saving

- Without automatic paycheck deductions, it can be easy to let contributions slip. Consider setting up automatic transfers into your retirement accounts to stay on track.

The one full-time and one part-time salary family

Take fewer investment risks

- Especially if the full-time salary earner in the relationship is contributing the majority of the couple's retirement savings, lower-risk investments may help safeguard against market volatility.

Consider (and possibly avoid) required minimum distributions (RMDs)

- Unlike traditional IRAs, **Roth IRAs** have no RMDs (some other retirement acounts have RMDs at age 70½). Any funds in these accounts could potentially stay put even after you retire, increasing the time horizon for them to give your family's savings a few extra years to grow.[3]

Keep your family's finances safe in an emergency

- Make sure the partner who is working part time is the beneficiary on any retirement accounts that the full-time salary earner is paying into.
- If the partner who works part time makes so little that the partner with a salary is close to the sole bread winner, consider disability or term life insurance to help if the partner with a salary can't continue working.

[1] "Benefits Planner: Retirement," Social Security Administration, retrieved November 2018.
[2] "Retirement Plan Options for the Self-Employed," NerdWallet, April 2018.
[3] "5 Top Benefits of a Roth IRA," NerdWallet, October 2017.

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