# Money Tips for Gay Couples

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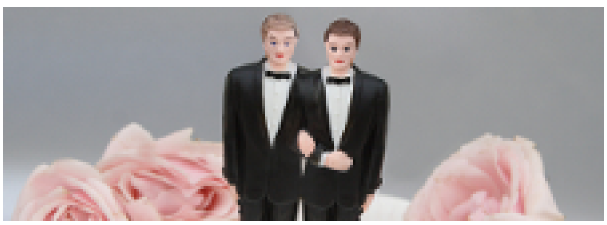
Corey Marshall-Steele, 40, enjoys generous benefits as special assistant to the governor of Delaware. But it would be better if his partner, Douglas, were named Spot or Fluffy.



"The state actually offers a medical insurance program for employees' pets," says Douglas Marshall-Steele, 55, who is retired. "But it doesn't extend benefits to partners. If I were a dog or cat, I'd be eligible."

Douglas and Corey's problem is a typical financial challenge many same-sex couples encounter. Since only five states — Massachusetts, Connecticut, Vermont, Iowa and now New Hampshire — as well as the District of Columbia allow gay marriage, same-sex couples around the country are often denied benefits afforded heterosexual couples. And even in those five states and D.C., same-sex couples lose out on Social Security benefits because federal law doesn't recognize same-sex marriage.

So gay couples need to take some critical steps to manage their finances wisely. Three big areas matter most: retirement planning, estate planning and tax planning. Here are the best strategies to handle them well:

## Retirement Planning

The goal of amassing a sizable nest egg is especially challenging for gay couples, since Social Security doesn't provide them with survivor benefits that heterosexual couples receive. Many corporate and municipal pension programs don't recognize same-sex partners as legal beneficiaries either. That can spell financial hardship in retirement when a high-income partner dies.

Tax treatment for Individual Retirement Account (IRA) beneficiaries is another land mine. A surviving spouse in a heterosexual marriage can roll over the deceased's IRA and delay taking withdrawals until they're needed or required by law. But same-sex surviving partners typically must begin mandatory withdrawals sooner than heterosexual widows or widowers would Exactly how soon depends on the type of account, saysBoston financial planner Stuart Armstrong: There is one set of rules for 401(k)s and traditional IRAs, and another for Roths. Another factor is whether the death occurred before or after distributions had begun.

Either way, the demand for faster withdrawals means that gay survivors often owe higher taxes on the payouts than heterosexuals do, and face reduced retirement assets. You'll want to have a conversation with your financial adviser about the rules for withdrawals for your IRAs and 401(k) plans.

**What to Do:** Save like mad for retirement. "Many same-sex couples have to save more than heterosexual couples," says Carol Arnott, a Delaware financial planner. If you're eligible for an IRA, grab it. If your company has a 401(k), invest as much as you can — certainly enough to get the employer's match. To find out whether you're on track in your retirement saving, use the T. Rowe Price Retirement Income Calculator, which rated best in a MoneyWatch analysis.

Also, be sure you both have enough life insurance and the right type of insurance. This is especially important if you depend on your partner's higher income to help cover expenses. To determine the amount of coverage you may need, check out the Life and Health Insurance Foundation for Education's Life Insurance Needs calculator.

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## Estate Planning

When it comes to estate planning, state laws rule, but the legal system generally "does not recognize unmarried rights the way it does for married partners," says Sharon Bloodworth, a Minneapolis financial planner. For instance, when you die with no will — even if you have a partner — some state laws say your assets will be passed on to your family.

Douglas Marshall-Steele has heard heart-breaking tales from his gay friends. "One partner died, and his family came into the house and started rifling through his dresser drawers," he says. "They said they could sell his underwear for 25 cents apiece at a garage sale. His partner was agog."

**What to Do:** Comprehensive wills for both partners are essential. Same-sex couples should also consider setting up a trust, which supersedes a will, if they have either children, a net worth exceeding $250,000, or dicey relationships with their family — or any combination of those.

Partners also need to be as specific as possible identifying beneficiaries. It's important to include words such as: "I recognize that I have blood relatives, but I choose to leave my assets to my partner."

Expect to pay $1,500 to $4,500 for legal services, depending on where you live and complexity of the issues. Nolo.com offers basic legal software at a fraction of the cost.

You'll also want to be prepared in case one partner is hospitalized or incapacitated and the other needs to make life-or-death decisions. Since state law can defer to blood relatives, gay couples should draft health care proxies as well as durable power of attorney forms, especially in states where a family member's wishes can supersede a partner's. Check with your estate lawyer or state attorney general's office for details.

One last helpful document is a prenuptial agreement. According to Armstrong, this "should pretty much spell out everything involved in a relationship," from home ownership to savings accounts. An experienced matrimonial attorney will help walk you through this.

## Tax Planning

Since same-sex couples are not considered to be legally married in the eyes of federal tax laws, partners file 1040s individually. This means that they may lose out on deductions and exemptions that married heterosexual couples can claim by filing jointly.

**What to Do:** Gay couples with children can boost their tax savings by filing returns cleverly. If both partners are legal parents (biological or adoptive), either may claim the child as a dependent. The one with the higher income should, since the $3,650 exemption will be worth more. A dependent child may also let one of the parents claim head-of-household status, which is generally more advantageous than filing as a single person. For a same-sex couple with two children, each partner may be able to claim head-of-household status by claiming one of the kids as a dependent.

Another thing same-sex couples should do is handle their tax planning as a couple, even though they can't file as a couple. Putting your home in the name of the larger wage earner can help your overall tax burden, for instance, by getting the mortgage interest write-off to the person who can use it most. Just remember that these tax strategies can have unintended consequences: If you two break up one day, the home will belong to the person whose name is on the deed.

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