How to Close a Retirement Age Gap with Investing

A May-December relationship can add a twist in retirement planning.

Retirement's Age Gap with Investing

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LOVE IS BLIND, BUT AN age difference can be a real eye-opener for couples as they prepare for retirement.

When 10 years or more separate spouses or partners, that can throw a wrinkle or two into their investment plans.

“Couples with this age gap need a delicate balance,” says Keith W. Ellis Jr., co-founder of Massachusetts-based SHP Financial. He says an age gap can help couples in some ways.

“Typically, the younger spouse will continue to work, at least part time” generating an income stream, he says. That could also allow the older spouse to delay taking Social Security benefits, which may result in a higher benefit amount later.

But “the age gap can be negative if the older spouse retires and the younger spouse starts thinking the say way,” Ellis says. “This can lead to more strain on retirement assets and the potential to draw down these assets quickly.”

Finding the balance can be tricky. But here are five tips to close the age gap when it comes to retirement planning:

- Forget the status quo.
- Put risk in perspective.
- Be prepared to fill a savings gap.
- Plan strategically for health care coverage.
- Get mentally prepared.

Forget the Status Quo

Alex Sutherland, president and investment advisor at Lifeplan Group in Raleigh, North Carolina, says one mistake age-difference couples make is approaching retirement planning like everyone else.

“They invest the same way and follow the same rules of thumb,” Sutherland says. “The reality is each spouse needs a customized plan.” He says these individual plans should accommodate both partners’ risk tolerance, time horizon and income needs when they retire.

Couples may also need to consider special situations resulting from an age gap.

“Sometimes one spouse will have a higher income and the ability to save more,” says Tiffany Welka, vice president of VFG Associates in Livonia, Michigan. “Sometimes one spouse may have been married previously with children and their retirement account may be smaller than they expected it to be.”

Welka says age-gap couples should work toward their retirement goals together while keeping individual differences in mind.

Put Risk in Perspective

The main goal in retirement planning when there’s an age gap should be reducing the likelihood that the younger partner will outlive a joint-nest egg, says Taylor Hammons, head of retirement plans at Kestra Financial. “Ensuring the younger partner will have sufficient income to last the duration of their life is one of the most crucial aspects of planning for these couples.”

That means taking appropriate risk with investments. Hammons says it’s a mistake for couples to base their entire portfolio on the older partner, since that could cause the younger spouse to miss out on additional growth and earnings.

“Age-gap couples should look at investing a higher percentage of their portfolio in stocks than a same-age couple would,” Hammons says. “This may help them capture enough growth to support both of their retirement time horizons.”

Estimating retirement expenses can aid in determining how much growth is necessary to hit each spouse’s income target. Leslie Thompson, managing principal at Spectrum Management Group, says couples should plan for day-to-day spending as well as irregular costs, such as unexpected home repairs or increased out-of-pocket medical expenses.

Additionally, “planning for the impact of inflation on these items is imperative,” Thompson says. She says age-difference couples can benefit from establishing individual portfolios with asset allocations that support short-term liquidity and safety needs as well as future growth.

Running the numbers through a retirement calculator for married couples is helpful in determining whether estimated income needs are realistic. A retirement calculator for couples retiring at different times can also help in guiding decisions about each spouse's risk capacity, or the amount of risk necessary to achieve an investment goal.

Be Prepared to Fill a Savings Gap

It's not unusual for a savings gap to exist alongside an age gap in couples' retirement plans. The older spouse may have accumulated more assets simply by virtue of having spent more time in the workforce.

Michael Gerstman, financial advisor at Gerstman Financial Group in Dallas, says that when working with age-gap couples who also have a savings gap, he asks the couple two questions: How does the couple handle their money as a unit? Is the money commingled or separate?

"If it's commingled, the party with the greater account balance may be inclined to help their partner build up the account," Gerstman says. But "if monies are not commingled, they have to come to an agreement about what the difference in retirement will look like for each of them."

Having more life insurance on the older spouse could help cover a savings and longevity difference, says Annette Hammortree, owner of Hammortree Financial Services. "This would allow the younger spouse to spend assets at a higher rate while the older spouse is living, knowing the bucket will be refilled upon their death," she says.

This is part of what Sutherland calls a survivor's plan. Age-gap couples by necessity must create a plan that works for them both while they're living. "But there might be a lot more emphasis on making sure the surviving spouse is financially stable," he says.

Plan Strategically for Health Care Coverage

Health care expenses can eat a huge hole in any couples' retirement plan. According to Fidelity, the typical 65-year-old couple retiring today can expect to spend approximately $280,000 on health care, not including long-term care. Age-difference couples need to consider their timing for retirement as it relates to Medicare eligibility and health insurance coverage for the younger spouse.

“If the younger spouse is still working and covered with health insurance, that could become the supplemental policy for the older spouse who is on Medicare,” says Eric Peterson, founder of Peterson Financial Group.

On the other hand, if the younger spouse is planning to retire at the same time as or close to when the older spouse does, there may be a sizable gap before being eligible for Medicare.

Hammortree says age-difference couples can plan around this by setting aside a separate bucket to pay for health care for the younger spouse, if they have enough assets to do so. If not, she says the younger spouse may need to consider working at least part time in a job that offers health insurance.

Buying long-term care insurance can add another level of financial security to couples’ retirement plan, particularly for the younger spouse.

“Statistically, we know one spouse will likely need care of some sort, we just don’t know when and how much,” Hammortree says. In the case of couples with an age gap, Hammortree says hybrid products that combine long-term care coverage with life insurance may be preferable. A surviving spouse could also use the proceeds from the life insurance component to supplement retirement savings.

Get Mentally Prepared

Financial planning is critical for age-gap couples in preparing for retirement, but there’s also a mental component.

“We see that retirement has three phases: the go-go years, slow-go years and no-go years,” Peterson says. “When there’s an age difference, you don’t want to have one spouse in slow-go when the other is in go-go.”

Peterson says age-gap couples should discuss their lifestyle goals for retirement as well as their financial goals. “Talk it through and make a plan,” he says.