POST-WINDSOR:
RETIREMENT PLANNING FOR SAME-SEX COUPLES

NOVEMBER 2013

About the Insured Retirement Institute:

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 20 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/ distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement.

IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and advocate before public policymakers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees.

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OVERVIEW

The U.S. Supreme Court decision in the case *United States v. Windsor* earlier this year ruled that Section 3 of the Defense of Marriage Act (DOMA), which prohibited the federal government from recognizing same-sex marriages, was unconstitutional. As a result, same-sex marriages recognized under state law also must be recognized for federal law purposes. The ruling, combined with guidance issued by the Internal Revenue Service (IRS) and the Department of Labor's Employee Benefits Security Administration (see the Research Supplement at the end of the report), paves the way for massive changes to employee benefits, as well as tax, estate and retirement planning for same-sex couples.

These changes will lead many same-sex couples to revisit their retirement and estate planning decisions. With many questions abound, financial advisors will have new opportunities to serve many in the lesbian/gay/bisexual/transgender (LGBT) community by helping them navigate this new terrain and appropriately adjust their financial plans. To help advisors better understand this market, the Insured Retirement Institute (IRI) commenced a research initiative to explore the retirement needs of same-sex couples. The study surveyed same-sex couples that reside in states (and the District of Columbia) that allow same-sex marriage, gauging their views on the Supreme Court's decision as well as to gather information on their retirement and financial planning behaviors and attitudes. These states and the District of Columbia comprise about one-third of the United States population, according to the American Foundation for Equal Rights. Same-sex couples for the purposes of this study include couples that are legally married, not married/living together, and civil partnerships.

Exclusive research results from IRI show that since the striking down of Section 3 of DOMA, nearly half of unmarried same-sex couples are planning to change their relationship status to married, and six out of 10 couples currently in civil partnerships are planning to marry. More than half believe that many areas of their finances will be affected, namely tax, estate, and retirement planning as well as insurance coverage. Consequently, at least 40% of married same-sex couples replied that they have been motivated to financially plan in light of the Supreme Court's decision.

KEY FINDINGS

- Almost all of the respondents (95%) viewed the Supreme Court decision as very favorable. Nearly half (46%) of the unmarried respondents plan to marry as a result of the Supreme Court's decision, and at least 40% of married same-sex couples replied that they have been motivated to financially plan in light of the Supreme Court's decision.

- Since the DOMA ruling, 53% of respondents have either been added/plan to be added by their spouse or have added/plan to add their spouse as a beneficiary to their defined benefit plan; 38% have made or plan to make changes to a will; 23% have added or were added to their spouse's health plan; and 18% have filed amended taxes on prior year tax filings.

- Nearly two-thirds of the respondents do not have a financial planner. However, of those that do have a financial planner, they cultivate a lasting relationship them. In fact, 61% have worked with the same planner for five years or longer. Of these couples that are working with a financial professional, three-quarters have consulted their advisor for retirement planning.

- Nine out of 10 respondents (87%) have money saved for retirement. Forty percent have saved $250,000 or more, but this is largely skewed towards those aged 55 and over. Furthermore, the majority (78%) have added to their retirement savings in the past year. However, 40% have not calculated the amount needed to live comfortably in retirement, and 24% do not know when they will retire.

- Most respondents (83%) say that the tax deferral is an important characteristic of a retirement investment. The two most important investment traits are "rate of return" and "past performance" of the investment.

- About half (48%) of respondents indicated that they believe they will have the same or less financial security in retirement than their parents. This is driven by those under age 55 (53%).

- Seven out of 10 respondents are not fully confident that they will have enough money to live comfortably in retirement.

- Most respondents (86%) admit they require help in at least one financial area. Retirement planning is the number one financial area where help is needed, according to half (49%) of same-sex couple respondents. Other areas where help is needed are investing, tax planning, estate planning and general financial management.

- Regarding how the financial services industry can best serve this community, survey respondents most commonly agreed by "treating them like a heterosexual couple" and "to understand that we are like everyone else."

SAME-SEX COUPLE MARKET PROFILE

The same-sex couple profile shows a highly educated, highly employed, high income, older, financially aware community. Four out of 10 have acquired a post-graduate degree, nearly four times higher than the 11% for the general public. An additional 36% have acquired a college graduate degree or are currently in post-graduate study. Only 4% are considered unemployed under federal definitions. One in seven are retired and not working; 6% are either disabled, a student or not in the labor force for another reason. Income correlates closely with higher education degrees. Nearly 40% earn incomes of $125,000 or more. The median household income is $106,700, higher than the most current (2012) U.S. median household income for workers with a four-year college degree and higher, which is $86,419. The median age of respondents is 51, meaning that one half of the surveyed population was born in 1962 or earlier. This puts the median survey respondent at the younger end of the Baby Boomer cohort.

SAVINGS HABITS AND RETIREMENT SAVINGS

SAVINGS

Nearly nine out of 10 respondents (87%) have money saved for retirement. Regarding their level of savings, 40% of respondents have saved $250,000 or more for retirement. Significant differences in the amount saved for retirement are found by age and relationship status. Respondents that are older and/or married have higher amounts of retirement savings with 65% of respondents aged 55 and over having at least $250,000. Only 39% of those aged 45 to 54 have saved this much and even fewer (9%) aged 18 to 44 have saved this much. Fifty-six percent of married couples have saved $250,000 or more. By contrast, four out of 10 (42%) couples in civil partnerships have saved this amount, and only 31% of couples not married/living together have saved this much. The table below shows the median amount saved for retirement by the different groups.

Median Amount in Retirement Savings

Overall	$183,700
Males	$205,900
Females	$147,200
18 to 44	$55,600
45 to 54	$190,200
55 and over	over $250,000**
Married	over $250,000**
Not Married/living together	$134,300
Civil Partnership	$217,800

***Median is in top range that has no cap; therefore median cannot be estimated for these two groups.*

Adding to retirement savings is an important step toward attaining financial security in retirement. Eight out of 10 added money in the past 12 months. Because some aged 55 and over have already retired (15%) and thus are in drawdown, only 71% have added money to their retirement savings. Because they are in the accumulation stage, the younger age groups show higher percentages adding to their savings. For example, 84% of those aged 45 to 54 and 83% of those aged 18 to 44 have added money to their retirement savings.

ENGAGEMENT WITH RETIREMENT PLANS

Portfolio rebalancing is a common indicator of being engaged with a retirement plan. It also is important for maintaining the desired asset allocation and risk profile of the retirement savings plan. This group adheres to this advice with varying degrees of success with 6% stating that they never rebalance, 31% rarely rebalances, 20% does so once every few years, and 43% say they rebalance their savings annually. This means that nearly 60% do not rebalance annually. Males tend to rebalance on an annual basis slightly more than females, but still 53% of males and 63% of females do not rebalance annually.

The older groups rebalance annually to a greater degree than the younger ages. Nearly half (49%) of those aged 55 and over still do not rebalance annually compared to 66% of the 18 to 44 age cohort. Of this younger group, 12% never rebalances. As retirement nears for the individuals in the younger age groups, it is likely that they will become more engaged with their retirement plan and begin to adopt more positive financial habits.

RETIREMENT SAVINGS CALCULATION

Determining the amount needed to live comfortably in retirement helps an individual create a plan and employ appropriate financial behaviors to reach one's goals. The sooner this process starts, the more likely the investor will achieve their desired savings amount. Four out of 10 respondents have not tried to determine how much money they will need to have saved to live comfortably in retirement. By gender, a significant difference occurs as fewer females (34%) have not made this calculation versus 44% of males. Responses also vary by age as more than one-quarter of those aged 55 and over have not calculated a savings goal compared to nearly 50% of those aged 54 and younger.

INHERITANCE

Leaving an inheritance to loved ones is not an important retirement planning goal, according to 55% of respondents. However, responses varied by age. The lack of importance was highest for those aged 45 to 54 (64%), followed by those aged 55 and over (56%). Conversely, more than half of the 18 to 44 age group (54%) believe it is very or somewhat important to leave an inheritance to loved ones.

RETIREMENT AGE

Overall 24% of same-sex couples do not know when they will retire. Of those closest to retirement age, those aged 55 and over, 15% do not know at what age they will stop working, which is lower than IRI's research findings on Baby Boomer retirement expectations (26%). For same-sex couples, respondents aged 55 and over are uncertain about when they will retire because they plan to work at least part time (56%), and they are not sure if they will have enough money saved to retire (39%). Of those aged 55 and over that do have an idea of when they will stop working, 10% stated at age 65, the traditional age for retirement. Thirty percent of respondents stated that they plan to retire at age 70 or later.

[ENGAGEMENT WITH FINANCIAL INDUSTRY]

Most (52%) of those surveyed aged 55 and over do not have a financial planner. This compares closely with IRI's research findings on Baby Boomer retirement expectations that show 56% of the Boomer population also does not use a financial planner. In fact, many of their financial behaviors reflect financial behaviors found among broader populations. The younger the person, the less likely it is that they will use a financial planner and same-sex couples are no different. Of those same-sex couples aged 18 to 44, 80% do not use a financial planner. With those aged 45 to 54, 65% do not use a financial planner. Overall, 65% do not use a financial planner, but those who do consult a financial planner tend to have higher retirement savings. Eighty percent of respondents who work with a financial planner indicated that they have $100,000 or more saved for retirement. Of those not using a financial planner, only 43% reported saving $100,000 or more for retirement.

The top reasons why a same-sex couple does not use a financial planner is because they say there is "no need" for one, according to 21% of respondents. The next most stated reason is that the respondent does his/her own financial planning (19%), and the third reason is that they do not have enough assets/finances (12%).

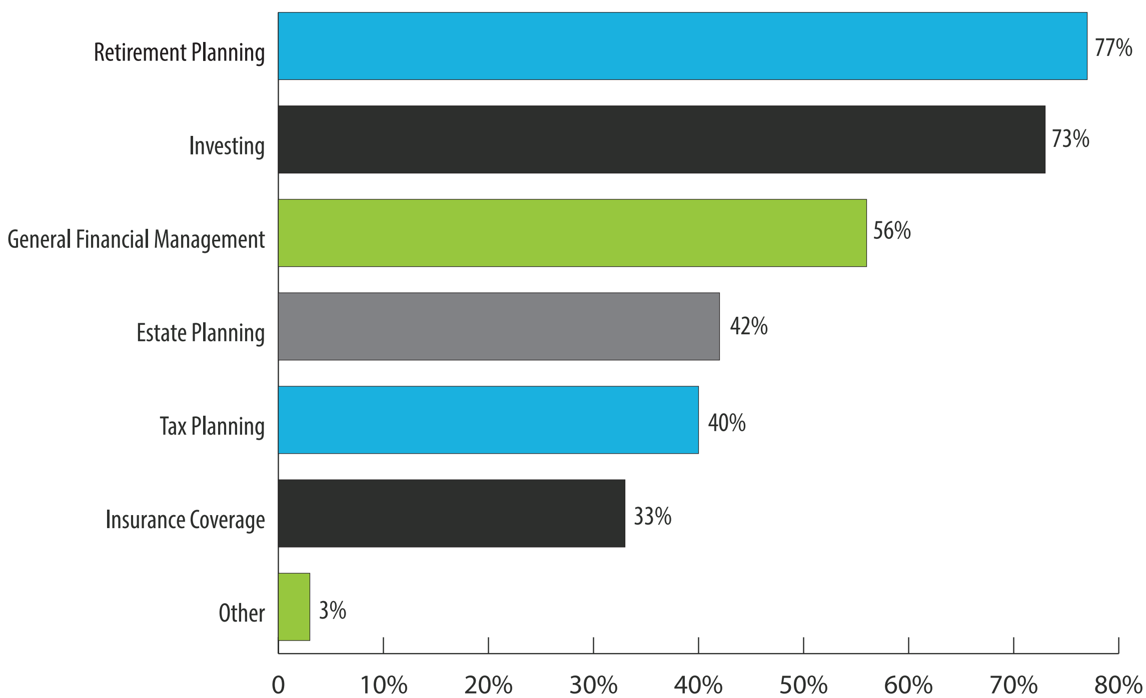
However, for those that do have a financial planner, they develop a lasting relationship with them. The majority, 60%, have worked with the same planner for five or more years, and they consult them for many major financial issues. Having a lasting relationship provides the planner with a better understanding of the client's needs and life situations. This allows them to better serve the client through life changes, such as, adoption, marriage and purchasing a house.

Of same-sex couples working with a financial planner, more than three-quarters have consulted with their advisor on retirement planning. Those working with a financial planner on retirement are four times more likely to be extremely confident about their financial preparations for retirement compared to those that have not worked with a financial planner on a retirement plan.

Of those respondents working with a financial professional, 73% have consulted with their advisor on investing. More than half of the respondents use their planner for direction on general financial management areas. Only 42% of respondents have worked with an advisor on estate planning, and only 40% have worked with one for tax planning.

AREAS OF CONSULTATION WITH A FINANCIAL PLANNER

(AS A PERCENTAGE OF RESPONDENTS)

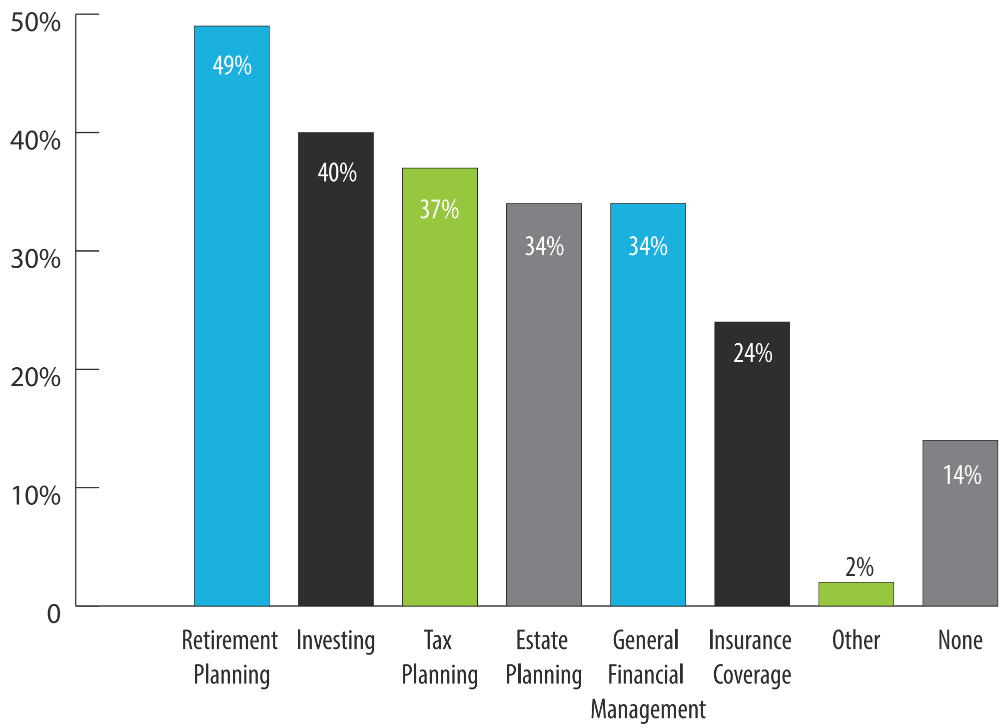


Going forward, most respondents (86%) admit to requiring help in at least one financial area. As nearly two-thirds (65%) currently do not use a financial planner, this suggests that at some point in their life, respondents may realize that they could benefit by consulting with a financial planner. The financial area with the highest need of help is retirement planning, according to one-half (49%) of respondents. Those aged 18 to 44 (54%) and those aged 45 to 54 (60%) expressed a significant need for retirement help, considerably more than those aged 55 and over (38%).

When it comes to investing, 40% of respondents require help. The need was highest among those aged 18 to 44, in which six in 10 need help compared to only one in four aged 55 and over. Overall, only 14% believe they do not require help from a financial professional.

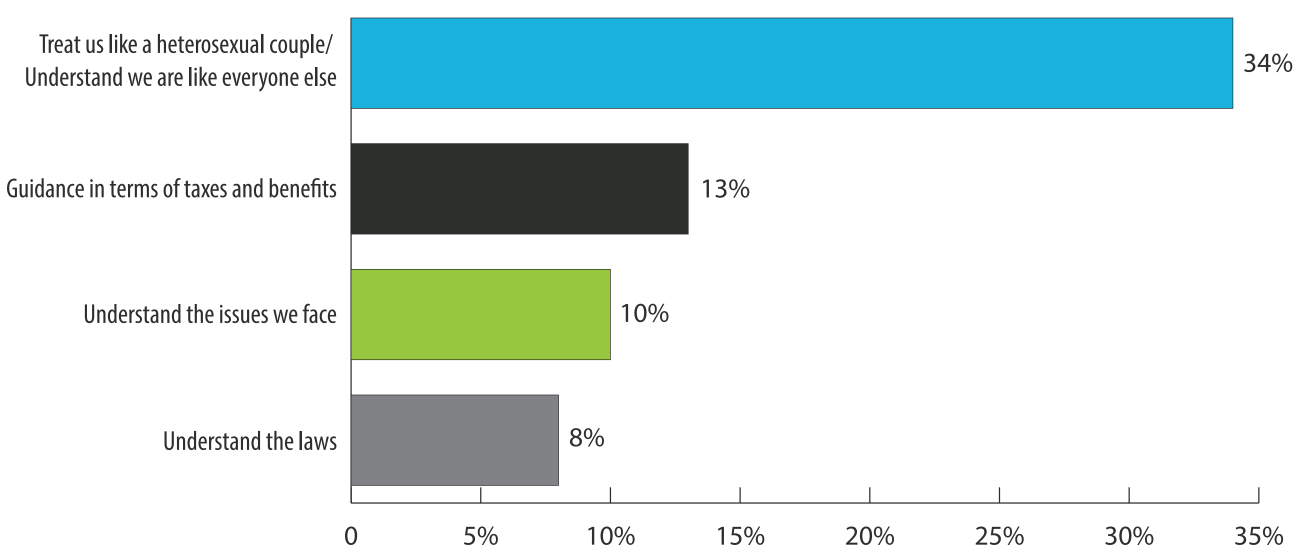
The following chart shows all of the areas that respondents identified as needing help.

AREAS REQUIRING MOST HELP
(AS A PERCENTAGE OF RESPONDENTS)



Respondents were asked: How can the financial services industry best serve same-sex married couples? The resounding reply to this open-ended question, by 34% of respondents, was "treat us like a heterosexual couple/understand we are like everyone else." The table below shows the top four responses to this inquiry.

HOW FINANCIAL SERVICES INDUSTRY CAN BEST SERVE SAME-SEX COUPLES
(AS A PERCENTAGE OF RESPONDENTS)

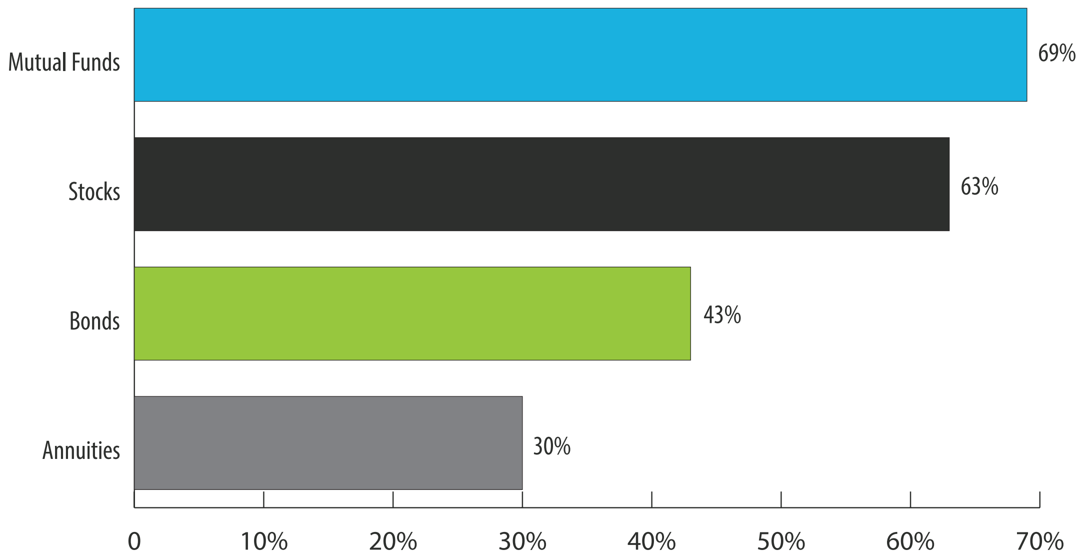


FINANCIAL PRODUCTS

The top three investments currently owned by same-sex couples are mutual funds, stocks and bonds. While the ordering of ownership is the same, the percentage owning each type of investment product varies significantly by age group. Three-quarters of respondents aged 45 and over own mutual funds versus 55% under age 45. More than two-thirds aged 45 and over own stocks versus 52% of those under age 45. Bond ownership shows more variance with age, whereby 51% of those aged 55 and over owns bonds versus 42% of those aged 45 to 54 and 34% of those aged 18 to 44. Similarly, annuity ownership tends to increase with age, and the same goes for annuity ownership among same-sex couples. While only 15% of those aged 18 to 44 owned an annuity, ownership increased to 31% among those aged 45 to 54 and to 43% among those 55 and over.

TOP FOUR INVESTMENTS CURRENTLY OWNED

(AS A PERCENTAGE OF RESPONDENTS)

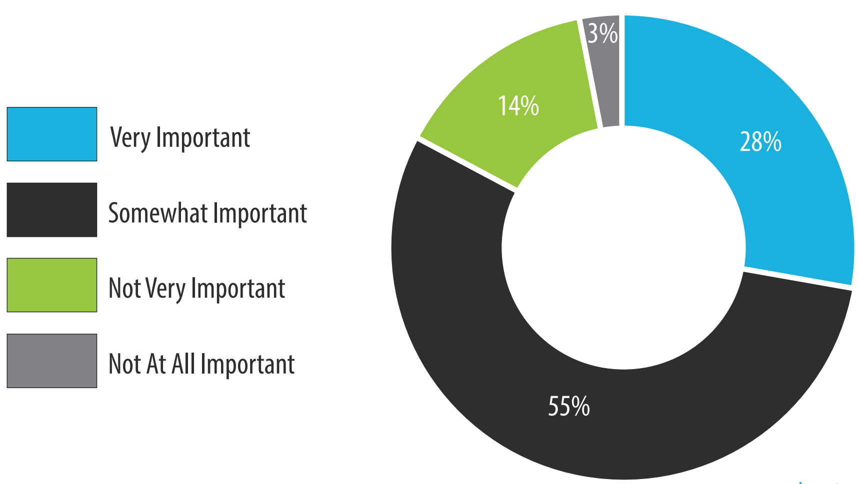


When asked about how knowledgeable the respondent is in making financial investments in securities, four out of 10 claim to be not very or not at all knowledgeable. Another 46% are only somewhat knowledgeable.

Tax deferral is important to 83% of respondents when considering retirement strategies. Across all subgroups, gender, age and relationship status, the importance of tax deferral remains high. This is particularly true for the 45 to 54 age group, in which nine in 10 placed a high importance on tax deferral.

IMPORTANCE OF TAX DEFERRED RETIREMENT INVESTMENTS

(AS A PERCENTAGE OF RESPONDENTS)

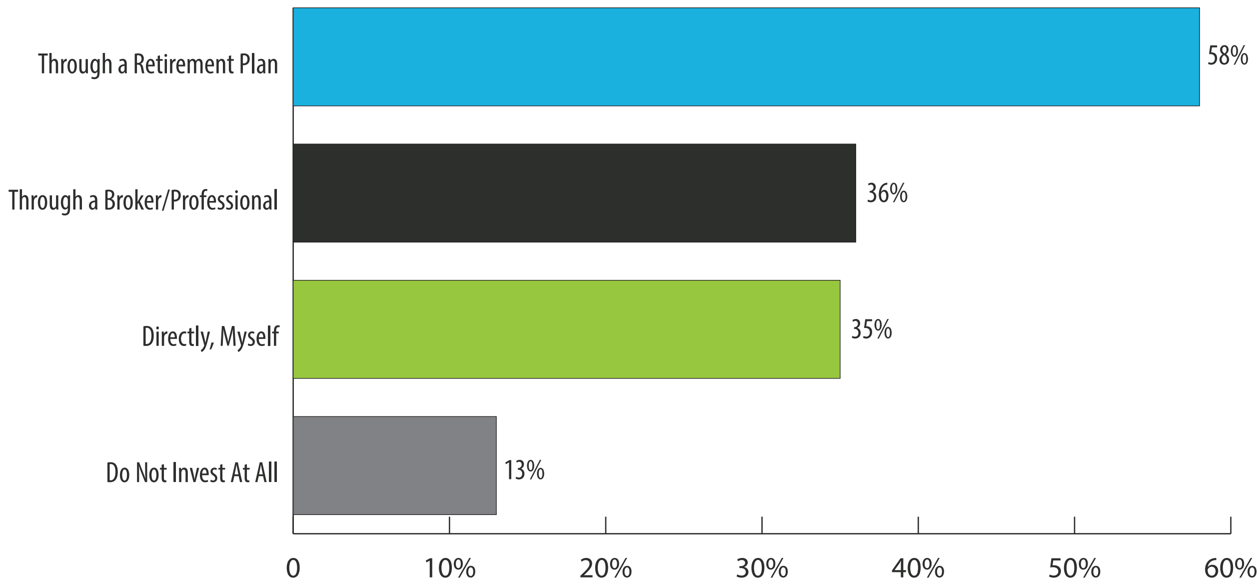


When selecting a retirement investment product, rate of return (26%) is the most important trait followed by performance of the investment (22%).

The majority of respondents, six out of 10, invest for retirement through a retirement plan. One out of three either invest through a broker/professional or on their own. About one out of eight do not invest at all.

WAYS PEOPLE INVEST

(AS A PERCENTAGE OF RESPONDENTS)



[SOURCES OF INCOME]

The only stated major source of retirement income is the 401(k) plan, according to 50% of respondents. No other sources of retirement income were stated as a major source by the majority of respondents. This means that much of the retirement income for same-sex couples will be from several sources that they declared to be minor sources.

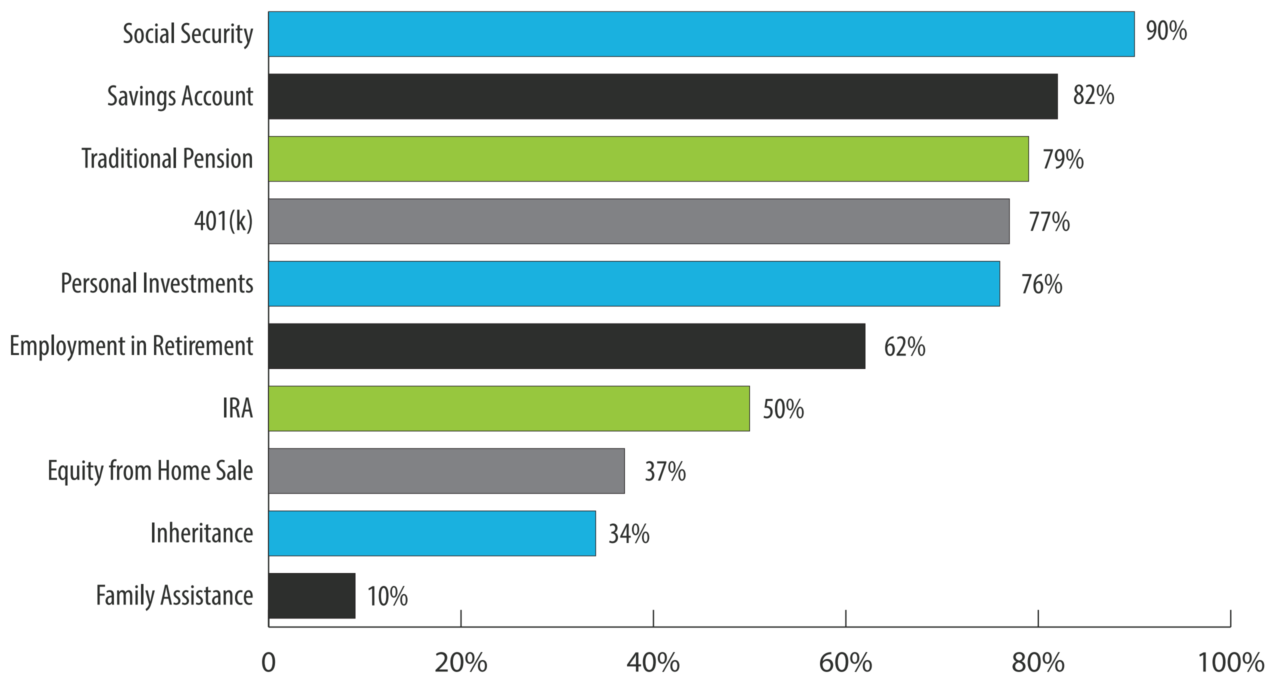
Social Security will be a minor source of retirement income according to 59% of respondents as will personal savings accounts (58%). Half of respondents expect employment in retirement to provide a minor source of income, and 50% will rely on a traditional pension.

This indicates that the majority of this community practices diversification in sources of retirement income. With such a high percentage working, they apparently took advantage of their 401(k) plans and the associated tax-deferral inherent in these plans. They saved in personal savings accounts, will receive Social Security, and many will continue working.

Nearly universal across all age groups, respondents state that relying on the support from their children or other family members, an inheritance, and the sale or refinancing a home are not expected to be sources of retirement income.

In the following chart, the percentage of respondents stating that these sources of retirement income will be major or minor sources, are shown. The majority expect to rely on Social Security as a major or a minor source (90%), followed by savings accounts (82%) and traditional pension (79%).

MAJOR AND MINOR SOURCES OF INCOME IN RETIREMENT
(AS A PERCENTAGE OF RESPONDENTS)



CONFIDENCE MEETING CERTAIN EVENTS IN RETIREMENT

When it comes to having enough money to live comfortably throughout their retirement years, 70% of respondents are not fully confident that they will be able to achieve this goal. Those aged 45 to 54 and those not married/living together are even less confident. Of those aged 45 to 54, 72% are not fully confident in living comfortably in retirement, and 75% of those not married/living together are not fully confident in having enough money to live comfortably in retirement.

Even fewer respondents have confidence in their ability to prepare financially for retirement with more than seven out of 10 respondents saying they are not fully confident. More than three-quarters (76%) of respondents aged 45 to 54 are not fully confident that they did a good job of preparing financially for their retirement. Again, using a financial planner helps gain confidence.

CONCLUSION

The opportunity to serve a rapidly changing market exists for financial professionals with the same-sex couple community as four out of 10 have over $250,000 saved for retirement and that nearly nine out of 10 (87%) say they invest. About two-thirds do not have a financial planner, but those that do work with them for a long time. This community is highly educated and expects to be treated accordingly. Yet, a significant portion of the community lacks confidence in having enough money to live comfortably in retirement and in their ability to prepare financially for retirement. Moreover, most admit to requiring assistance with at least one area of financial planning.

The Supreme Court decision in *United States v. Windsor* and ensuing guidance from the Internal Revenue Service and the Department of Labor's Employee Benefits Security Administration have paved the way for many changes to employee benefits, tax and estate planning, as well as retirement planning. These changes will lead many same-sex couples to revisit financial decisions. IRI's research shows that nearly half of unmarried same-sex couples are planning to marry as a result. With these changes comes the opportunity to provide retirement education and financial assistance to this community as they navigate this new terrain.

METHODOLOGY

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc. to conduct a survey of same-sex couples residing* in the 13 states plus the District of Columbia that allow for legal same-sex marriages to determine their reactions to the Supreme Court striking down the Defense of Marriage Act (DOMA) in June 2013 and to gather information on their retirement and financial actions, attitudes and habits. The research was conducted by means of email/internet which collected information from 504 adults that identify with being gay or lesbian. Marital status was self-determined by the respondent.** Respondents who are single were not included in this research. No weighting of the survey population could take place because no U.S. metrics exist. Data was collected from September 19 to 24, 2013. The margin of error for the sample of 504 is + /– 4.4%.

The areas covered in this survey are the District of Columbia and the following 13 states allowing same-sex marriage: California, Connecticut, Delaware, Iowa, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New York, Rhode Island, Vermont and Washington. Respondents were not chosen according to the state of celebration. New Jersey's law, allowing for same-sex marriages went into effect on October 21, 2013, and Hawaii's will go into effect on December 2, 2013. Because both laws went into effect after the completion of data gathering for this study, same-sex couples from New Jersey and Hawaii were not included in this research. Supporting data were derived from publicly available research from government source (Census Bureau, American Foundation for Equal Rights.)

** Subsequent guidance from the IRS and the DOL have determined that married same-sex couples who are legally married in jurisdictions that recognize their marriages will be treated as married for federal tax purposes and for employer benefits even if they reside in a state that does not permit same-sex marriage. (See Research Supplement on page 14).*

*** The categories for marital status is as follows: married, not married/living together, civil partners, engaged and separated.*

RESEARCH SUPPLEMENT ON POST-WINDSOR REGULATORY GUIDANCE

In the wake of the Supreme Court's decision, the Internal Revenue Service (IRS) issued a ruling (Revenue Ruling 2013-17) under which same-sex couples who are legally married in jurisdictions that recognize their marriages will be treated as married for federal tax purposes, even if they move to a state that does not permit same-sex marriages. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions, taking the standard deductions, employee benefits and contributing to an IRA. In conjunction with this ruling, the IRS published an FAQ on its website that specifically addresses, among other things, the application of the ruling in the context of qualified retirement plans. The FAQ notes that the IRS is planning to issue additional guidance for plans.

The IRS subsequently adopted special administrative procedures (Notice 2013-61) for employers and employees to make claims for refunds with respect to overpayments of FICA taxes and federal income taxes that result from the retroactive application of Revenue Ruling 2013-17. Validly married, same-sex spouses are generally permitted to amend their filing status and receive a refund of the difference in taxes owed as a result of the filing change for all open tax years — generally three years from the date the return was filed or two years from the date the tax was paid, whichever is later.

The Department of Labor (DOL) also issued guidance (Technical Release 2013-04) interpreting the recent Supreme Court decision invalidating a key provision of the 1996 Defense of Marriage Act (DOMA). The guidance specifies that the terms "spouse" and "marriage" in Title I of the Employee Retirement Security Act (ERISA) and related DOL regulations should be read to include same-sex couples who are legally married in jurisdictions that recognize their marriages, regardless of their current state of residence.

Many companies are waiting on guidance from other federal agencies and state insurance departments on the implications of this decision.

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