How to Talk Retirement Savings With Your Spouse

Couples can avoid friction during volatile markets with conversations in advance

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When markets turn volatile, it is hard enough for one person to make decisions. Add another person to the mix, and tempers can flare if a couple disagrees about how much of their portfolio to invest in stocks.

Just ask my parents. While my mother was comfortable holding a high percentage of her long-term savings in stocks, my father wasn't. So when stocks plummeted in 2008 when they were in their early 70s, he wanted to get out of the market and she wanted to buy more shares.

Tensions over asset allocation, or the desired percentage to hold in stocks, are often magnified when one or both members of a couple retire.

"When you retire, you go from having an income from work to spending from your portfolio," which can exacerbate anxiety about stock market declines, says Julie Virta, a senior investment manager at Vanguard Group's Personal Advisor Services, which manages $231 billion.

A substantial chunk of older adults have very different investing approaches. Among Vanguard retail clients between ages 65 and 74, many of whom oversee their own investments, 16% have 98% or more of their portfolios in stocks, while 12% hold no stocks at all—percentages that are fairly steady at older ages as well.

Ron Guay, an adviser in Sunnyvale, Calif., says close to one-third of his couple clients have “tangible differences in risk tolerance.” Jake Northrup, an adviser in Bristol, R.I., estimates that it could be as high as 70% for the couples he works with.

“This often ties back to their unique experiences with money throughout life,” says Mr. Northrup.

When couples have different risk tolerances, there is no easy solution for joint financial decisions. But it is important to settle on an approach that is palatable to both partners, for “the long-term success of the portfolio and the marriage,” says Matt Elliott, an adviser in Rochester, Minn.

Here are strategies to consider when looking to reconcile different approaches in the same couple.

Talk about it

A good way to understand a person’s risk tolerance is to look at behavior during past downturns, says financial adviser William Bernstein.

“The question is, how did you feel last March,” or in the financial crisis of 2008 and 2009, when stocks fell sharply, he says. Someone who bailed out of the market should have “no more than 50% in stocks,” Mr. Bernstein says.

They might also benefit from having an adviser to talk them out of selling when stocks decline, a move that locks in losses and often causes the investor to miss out on a rebound, Mr. Bernstein says.

While a conversation might not bring about agreement, it can give each spouse more understanding and patience for the other’s views, advisers say.

Risk tolerance may be tied to childhood experiences of wealth, or lack thereof, advisers say.

Mr. Bernstein asks clients "how bad you would have felt if, as a 9-year-old you had gone to the market with $10 from your parents and lost the money on the way."

Consider how much risk you can afford to take

You may want to invest heavily in stocks. But that doesn't mean you and your spouse can afford to do so, says Sheila Padden, an adviser in Chicago.

Couples who have saved more than they are likely to need in retirement can generally afford to invest a higher percentage of their wealth in stocks than those nearing retirement with a shortfall. (Advisers often recommend saving at least 25 times the amount you will need to withdraw from your portfolio annually in retirement.)

Retirees shouldn't "bet with what they cannot afford to lose." says Anthony Watson, a Dearborn, Mich.-based adviser.

Meet in the middle

Some recommend adopting the conservative spouse's preferred asset allocation.

But David Blanchett, head of retirement research at Morningstar Inc., says that is a recipe for frustration for the more aggressive spouse. In a worst-case scenario, he or she may raise the couple's allocation to equities just as the market peaks.

Mr. Blanchett acknowledges that neither spouse may feel satisfied with a meet-in-the-middle approach. But he says a compromise might be the best way to help resist the temptation to deviate from an agreed-upon plan by dialing up or down the allocation to stocks—or to take their anxieties out on the other.

Moreover, he says, there are ways to design the overall plan so that each can feel better.

A conservative spouse might worry less about stocks if the financial plan includes a cash reserve that covers a few years of essential expenses in retirement.

With cash on hand, he or she might even be willing to take more risk in the rest of the portfolio, which "will make the other spouse happier," says Ms. Virta.

Focus on goals

Yet another approach is to divide the portfolio into buckets earmarked for specific goals, such as paying off a mortgage or retirement.

Stephanie Bucko, an adviser in Los Angeles, says this method pushes couples "to be aligned on goals," rather than "their perception of risk."

The closer a couple is to needing money for a goal, such as a vacation or college tuition, the more conservatively it should be invested, says Ms. Bucko.

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Things can get complicated when a couple hasn't saved enough.

Ms. Bucko says a couple she works with wanted to fully fund their child's college education and retire early, but couldn't afford both. They decided a debt-free education was a 'must have,' while early retirement was a 'nice to have,' she says.

Accordingly, they invested the college money conservatively and took more risk with the retirement investments, with the understanding that if the bet on stocks “didn’t pay off,” they would work longer, she says.

Mind your own portfolio

This is more or less what my parents did.

Because each had a similar-sized individual retirement account, their combined asset allocation fell in the middle of their preferences. But each had a greater sense of control, even though they exercised it over only their own piece of the pie.

Mr. Bernstein says logistical complexities make this approach a last resort.

For some couples, it can be hard to divide a portfolio. Even when spouses start out with similar balances, one’s investments may appreciate more, giving that person more influence over the combined asset allocation.

Managing taxes is another challenge. Bonds should ideally be held in 401(k)s and IRAs, where interest payments can be reinvested tax-free until the money is withdrawn. But if the more aggressive spouse owns an IRA and the more conservative spouse has a taxable brokerage account, the bonds are likely to end up in the taxable account, where tax is due when interest is received.

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