GLOBE STAFF PHOTO/MATTHEW J. LEE

Paul Papierski (left) and his partner, Ken Lovering, will have to prepare two sets of federal tax returns.

Married, with questions

MONEY MAKEOVER

By Lynn Asinof
GLOBE CORRESPONDENT

A couple for more than a decade, Paul Papierski and Ken Lovering merged their finances eight years ago. The two bought a house in Worcester a few years later. This year, they'll take another big financial step together.

They'll file their taxes for the first time as a married couple.

The two men, married on July 2, are finding that their new marital status is raising some unexpected financial questions. While Massachusetts now grants them the same rights as heterosexual spouses, the federal government still treats them as legal strangers.

That means the two not only have to worry about making the right financial moves, they must walk a careful path between the conflicting state and federal laws.

Concerned that their finances held hidden traps, Papierski, 43, and Lovering, 41, decided they needed professional help. They applied for a Boston Globe Money Makeover, asking, "What extra hoops do we have to jump through that heterosexual couples don't to ensure each of us has access to our assets?"

Dana Levit, a fee-only financial planner with Paragon Financial Advisors in Newton, explained it this way: "What same-sex marriage did in Massachusetts was create a way for same-sex couples to inherit from each other and create a way to divorce." But when the federal government gets involved, she said, things get complicated.

Income taxes are a case in point. This year the couple will have to prepare two full sets of federal returns. The first — prepared as a married couple — will never be filed. Its sole purpose is to generate the numbers required on the Massachusetts form for married couples filing jointly. The second set — prepared for two single people — will be the ones actually filed with the Internal Revenue Service.

"It's taking the accountant much longer than usual," said Lovering, a copy director for a Boston travel firm.

The same kind of complex thinking is needed in working through mortgage payments, Levit said. The problem isn't who inherits the house, since the two are joint owners with rights of survivorship. But if either died, Uncle Sam would want a clear accounting of who had paid the mortgage. If the accounting showed Ken paid more than Paul, that extra money would be counted as a gift and thus potentially subject to gift taxes.

Turning to retirement accounts, Levit praised Papierski, who works for the American Cancer Society, for having rolled 401(k) plans from previous employers into individual retirement accounts. IRAs, she said, let owners name beneficiaries who can then stretch withdrawals over their lifetime. By contrast, many 401(k) plans restrict such long payouts to spouses recognized by the plan, forcing others to take the money out quickly even though this destroys the tax advantages of these accounts.

When it came to investments, Levit said the couple had done well. Other than the house, the two have most of their assets in retirement plans. Each year they tuck more than 10 percent of their $120,000 combined annual income into those plans. Given their current burn rate, her projections show that the two would still have close to $1.8 million in assets when the youngest turns 90.

But their portfolio lacked both international and small-company investments. Even worse, their current mix could leave them vulnerable in case of divorce. Same-sex spouses, Levit explained, don't have access to a common divorce tool known as a qualified domestic relations order, or QDRO, which gives spouses claim to their ex's qualified retirement plan funds. That means that in divorce, a same-sex ex would get only the plan assets in his or her own name.

So rather than have Papierski own the bonds and Lovering own the international stock, Levit's plan has both owning some of each. That way neither will come up short in a divorce if one investment outperforms the other.

The biggest makeover surprise, however, wasn't the extra protections that Papierski and Lovering needed to build into their plan. The real shock, Lovering said, is "the fact that we're actually on track."

Ken Lovering and Paul Papierski

Goal

Understanding the financial impact of a same-sex marriage

Recommendations

from financial planner Dana Levit

- **Recognize that income taxes will require extra paperwork**
- **Update estate plan documents to reflect new married status**
- **Keep track of mortgage payments to avoid possible gift taxes**
- **Fully diversify each spouse's retirement portfolio as a protection in case of divorce**

To be considered for a Money Makeover, fill out the form at www.boston.com/business/personalfinance, or call 617-929-2916 and ask for an application.