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Before the Cake and Wedding Dress: Couples Should Discuss Finances Before Saying "I Do"

By Bruce W. Fraser

NEW YORK (MainStreet) — Benjamin Franklin in *Poor Richard's Almanac* said, "Keep your eyes wide open before marriage, half shut afterwards." Wise advice then. Wiser advice now. With the wedding season kicking into high gear, there's one discussion that too often doesn't occur between couples – finances. It should—or it could have perilous consequences later.

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Unfortunately, couples would rather talk about anything but money. But according to several studies, not discussing finances prior to saying "I do," is the biggest mistake a couple can make.

At minimum, couples should have a frank discussion about their approaches to budgeting, planning and saving. Indeed, the importance of a frank discussion on finances before you take the plunge cannot be overemphasized. Many marital family attorneys agree that money is often at the root of many divorces.

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So before tying the knot, here are some issues about money that may help improve your chances for a long and happy marriage.

1. Have a frank discussion about finances.

To start things off, both you and your spouse-to-be should establish your financial priorities. At this point, it is important to understand your spouse's attitude toward money.

"If one spouse is a saver and the other a spender, there is likely to be conflict," says Anthony A. Saccaro, president of Providence Financial & Insurance Services Inc. in Woodland Hills, Calif. "Once this is identified, both can have a meaningful conversation about how to handle it."

"Just having a conversation about money before they get married can improve communications about money," counsels Larry Luxenberg, a financial advisor in New City, N.Y. "It's hard to get that conversation started, but hard to stop it once it gets going."

2. Financial Priorities

--Establish a budget plan

A good first step, says Susan Carlisle, an independent CPA in Los Angeles. "Establish how much to save, how much to spend, and just as importantly, who contributes what amount or percentage of their income to the budget," she says.

One couple, she says, may want income on both sides to go into a community pot, while another may want contributions from both to go into a joint pot.

Other priorities:

- Who is going to pay the bills?
- How much to allocate to a yearly family vacation?
- How often to buy new cars?
- When to purchase a bigger house or live in a different neighborhood?

--Agree to stay out of bad debt.

Make a conscious effort to understand debt. The key, say advisors, is using debt to advance your goals.

"Treat the financial aspect of your marriage like a business," advises John Gajkowski, CFP, principal of Money Managers Financial Group in Oak Brook, Ill. "You're trying to utilize money more efficiently."

One client had accumulated a balance of approximately $15,000 on half a dozen credit cards. "By prioritizing his debts, we were able to pay them off in about 13 months," said Gajkowski.

--Establish whether you're a spender or saver.

Determine if you're comfortable carrying credit card debt, whether one of you plans to stop working with new children, and how much to save for retirement, according to Magnolia D. Levy, a partner in the matrimonial department at McLaughlin & Stern LLP in New York.

"You want to ensure that you and your intended have the same financial priorities," she says.

3. Insurance

There are good reasons to include insurance in the discussion, according to Mark Brownstein, president of Brownstone Financial Group in Nyack, N.Y.

Couples need to protect their insurability now as their health can change at any time, he says. They also need it to cover any existing debt or a home to be purchased together. Regarding costs, the difference in premiums for a 20-25 year old or 25-30 year old are substantial on a 30-year term policy, points out Brownstein. Finally, he recommends all "to be wed" couples review the beneficiaries of any existing insurance coverage they have.

4. Beneficiaries

The beneficiary designation is for you to direct who you want your assets to pass to.

"Many people inadvertently end up having their proceeds pass to unintended parties or allow the government to dictate who receives the proceeds by not designating a beneficiary," says Gajkowski. "By properly naming a beneficiary at this point, you are able to direct who you want to receive a particular asset."

Gajkowski related one client died unexpectedly with credit card debt over $40,000 and a retirement account valued at over $60,000. By naming his estate as beneficiary instead of his mother, he left all his assets exposed to his creditors, Gajkowski said.

4. Marital Debt

Most young people starting out are saddled with debt – credit card debt, student loans, car payments or all three. Advisors recommend couples should try to resolve debt problems before marriage.

"Marrying someone with a lot of debt can prove devastating to a marriage," warns Saccaro, "Financial problems are the No. 1 reason for conflict in a marriage. It doesn't mean that you would not get married, but it is another consideration before saying 'I do.'"

As a solution to credit card debt, assuming you own three or more cards, Gajkowski recommends paying off the one with the highest interest rate first, focusing the majority of your money on that card, and pay minimums on the others. Then repeat the process until all cards are paid off.

5. Financial Honesty (or Financial Infidelity)

Ideally, going into a marriage, there should be truth, and part of the truth should be knowledge of each partner's finances.

"There should be transparency during the marriage, especially with regards to debt both sides incur," says Levy. "This will lead you to an open discussion about how best to prioritize your finances."

Levy says she has seen cases where a spouse discovers during their divorce that their partner had accrued tens of thousands of dollars in credit card debt, for example, and kept it hidden from them.

Steven J. Eisman heads an eight-member matrimonial lawyer department at Abrams, Fensterman, Fensterman, Eisman, Formato, Ferrara & Wolf LLP in New York. "If you discover that your spouse has accumulated hidden debt, it will have an impact on the marriage," he says. "If your future spouse is dishonest about their finances, who knows what else they could be hiding?"

Financial dishonesty casts a cloud over the rest of the marriage that could have been avoided.

6. Should We Get a Prenup?

A prenuptial agreement is a contract two people enter into in anticipation of their upcoming marriage, setting forth their respective property and support rights upon divorce or death.

"These events are governed by law, but each family is different," says Rebecca Provder, a partner in the matrimonial and family law practice at Moses & Singer LLP in New York. "A prenuptial agreement allows people to tailor the laws to meet their individual wants and needs."

According to the National Endowment for Financial Education, there has been a rise in prenuptial agreements in recent years.

"One reason is couples are marrying later in life and entering marriage with more assets," explains Provder. "Others have inheritances or lifetime gifts they want to protect. If they've experienced a messy divorce, whether personally or as a child or otherwise, they may be driven to take preventive steps."

Prenups have their critics.

"Some clients have said they are 'unromantic' during what is arguably one of the most romantic moments of your life," says Levy. "For some, the process can be as rewarding as standing under an overhead fluorescent light without clothes. But the reality is these are important discussions people should have before getting married."

7. A Third Party Can Help.

Sometimes having a third party quarterback such discussions can help. There are a variety of legal and financial consequences to marriage, which include a price to pay if the marriage comes to an end.

"Then 'your income' is no longer only your income, but a marital asset," says Provder. "If you have been the primary breadwinner of the family, you may have an obligation to continue to support your wife for a period after divorce."

It's best to consult an attorney under these circumstances before entering into marriage to learn the rights and obligations that stem from a marriage, she says.

In addition, a third party can be a helpful resource. For example, you can bounce ideas off a family member, close friend or financial advisor who is looking out for your best interests.

"I can ask the questions they don't want to ask each other," says Luxenberg. "The challenge is when you are in love you can be blinded by love. The younger you are the more likely that is, and a neutral third party can be objective about the situation."

--Written by Bruce W. Fraser for MainStreet