WELLS FARGO Advisors

Talk money before the wedding bells ring

Understanding each other's views about money and investing

Start your marriage off right by knowing what each other's financial expectations are prior to saying "I do."

Studies have shown that money is a frequent topic of arguments in many marriages. One of the reasons may be that couples don't spend enough time talking about money before the "big day." To help get the discussion started, here are some issues couples should address before walking down the aisle.

Combining accounts

Many engaged individuals — especially those who are older — already have their own savings, checking, and brokerage accounts. The question is whether to combine everything into joint accounts or keep them separate. Having separate accounts lets each individual feel independent, knowing that he or she can tap his or her finances whenever the need arises. On the other hand, joining accounts helps unite the couple's goals and can help create more effective management of the finances.

One solution to consider: Keep separate accounts and have a joint account that both individuals contribute to for covering household expenses.

Housing

Because each individual may already own a home, older couples often face issues with housing, including:

- Will the couple live in one spouse's home, or sell both homes and purchase a new one together?
- What will be the likely tax consequences of selling — especially if the sale will result in substantial capital gains?

Financial goals

Prospective spouses need to talk about financial goals and priorities. Do they want to dine out often, or eat in and save? How much do they want to spend on traveling, buying and decorating a home, leasing a car, etc.?

It's important to set aside money for emergency expenses or in case of sickness or disability. Experts recommend saving three to six months' living expenses, and in some cases, even more. For example, if only one spouse is a wage earner, a larger cushion may be a good idea. (It's also important to address the need for disability insurance.)

As a couple, assess your current life insurance coverage and how it may need to change. Depending on whether you are just starting out, or combining a household that already includes children, you should answer the question: how much life insurance do we need? As your family grows, you may need to revisit this question multiple times through the coming years.

Finally, consider how your combined finances affect the long-term financial goals, risk tolerance, and other investment objectives you want to achieve together. Work with a financial advisor to create or update an Envision® profile so you can answer the question: "How are we doing?"

Budgeting

Some say that the key to financial success is to spend what you have after saving, rather than saving what's left after spending. Many couples find themselves in the latter position because they lack a budget to control their expenses, often leaving them with nothing to save. It's usually better for a couple to sit down and list their monthly income and expenses. Then it becomes a matter of determining how they will control expenses so they can set money aside to help achieve their goals.

For example, a couple may want to purchase a home within a few years. If so, they can create a "fund" that they contribute to so they can accumulate a sizable down payment, which will help reduce the size of their mortgage and, in turn, their monthly payments.

Debt

Debt can be a touchy subject. Some people are raised to never borrow money unless it's absolutely necessary. Others are taught that it is acceptable to take out a loan — even if it's for a luxury item. Reconciling these positions in a marriage can be challenging. It's usually a good idea for couples to discuss their attitudes toward borrowing in an attempt to reach a compromise they both can live with.

In addition, it's important to know before the wedding what, if any, debts each spouse is bringing to the marriage. If there is debt, the couple must decide whether to combine it or to keep separate credit histories and records. Many advisors recommend that each individual retain his or her own credit cards and credit history. Doing so helps ensure financial independence and provides greater flexibility if either spouse finds himself or herself alone at some point in the future. Also, if one spouse has a poor credit history, it may be advisable not to commingle debt in order to retain the other spouse's better credit rating.

You can count on us

Your financial advisor can help you and your spouse-to-be with many of the financial issues that come with getting married, including updating your investment plan.

Prenuptial agreement

Discussing a prenuptial (also known as premarital) agreement can be one of the more difficult topics for a couple to address. It suggests the possibility that the marriage may not last, which is not pleasant to contemplate when planning a wedding. But from a different perspective, a "prenup" may actually boost each individual's sense of independence while protecting the wealth each brings to the relationship. If children from a previous marriage are involved, a prenuptial agreement may be an appropriate means to provide long-term security for the entire family.

It's better to bring up the idea of having a prenuptial agreement fairly early in a relationship, instead of suddenly producing one on the eve of the wedding. Although it's a difficult topic to raise, talking about a prenuptial agreement can actually facilitate discussions about attitudes toward the partnership in general and money in particular. If you determine that a prenuptial agreement may be in your best interests, consult an attorney.

Estate planning

Here's another tough topic. No matter how young or old the couple, addressing estate planning is vital. However, because there's really never a "good" time to discuss issues involving death and disability, couples tend to put off estate planning — sometimes until it's too late.

When two people decide to take responsibility for each other, it's appropriate to talk about how they want to provide for an orderly transfer of assets. Included in the discussion should be considerations of the financial implications of life insurance and what would happen if a spouse were lost.

It's important to pay particular attention to beneficiary designations on life insurance policies, IRAs, and 401(k) plans. These designations will supersede instructions for distributing assets included in a will or trust. Each provider — insurance company, financial institution, or plan administrator — needs to be contacted to update the beneficiary designations on these valuable assets. This step is particularly important in the case of a second marriage.

Armed with these tenets — and your ability to communicate freely about your finances — you and your betrothed can begin to confidently build the financial security you desire. And congratulations!

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your planning goals. Contact us for more information and to learn about how we can assist you.

Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

Wells Fargo Advisors does not render legal or tax advice. While this information is not intended to replace your discussions with your tax advisor, it may help you to comprehend the tax implications of your investments and plan tax-efficiently going forward.