PBS Episode 137 We're Married Now, Should We Combine Finances?

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

One of the most frequent questions we get, both in person and on our website is, should we combine our accounts when we get married, or should we keep them separate? We find that a lot of couples who meet later in life have this question, but we're also finding younger couples asking it as well.

Today, what I'd like to do is break it down, give you the pros and cons of each alternative so that you can make an educated decision. I'm also going to tell you that there are practical and maybe even mathematical reasons to favor one approach over the other. I'm also going to tell all of you today there are relationship issues to consider as well.

I'm also not going to talk about the pros and cons of prenups. That is a podcast in and of itself. I know it's an icky topic, but if you want to avoid any doubt whatsoever about yours versus theirs, that would probably be something to consider. Let's first talk about combining. There are some advantages. Number one, it simplifies things.

With everything in one account, it's easier to allocate for expenses, for savings, etc. It helps to promote the relationship a bit because both parties are focused on the same goals.

It's convenient, it's transparent, and there's the potential for lower fees, especially when it comes to your banking and as well as your financial planning and asset management.

Typically, there are tiers based on the account values and the cost goes down as the assets increase. There is that potential for lower fees. I'm also going to say that it tends to make income tax planning a lot easier if it's consolidated and combined, especially for those of you who are filing joint taxes.

What are the considerations or the disadvantages of combining accounts? I would say these are primarily relationship based. For example, there's a little bit of a loss of autonomy. Now each party is looking at what the other person is spending money on.

There is a loss of independence. If one person comes into the relationship with more debt, that is an important consideration before combining, especially if there's a difference in FICO scores or credit ratings. It could also make things much more complicated in the event of a separation.

I know those of you who are listening and watching don't want to go into a relationship with the expectation that things might not work out, but it could make things clunkier in the event that it doesn't work out.

I would say that if there's a disparity between the amount of earnings, the salaries, or the amount of debt, again that could create some relationship concerns. It can lead to some tension and issues of control or fairness. Those are the pros and cons of combining the accounts. How about keeping them separate? Let's talk about that a bit.

This is especially important for those of you who are listening, who may be going into a second marriage and may have children from the first marriage, things of that nature. We do see that quite a bit and a lot of times in this situation, people do like to keep things separate.

The advantage of that is, it does allow each partner to maintain their privacy and their own autonomy. Go ahead and spend whatever you want. Nobody's going to ask questions. Fewer disputes, you maintain control over your own account, and it does make it easier to manage pre-existing obligations and debt.

Patti: Finally, not necessarily going into it with this in mind, but if the relationship does not work out, it does make it easier if there is a separation or divorce.

Considerations or disadvantages. I would say probably one of the biggest ones is it does complicate money management. In other words, it requires more communication, more planning, who's going to pay for what. How are things going to be allocated, are you fully funding your 401(k)? You don't want one partner saying, "Wait a minute, I thought you were also. Geez, where are we going to be in 10 years?" It definitely complicates things.

This is, again, not necessarily a mathematical or financial implication, it can devalue one of the partners if their earnings are significantly lower. We don't really want to see that.

Splitting the household expenses by income might sound like a good idea, but it might quantify each person's value to the marriage or relationship. I don't know if you'd necessarily want that to be based on someone's income.

In terms of cohesion, we often see this, whether people keep things separate or not. Some clients have accounts all over the place. That lacks financial cohesion. The left hand doesn't know what the right hand is doing, there are gaps, there's redundancies, overlaps, it can be really complicated.

Patti: There is the potential for some secrecy, whether there are accounts somewhere else that someone's not talking about or sharing or not, that can erode trust in the relationship.

It can also diminish some risk-taking. For example, let's say that one person wants to start a business. If everything is separate, they may be less inclined to go ahead and take that risk and start this business that they've been dying to start because they are just dependent on their assets.

If everything is combined, it's a divide and conquer type of thing where the working spouse can continue to pay the expenses and contribute to the working capital while the other one starts that business.

I think it's also important that even if you keep everything separate depending on the state in which you reside, it doesn't necessarily mean that each partner walks away with what they have, because depending on the state which you live, the assets may be 50/50.

For example, in Pennsylvania, while you were together in the marriage, it doesn't matter whose name is on the account. That is a marital asset for both, so don't think that you are necessarily preventing.

Even if you keep things separate, a spouse still can have legal entitlement to a portion of those assets while in the marriage, so each person doesn't necessarily keep what they have during the term of the marriage because it's marital property in many states, including Pennsylvania.

As you go into these things, it's always important to think about it, talk about it, and revisit it on an ongoing basis, what's working, what's not. Over the years, I have found that a hybrid approach often makes sense. What I mean by that is, set up a joint account to pay the joint bills and that way each party contributes.

Sure, go ahead and keep those separate accounts for your personal expenses so that you feel empowered, that you're contributing and having fun and doing the things that you want, and yet, each party is contributing and covering the expenses that may be attributable to the relationship. A hybrid approach may be the answer for you.

Whatever approach you choose, keep evaluating it. Figure out what's working for you, what's not, and always know that we are a phone call away. Go to our website at www.keyfinancialinc.com. This is one of those things that people like to brainstorm with a separate party who has no axe to grind, who can be completely unbiased.

By the way, keep that in mind for any questions that you might have on your financial affairs. There's a lot to be said for brainstorming with an unbiased person who may have some answers that you're not aware of. Go to our website, happy to hear from you. If you'd like to hear about other topics, happy to talk about those as well. Thanks so much for joining me today. Take care.