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6 Financial Planning Issues to Cover Before the Wedding

By Elaine Floyd, CFP®

Premarital financial planning can help a couple start off on the right foot. Whether it's a first marriage or a subsequent union, make it a priority to discuss these seven issues before the big day.

BUDGET PLANNING

Once married, your expenses will likely change. Sit down and figure out what your expenses are likely to be and decide whether you'll maintain separate accounts, with each being responsible for certain household expenses, or throw all your income into one pot. You may also want to assign roles: who will pay the bills, who will handle the investments, what process you will use to make major financial decisions.

CREDIT/DEBT

Generally, debts incurred prior to marriage belong to the spouse who incurred them. But real life sometimes muddies the waters. If debt payments are made from a joint account, it might be presumed that both spouses are taking responsibility for them. As a practical matter, the non-debtor spouse often wants to help get rid of debt in order to start

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saving for joint future goals such as buying a house. Regardless of who's responsible for which debts, it's important to get them all on the table and develop a plan for paying them off.

Credit scores are assigned to individuals, not couples, so a person's credit rating doesn't usually change much after marriage unless there's a lot of borrowing activity (e.g., wedding bills). If each partner has a significantly different credit score, the challenge will be not letting the spouse with the lower credit rating drag down the other spouse's high score. At the same time, some maneuvering may be necessary to get the best rates on loans; this may mean putting loans (and the assets serving as security for them) in the high scorer's name.

BENEFICIARY PLANNING

Beneficiary planning is a subset of estate planning and deals specifically with who gets what after death. Marriage usually changes a person's intentions in this regard, but not always. If two wealthy individuals are marrying late in life, they may not want to make any changes to the beneficiaries named in their wills, trusts, and beneficiary designations—although they should execute new documents after marriage to make it clear that these are still their intentions.

More likely, two people entering into marriage will each want to include the other in their wills and beneficiary designations. It's best to see an estate-planning attorney to coordinate your estate plan, execute documents, and draft any customized language you may need for your beneficiary designation forms.

PENSION AND BENEFITS PLANNING

A widow who is receiving survivor benefits from her husband's pension may lose those benefits—along with any health care benefits she may be entitled to—if she remarries. The same is true for a widow receiving Social Security benefits under her husband's earnings record. This is not necessarily a reason not to remarry, but the impact of marriage on widow's benefits should be assessed prior to the union.

The loss of health care benefits could be especially detrimental if one spouse is not eligible to receive health benefits under the new spouse's plan.

Younger couples who both work will need to coordinate benefits after marriage. For example, if one employer's health plan offers generous spousal benefits, the other spouse can consider dropping any workplace coverage that costs extra. Both spouses will need to inform their human resources departments of their marriage and sign new beneficiary designation forms.

TAX PLANNING

With the abolition of the marriage penalty, two people earning roughly the same amount should pay the same amount in income tax whether married or single. However, when certain phaseouts are factored in, it doesn't always work out that way.

Couples considering marriage may want to consult with their tax advisors to see how their tax picture might change and to adjust their withholding or quarterly estimated payments, if necessary.

ASSET PROTECTION

The classic asset-protection instrument for a couple planning to marry is the prenuptial agreement. But despite their increasing popularity and mainstream use, many couples still have a hard time planning for divorce and marriage at the same time. An alternative instrument—or one that is ideally used in conjunction with the prenuptial agreement—is the premarital trust.

This is a special type of trust that holds the assets owned by a wealthy spouse prior to marriage. It can also receive inheritances, which are not technically marital property but may become so if they are commingled with joint assets during marriage.

Legal counsel is required to execute both the premarital trust and prenuptial agreement.

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