THE KANSAS CITY STAR.

Don’t get taken twice on the second marriage

BY SANDI WEAVER

Financial Planning Association of Greater Kansas City

In recent months, I’ve heard *“She’s just with him for his money. She doesn’t even work! Selling on Ebay isn’t a real job.”* I’ve heard *“He’s in there for a free ride.”* We’ve all known people who sign up for a second marriage. We’ve likely all known people where others wonder if the future mate truly loves our friend.

As financial planners, we advise our clients who remarry to use a form of Ronald Reagan’s approach to “trust but verify”. Love will survive that. Here are some steps your friend can take.

· **Draw up a prenuptial agreement. Say your financial planner insists you use one.**

For one client’s second marriage, the advisors recommended they use a prenup, where each party listed all assets, all debts, and the related values. The agreement was drawn up by an attorney, and listed which assets were considered separate property, now and always, and which assets would be considered joint property of the couple. Separate property would not be subject to a claim by a divorcing spouse while joint property would.

· **Agree to leave specific assets to each other-- and follow up.**

Another client, Molly, whose first husband had died years earlier, decided to leave most of the accounts to their son Alex and earmarked a couple of accounts to leave to her future husband Ron by changing the primary beneficiary designation. Our client Molly and her new husband Ron had roughly equal amounts of assets. But you’ll want to ensure that you both follow through on those stated intentions.

A year later, when reviewing accounts to do a retirement projection for Molly, we pointed out that she had changed the beneficiary designations on her two accounts but that Ron had yet to do so on his accounts. In essence, Molly was leaving substantial assets to Ron, but would get $0 from him if he died, as matters stood now.

· **Use his, her, and our banking accounts, and document upfront who pays for what.**

Many second marriage couples use this arrangement successfully. Dave and Julie have their checking accounts at the banks they’ve each used for years. They use those for individual purchases, such as clothing or Julie’s trips with her adult daughter. They both contribute to their joint account which they use to fund specific expenses they’ve agreed will be joint. Today’s era of online banking makes this so convenient, by tying a credit card to each bank account. Joint expenses for Dave and Julie are travels, utilities, mortgage payments, and eating out.

We work for several couples using this approach. One of them, Ben and Kelly, live in Kelly’s house so Ben pays most of the utilities to compensate.

An important corollary to this approach is to retain ownership on all other assets as they are now. If you’re leaving your car and investment accounts to your children, those estate plans remain in place. The

only joint asset is the bank account, plus whatever future assets you two purchase which you decide to title joint.

· **See an estate planning attorney to formally define your estate plans.**

Most couples do this by drawing up a will and/or revocable trust(s). An estate planning attorney will ask you to list all assets and to list who is to receive those assets when you die, when your spouse dies, or if both of you die. That can generate some conflict but postponing these decisions leaves a mess for your loved ones. A good estate planning attorney or financial advisor can help you work out those conflicts, so ask for help. You're not the first "second time around" couple to tackle this, and many good solutions exist.

Here's an example: Ken and Cindy live in Cindy's house. Cindy has two children while Ken has none. Cindy has given Ken a "life estate" in the house so he can remain in the home for the remainder of his life if she passes first, then the house is given to her own adult children at Ken's death.

Pay attention during the estate planning meetings. One couple, John and Linda, had a joint trust drafted by their attorney where John's children received $100,000 and Linda's children received all other assets of the couple. John's salary and assets exceeded Linda's, but she dealt with the finances. We've summarized their estate plan for them during review meetings, but felt it was not our place to question their intentions beyond explaining what was in their documents.

· **Watch what you do with inheritances.**

If you inherit money or an asset from a parent, be careful which account you deposit the money into. For example, if your Mom dies, and you deposit your portion of the house sale proceeds into your joint bank checking account, you've likely just converted that to a joint asset with your spouse. If you divorce in a few years, you may only get 50% of it.

When Kelly received her share of the proceeds from her parent's sale of the farm, we opened a separate account in her name only, assisted her in depositing the funds there, then purchased investments as part of Ben and Kelly's overall portfolio; that approach keeps the funds as separate property for her. Inheritances are better traced and remain separate (yours only), if you keep those in accounts titled in your name only. If you have estate planning documents from an attorney, contact them to get specific advice on how to title any inheritances.

· **Finally, review your income tax returns before signing**.

Ensure you know where the income and expenses on that return are coming from. Ask your CPA or financial advisor to walk through the return with you if you're not familiar with the moving parts. You don't want to sign a return which may have fraudulent information. You do want to be familiar with the basic elements of your finances. Although the IRS is more lenient with the updated innocent spouse rule, you don't want to invite trouble by blindly signing a tax return.

Sandi Weaver, CPA, CFP®, CFA is a senior advisor at Petrovic Weaver Financial Services on Corinth Square in Prairie Village, KS.

Sandi Weaver
Petrovic Weaver Financial Services
4200 Somerset, Suite 217
Prairie Village, KS 66208

913.385.5523
PWFS@PetrovicWeaverFinancial.com
PetrovicWeaverFinancial.com