Chapter 4: Sharing Finances

Purpose of This Chapter

One of the important questions that new couples ask me is, “How do we share finances?” There are many answers, and you will need to make these decisions—to share all, some, or none of your finances—together.

This chapter will help you determine what will or will not be shared. In addition, if there is financial baggage from the past, you will have to decide whether you are willing and able to overcome this baggage or if it is significant enough to reconsider your time frame for marrying. Will you have significant income tax issues? Will you be able to obtain loans and credit in both your names?

Where Do You Stand Financially?

Before you can begin to share finances, you need to know where each of you stands financially. This is the first step in knowing your financial health as individuals and as a couple.

Picture yourselves as a company. Would you want to invest money that couldn’t tell investors where they stood financially? By the end of this chapter, you will begin to create your financial statement, just as if you were a company. You will know your income, your expenses, the value of the things you own, what you owe, and your credit worthiness. This will make it much easier to discuss what makes sense to share and what makes sense to handle individually. When you begin to discuss the concept of sharing finances, emotions will come into play, so let’s collect the facts first!

Put Together Your Financial Snapshot

The first part of creating your personal financial statement is to understand your net worth, which means “assets” minus “liabilities.”

Assets

The first step is to add up your assets. Assets are investments, cash, real estate, and other items that you own, which have value and could be converted to cash, if necessary.

Cash Equivalents	**Spouse 1 Current Value**	**Spouse 2 Current Value**
Savings account	$	$
Checking account	$	$
Certificate of Deposit	$	$
Other	$	$
Cash Equivalents Subtotal	**$**	**$**

Investments	**Spouse 1 Current Value**	**Spouse 2 Current Value**
401(k)	$	$
Other employer plan	$	$
Individual retirement account	$	$
Stock options	$	$
Employee stock purchase plan	$	$
Deferred compensation	$	$
Brokerage account	$	$

Rental property	$	$
Business	$	$
529 plan (college savings plan)	$	$
Annuities	$	$
Life insurance cash value	$	$
Savings bonds	$	$
Other	$	$
Investments Subtotal	**$**	**$**

Use Assets	**Spouse 1 Current Value**	**Spouse 2 Current Value**
Home	$	$
Car	$	$
Timeshare	$	$
Valuables	$	$
Collectibles	$	$
Other	$	$
Use Assets Subtotal	**$**	**$**

Future Assets	**Spouse 1 Current Value**	**Spouse 2 Current Value**
Inheritance	$	$
Settlement	$	$
Gifts	$	$

Other	$	$
Future Assets Subtotal	**$**	**$**

Transfer the assets subtotals to this table, and add them up to get the "Assets Total":

	Spouse 1 Total	**Spouse 2 Total**
Cash Equivalents Subtotal	**$**	**$**
Investments Subtotal	**$**	**$**
Use Assets Subtotal	**$**	**$**
Future Assets Subtotal	**$**	**$**
ASSETS TOTAL	**$**	**$**

Liabilities

The next step is to gather information on what you owe, which are called "liabilities."

	Spouse 1				**Spouse 2**			
Liability Type	**Lender**	**Amount Owed**	**Due Date**	**Interest Rate**	**Lender**	**Amount Owed**	**Due Date**	**Interest Rate**
Credit card 1		$				$		
Credit card 2		$				$		
Credit card 3		$				$		
Mortgage		$				$		
Student loans		$				$		
Car loans		$				$		

Business loans		$				$		
Taxes		$				$		
Other		$				$		
LIABILITIES TOTAL		**$**				**$**		

Net Worth

Take the "Assets Total," subtract the "Liabilities Total," and calculate your net worth. This is the foundation from which to measure your future progress.

	Spouse 1 Total	**Spouse 2 Total**
Assets Total	**$**	**$**
(Liabilities Total)	**$ ( )**	**$ ( )**
NET WORTH	**$**	**$**

Income and Expense Statement

By developing an income and expense statement, you will see how much money is coming into your household and how much is leaving it.

First, we'll list the monthly income sources to arrive at the "Monthly Income Total":

Monthly Income Sources	**Spouse 1**	**Spouse 2**

Salary	$	$
Business	$	$
Part-time job	$	$
Gifts	$	$
Rental income	$	$
Bonus	$	$
Investment income	$	$
MONTHLY INCOME TOTAL	**$**	**$**

Next, we'll list all of the different monthly expenses:

Monthly Expense Sources	**Spouse 1**	**Spouse 2**
Off-the-top expenses (see paycheck for amounts)	$	$
Federal tax	$	$
State/local tax	$	$
Social Security taxes	$	$
Employer plan savings	$	$
Employee benefits:		
Life insurance	$	$
Disability	$	$
Dental/vision	$	$
Health insurance	$	$
Other deductions	$	$

Monthly Expense Sources Subtotal	**$**	**$**

Monthly Fixed Expenses	**Spouse 1 Total**	**Spouse 2 Total**
Mortgage	$	$
Rent	$	$
Car loan/lease	$	$
Credit card payments	$	$
Personal loans	$	$
Student loans	$	$
Life insurance (not employer plan)	$	$
Disability insurance (not employer plan)	$	$
Health insurance (not employer plan)	$	$
Homeowner/renter insurance	$	$
Automobile insurance	$	$
Monthly Fixed Expenses Subtotal	**$**	**$**

Average Monthly Variable Expenses	**Spouse 1 Total**	**Spouse 2 Total**

Electricity/gas	$	$
Phone	$	$
Cell phone	$	$
Cable TV	$	$
Water/garbage	$	$
Food	$	$
Clothing	$	$
Laundry/dry cleaning	$	$
Childcare	$	$
Personal care (e.g., haircuts, manicures, gym, prescriptions)	$	$
Automobile gasoline	$	$
Automobile maintenance	$	$
Other transportation	$	$
Education expenses	$	$
Entertainment/dining	$	$
Recreation/travel	$	$
Club/association dues	$	$
Hobbies	$	$
Gifts/donations	$	$
Unreimbursed medical and dental expenses	$	$
Miscellaneous	$	$

Average Monthly Variable Expenses Subtotal	**$**	**$**

Now, transfer the expenses subtotals to this table, and add them up to get the "Monthly Expenses Total":

	Spouse 1 Total	**Spouse 2 Total**
Monthly Expense Sources Subtotal	**$**	**$**
Monthly Fixed Expenses Subtotal	**$**	**$**
Average Monthly Variable Expenses Subtotal	**$**	**$**
MONTHLY EXPENSES TOTAL	**$**	**$**

"Discretionary income" is what money you have left over from your paycheck for savings and spending after paying all of your necessary expenses:

	Spouse 1 Total	**Spouse 2 Total**
Monthly Income Total	**$**	**$**
Monthly Fixed Expenses Subtotal	**$ ( )**	**$ ( )**
Average Monthly Variable Expenses Subtotal	**$ ( )**	**$ ( )**

MONTHLY DISCRETIONARY INCOME TOTAL	**$**	**$**

After looking at your monthly discretionary income total, ask yourself, “Is this amount *really* left over at the end of the month?” If the amount seems high, then most likely some expenses have not been accounted for. (Discretionary income and its impact will be discussed further in Chapter 5.)

Congratulations on creating your net worth and income statements! Now you have data and facts that should make sharing finances easier.

To Share or Not to Share

Let’s assume that each of you has your own checking account and, most likely, your respective paychecks are deposited into that checking account. Are there expenses that should be shared? If so, a joint checking account will enable you to pay those joint expenses.

You can continue to have your individual accounts but, on each payday, you can contribute to the joint checking account to cover mutual expenses, such as utilities, rent/mortgage, food, and dining out. Maybe you have a relationship where one spouse will not be working or may be in school; in that case, combining 100% of your finances may not be appropriate until both of you are working.

A majority of the time, I see couples with a joint account for joint expenses. Each contributes to that joint account; then, each party maintains their own account to pay for their bills, hobbies, or individual credit card.

There is no right or wrong way to share expenses. You may have preconceived ideas about how to share finances but, looking at your situation, is that realistic and something your partner would buy into?

Because you now know what each other's income and expenses look like, and have reviewed your assets, liabilities, income, and expenses together, ask these questions:

- Is one or both of you significantly in debt?
- Are there income issues?
- Are there spending issues?
- Are there significant expenses that have to be met each month?
- Are there unrealistic expectations of who should be responsible for what?
- Are you both able to come to an agreement on what will work for you?

Your Credit Report

You don't want a surprise after the wedding! For example, it's no fun to start a marriage if there is significant credit card debt. Congratulate yourselves for discussing assets, liabilities, income, and expenses now. This is quite an achievement! The next step of the equation is about "credit worthiness." When it is time to get a mortgage or a car, will there be credit problems?

A "credit report" includes information on where you live, how you pay your bills, and whether you've been sued or arrested or have filed for bankruptcy. Obtain your credit report and credit score from the three major credit bureaus (i.e., Experian, TransUnion, and Equifax). These three credit bureaus sell the information in your report to creditors, insurers, employers, and other businesses, which then use it to evaluate your applications for credit, insurance, or employment, or for renting a home. Your credit report does not say whether you are a good

credit risk, and interpretation is up to the entity requesting it. (See the Resources section under "Credit report companies" for more information.)

The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies (i.e., Experian, TransUnion, and Equifax) to provide you with a free copy of your credit report, at your request, once every 12 months. The FCRA promotes the accuracy and privacy of information in the files of the nation's consumer reporting companies. The Federal Trade Commission, the nation's consumer protection agency, enforces the FCRA with respect to consumer reporting companies.

When you get your credit report:

- Check for name accuracy (e.g., be aware of your name being misspelled).
- Consider closing unused or old credit card accounts.
- Verify accuracy of addresses that are appearing under your name (e.g., incorrect addresses or names on your credit report could indicate that someone was trying to impersonate you).
- Contact the credit bureau immediately if there are inaccurate items on your report and begin to get them corrected.

Your Credit Score

Your FICO® Score summarizes your credit risk. A "credit score" is the industry standard in evaluating credit worthiness and a vital part of your financial health. A good credit score will save you money and make it easier to borrow money.

Credit scores have a general range as follows:

- A low credit score will range from 280 to 559.
- A below-average credit score will range from 560 to 659.

- An average credit score will range from 660 to724.
- An above-average credit score will range from 725 to 759.
- A high credit score will range from 760 to 850.

Many online sites offer the ability to get your credit score for free; however, be aware of the terms to get your "free credit score." Credit scores do not have to be given to you free each year like your credit report. You may be able to get a free credit score if you have been denied credit or had your credit modified. (See the Resources section under "FICO® Scores" for more information.)

What Do Credit Reports and Credit Scores Mean?

As you can see, many variables determine credit scores. This is highly individualized, and it would be impossible for me—and possibly boring for you—to go into every nuance of credit scores.

Obtaining credit reports and sharing this information with your future partner will provide each of you with full disclosure on your past financial dealings. I know it may sound harsh or invasive to share credit reports and credit scores; however, if you are entering a legal union, and then find out later that you can't get a home, car, or credit because of poor credit, this will cause problems in your marriage. Having poor credit is costly; whether or not you agree, lenders or employers consider credit history an indicator of character.

According to the Insurance Information Institute, credit scores are based on an analysis of an individual's credit history. Insurers often generate a numerical ranking based on a person's credit history, known as an "insurance score," when underwriting and setting the rates for insurance policies. Actuarial studies show that how a person manages his or her financial affairs, which is what an insurance score indicates, is a good predictor of insurance claims. Insurance

scores are used to help insurers differentiate between lower and higher insurance risks, and thus charge a premium equal to the risk they are assuming. Statistically, people who have a poor insurance score are more likely to file a claim. (See the Resources section under "Insurance Information Institute" for more information.)

Credit card companies will randomly check their customer's credit scores. They can randomly raise your credit card interest rate based on what they find. Credit scores have become increasingly important in recent years, and most likely will continue to be important—if not more important—in the coming years.

If you or your partner does not have a good credit score, now is the time to discuss it. The key indicator is, "Are you or your partner responsible with their use of credit?" If you marry and have joint debt, such as a mortgage or a credit card, you are both responsible for that debt. Your spouse may incur a debt and not pay it, but a collection agency is coming after you for payment because you are married.

Here's the bottom line: Marrying someone with poor credit due to irresponsible behavior and a breach of the trust of those who have provided the credit are not behaviors that will constitute a strong relationship. Be aware of how your partner handles their credit, and observe if they are responsible.

Promises to change are not enough. If you have an excellent credit score and your partner does not, you will need the financial wherewithal to be able to get loans in your name only. Collection agencies that are looking for your partner will call you at home or work in an attempt to collect payment or locate your partner.

When you both have good credit, you can move forward. You most likely won't have feelings of resentment or helplessness because your partner's poor credit history won't be

sabotaging your ability to get a car loan, a home loan, or a lower interest rate on credit. You can move forward together, building a future and working towards your financial goals.

Tax Ramifications of Marriage

The next step to sharing finances is being aware of the tax ramifications of being a married couple.

By law, if you have income above a minimal level, you have to file a tax return whether or not you owe money. You want to make sure that both of you have filed tax returns in all years where a tax return was required. Many people do not file tax returns when required to do so; they have many reasons, but there is no excuse. Penalties and interest for nonfiling can be substantial—even when money wasn't owed initially!

Do not mess with the IRS! If IRS or tax problems exist before you marry, money problems can be significant. If your potential partner owes the IRS and doesn't pay, the IRS can file a lien against joint assets, take those assets, or garnish wages. The IRS can also garnish wages if one party owes on defaulted student loans, a court judgment, or back child support. This can be financially devastating and quite embarrassing.

If your partner does have tax issues, you may want to reconsider marrying this person at this time until you know that it's been corrected. If you have to file "married, filing separately," you will be paying more than your fair share of income tax for having to protect yourself against your spouse's tax issues. When you each sign that tax return, you both become responsible for that return. (See the Resources section under "Internal Revenue Service" for more information.)

Tax laws are continually changing. By reviewing your income tax returns, you will have a better idea of what your tax situation will look like as a married couple. Sharing each other's

last one to three years of tax returns can provide you with information on income trends and deductions, and whether returns have in fact been filed.

To better assess your tax situation, consider visiting a tax advisor, who can do a “pro forma” tax return, which is a dress rehearsal made with assumptions or projections, to get an idea of what the tax situation could look like after you marry. I recommend doing this sooner than later, so you can plan for taxes and any impending tax law changes that may be occurring in the year you decide to marry.

A tax advisor can be a certified public accountant (CPA) or an enrolled agent. An “enrolled agent” is a person who has met IRS standards in competency and has the ability to represent taxpayers in case of an IRS inquiry. An enrolled agent may be a less expensive alternative to a CPA.

The tax code affects everyone differently based on income amounts, income sources, exemptions, and deductions. Tax planning is not “one size fits all”; if you both have a simple situation, commercially available software may provide enough information if you choose to do your own projections. However, if you have deductions, own a business, or have higher incomes, rental property, stock options, or other situations that create more complexities, consult a tax advisor to give you advice specific to your situation. For example, having a New Year’s Eve wedding may sound romantic but, if you marry before midnight, the IRS will consider you married for the entire year. This can create a larger tax liability come April 15, which you didn’t expect if you didn’t plan ahead.

A tax advisor can easily guide you on what you should be withholding to prevent a large tax bill or refund, which is another aspect of sharing finances. Is one or both of you getting large refunds? Does one or both of you owe taxes at the end of the year? If you are underwithheld,

there could be penalties added to your tax bill. If one of you is expecting a refund but, because your partner didn't pay their fair share, it doesn't matter. When you file jointly, the IRS doesn't segregate withholding into "his" and "hers." Sharing tax returns allows you to discuss each other's philosophy on withholding and cash management. (See the Resources section under "Financial Planning Association" for more information.)

Summary

- Do a combined net worth statement. Chart your assets and liabilities. You can use the worksheets in this book or draft your own using the worksheets as a guide.
- Do a combined income statement by charting your income sources. You can use the worksheets in this book or draft your own using the worksheets as a guide.
- Determine what expenses will be shared and what expenses will remain an individual expense. Remember: There is no right or wrong way to share expenses. It is what you both deem to be the right way for you.
- Assess your income and expenses. Are there flags that alert you to problems?
- Obtain and share your credit report and credit scores with your partner. Both separate reports are obtained by contacting the three credit reporting agencies (i.e., Experian, TransUnion, and Equifax).
- Make sure each of you has filed taxes, and share the last one to three years of tax returns to begin to plan for taxes.
- Consider the timing of your marriage and consult a tax advisor, who can provide you with specific tax advice for your situation.
- Do a pro forma tax return, so you can adjust withholding based on the date of your marriage.

- Assess your credit report and scores. Are bills paid on time? Are credit scores going to hinder your future progress as a couple in buying a home or a car, or getting credit?

What's Next?

In Chapter 5, we will discuss how to begin the activities that will change your habits to help you reach the financial success you desire. We will discuss steps you can take to fix current financial issues that you are willing to fix (e.g., getting and staying out of debt, and getting out of the paycheck-to-paycheck routine). I have seen that having debt, with little or no savings, can become a lifelong battle—like shoveling sand against the tide. You try but get nowhere. For ideas and strategies that can help you break this cycle, keep reading!