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FINANCIAL SERVICES

Financial Advisory & Outlook

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What's money got to do with it?

In September, 1984 Tina Turner released what became her most popular single song "What's Love Got to Do With It?" In 1993 it was used as the title for a biographical movie about her life. In 2012 the song was inducted into the Grammy Hall of Fame. The song was about relationships and suggested that romantic relationships were not always about love.

I've substituted the word money for love to indicate money has nothing to do with love but in relationships can be a source of friction and failure.

A recent survey by Chase Card Services shows that most U.S. adults believe that 'coming clean' sooner rather than later regarding 'the talk' about money, finances and who is going to contribute how much and when should take place within the first 90 days of a blooming romance.

A psychologist, Dr. Michelle Callahan, who collaborated with the study, indicates "Finances are one of the biggest reasons relationships fail." She further states "Being able to speak openly and honestly about finances will only make a relationship stronger."

One finding of the survey indicates that love trumps debt. 75% of the survey respondents indicated they would have a conversation with their partner about financial difficulties rather than looking for the nearest exit. Financial security is a desirable trait in a romantic partner, but it's not necessarily a 'deal breaker.' In fact, only 6% of respondents said they would break up with a debt-ridden lover, while 21% said they would take steps to help pay debt down. It appears men are more forgiving than women; 18% of men said they would help a partner pay down debt while only 8% of women would help.

Before moving in together it is best to have 'the talk' about financial issues you both bring to the relationship. Here is a list of things to include in this conversation –

1. Reveal all bank and investment statements. Be honest about your sources of income, your debts and any money problems you have or may have had in the past. Acknowledge whether you are a spender or a saver.

One of the first jobs I had was as a teller in a bank downtown. There were several big buildings under construction and the workers would come in to deposit their paychecks.

There were a couple of workers who would cash their checks and deposit some of the cash rather than depositing their paycheck. Finally, I asked one, "How come?" His response was "I don't want my wife to know how much I make. I give her enough to take care of the household and I spend the rest on my mistress."

<u>The point here is, make sure the honesty is a two-way street and that the bus travels in both direction.</u>

2. Check credit reports. Understanding the payment history of your new partner and how responsibly they deal with their debts may have an impact on you if you share ownership of assets, create debt together and/or get married. Things like late payments, repossessions, bankruptcy, foreclosures, short-sales and other credit problems may have an impact on your ability to get credit for several years. With the recent problems in the real estate market this may be a concern to be aware of for some time because bankruptcies, repossessions and foreclosures remain on credit reports for several years.

3. Limit the number of credit cards. Paying cash for purchases does not build a credit history. Having one or two credit cards to purchase items helps build a payment history.

<u>A good rule of thumb to use is – if it is a purchase you cannot pay cash for, then you probably can't afford it.</u> Using a credit card and then paying it off when the statement come helps build a good payment history.

4. Establish a bill-paying system. Develop a spending plan for paying bills when they arrive. If you have separate accounts, who is assigned the responsibility of paying which bills? If there is debt brought into the relationship how is it going to be paid, by whom and when?

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An important part of the discussion here is to differentiate between wants and needs. If you have had a reduction of income due to job loss or want to pay off debt or increase savings this concept can be a real gold mine.

Little things like taking lunch to work rather than going out for lunch can represent a big savings. If you do lattés daily, how much would you save if you drank regular coffee? Cable TV – is it a need or a want?

The development of a spending plan allows you to establish priorities as to where your money goes. Set a goal and then ask yourself does spending funds on a latté move me closer to or further away from reaching my goal?

Medical and health concerns become important when we start sharing a bed with someone else. How they handle their financial affairs should have the same level of concern. Not having a clear understanding of what financial commitments you are agreeing to could wreak financial devastation on you.

It is not uncommon now for one or both of the partners to bring a prior family relationship with them. The obvious concerns to discuss are spousal and child support. Too often we forget about our beneficiary designations on retirement plans, IRAs, annuities and life insurance policies. In the event a claim is made on one of these items, who do you want the beneficiary to be? What do you need to do to make the changes?

Further down on the 'I forgot' list is what happens in the event of death or disability of the one responsible for payments. Usually, they are claims against the payer's estate. So, if you jointly own assets; how much of the asset is included in the payer's estate and how much would you lose because of the joint ownership?

A regular review of the agreements made needs to occur. Life changes. If your spending plan is no adjusted to accommodate the changes who is in charge-- you or your money.

Recently, I had a situation where husband and wife both worked and had an agreement as to who was to pay which bills when they came in. Over time, bills changed and they just agreed one or the other would pick up the new bill. Unfortunately neither knew what bills the other was paying. Each had credit cards and would charge things making the assumption the other would pay it off. They didn't and credit card balances began adding up. Neither one of them knew just how far in debt they had gotten. Fortunately, the accumulation of debt was unearthed before it became a real problem. So to paraphrase a Capital One commercial – what's not in your wallet?

As we enter the phase of life commonly called retirement, other issues pop up. Do you and youjr partner have the same vision of retirement? At what age will you retire? and will you have to work because you have not saved enough? What is your financial situation like? What are your lifestyle expectations – hang gliding, knitting, rock climbing, sitting on the deck sipping a mai-tai (deck located in Hawaii) or a myriad of other activities? Unless these issues are worked out ahead of time, conflicts could arise over how we are going to pay for all of it.

Estate planning can be a real can of worms. Couples who chose not to marry or gay couples who cannot get married face a real slippery slope. In a marriage, spouses can pass assets between each other at death without a death tax assessed. Unmarried couples don't have this opportunity. So, as assets accumulate in the estate of the partnership, what is the most tax efficient way of titling those assets?

I've had couples come in and say I love my spouse and want to take care of him/her but I dislike their kids and don't want any of my money going to them. So, if I die first I want income to go to my spouse but not have the assets go to their kids. If I make the spouse beneficiary on my retirement accounts then they have the ability to give my money to their kids which is against my wishes.

When counseling non-traditional couples I usually talk about the two aspect of a relationship; emotional and financial. The same concerns apply to traditional couples when getting married. I'm not a professional skilled in helping with the emotional side but have helped many with the financial side.

No financial hole is too deep. Sometimes we feel like we will never be able to crawl out. It may require uncomfortable decisions to begin the climb, but it's like Marvin Gaye and Tammi Terrell used to sing "listen baby, ain't no mountain high enough."

As it turns out – money has a lot to do with it, doesn't it?

If you or someone you know is in need of help, call me. Sometimes, navigating the terrain alone looks like a daunting task. With a little help from a friendly face, these mountains can begin to look like mole hills.

Call me. I'm here to help.

Brent