MONTGUIDE

MT 9118 Human Resource Development

Remarried Families: Making Financial Decisions

by Marsha A. Goetting, Ph.D., CFP, CFCS, Professor and Extension Family Economics Specialist, Montana State University-Bozeman

Most families develop budgets, communicate about financial decisions and use money to achieve financial goals. In remarried (step- or blended) families, there are additional factors that make financial decision-making more complex than in "first family" situations.

First, through the dissolution of marriage (divorce) decree, the district court dictates some financial arrangements. These include amount of child support and payment schedule, who pays the health insurance premiums for the children, how the parents share the children's medical expenses, amount of maintenance paid to the former spouse, payments made to fulfill the property settlement, and who is liable for the debts of the former marriage. The decree cannot be changed without going back to court. Montana statutes do not allow child support to be reduced simply because the parent decides to have more children in a subsequent marriage.

Second, there are more "relatives" in remarried families, which means there are more rules, values, emotions and financial needs and wants to be considered. These relatives may be children from a previous marriage; children of the current marriage; parents; brothers or sisters; in-laws; and former spouses and their spouses and in-laws. All these people have emotional connections that may confuse and complicate the financial decisions made in the remarried family.

As the number of family members increases, the decision-making process becomes more complicated and time-consuming. One parent may need to make financial decisions about the children without consulting the other parent (medical emergencies, for example). The other parent, then, may be faced with expenses without being involved in the original decision. Family financial decisions require coordination and communication. The challenge is intensified if the parents have difficulty communicating and have different financial goals.

When individuals remarry, each brings to the marriage their past experiences and ideas about money and how to spend it. If child support and/or spousal maintenance are involved, financial contact with the former spouse must continue. If money was a "touchy" subject during the first marriage, it will likely be even more so after the divorce.

Money to support the children of the first marriage provides a link between families. Problems that were present before a divorce are likely to continue. Feelings of guilt, competition for the children, power struggles over visitation and attempts to substitute money for time with the children all provide fertile ground for emotional conflicts.

Because they are the link between families, children may become especially powerful in these situations. Sometimes children become the primary communication route between former spouses. Children know more about both households than do either set of parents. Some children use their knowledge to manipulate and obtain financial resources from both sets of parents. The children may

induce competition between the families by comparing money or material possessions provided for them from each home.

Financial decisions for one family may be affected by the needs of another family. For example, additional money for the children's dental work may be requested by one parent at the same time the other parent must pay for repairing the roof on the house. Lack of control can leave remarried families feeling frustrated and bitter. A change in standard of living following divorce or remarriage may lead to bitter feelings for the family that sees itself as having less. Families can fall into a trap of comparing standards of living and attempting to equalize finances.

Research studies have shown that higher income is related to better remarried family functioning. Adequate resources reduce friction, resulting in less tension for the adults and children involved. As the financial situation tightens, prospects for tension and conflict increase. The fewer the resources, the more communication and effort are needed to reach an agreement.

If it has not been done before marriage, the newly married couple should take out any court orders directed to either of them and read them through carefully to understand exactly what their financial obligations are. The law requires that child support payments be paid first from every paycheck (only taxes take precedence). That means no car payments made, no credit card bills paid, no furniture bought nor vacations taken until the child support is paid. Other creditors may have to wait. The paying parent may find it easier to have the child support payments voluntarily withheld from his or her paycheck.

Court ordered payments must be paid next, since a person is liable for contempt of court and will have to hire legal defense if payments are not made. If a person chooses to remarry, to have additional children and to take on additional financial responsibilities, that is his/her business, but the court will continue to hold him/her to previous financial responsibilities.

Financial Discussion Topics

Individuals in remarried families develop new family relationships at the same time they learn new roles in financial decisions. New relationships and roles take time to work out. Communication is essential within the family on how finances will be handled.

The following questions may open communications within the new family unit on important financial topics. Keep in mind some of the issues may have already been determined by the District Court in the dissolution of marriage decree and can only be changed by going back to the court and receiving approval from the District Judge.

1. Do we want joint or separate checking/savings accounts? If separate accounts are established, which expenses will be paid from each account?

2. Are we willing to share information about all our financial assets and liabilities? If not, why?

3. If children are involved from past or current marriages, how will child care expenses be handled?

4. How will we make decisions about family spending? Will yearly financial spending plans be developed? By whom? How closely will they be followed? (For more information, see MontGuide 9703 HR "Developing a Spending Plan." See ordering information on back page).

5. When should we use credit? (For more information, see MontGuide 9802 HR "Selecting a Credit Card" and "PowerPay Your Way Out of Debt" (HO09). Ordering information on back page).

6. How should we set financial goals? Who participates? How often? Under what circumstances can goals be changed?

7. Who will be covered by life insurance? Who will be the beneficiary? What provisions will be made for children?

8. Will living or testamentary trusts be needed? (For more information, view MontGuide 9117 HR "Estate Planning for Parents with Minor Children," and 9612 HR, "Revocable Living Trusts." See ordering information on back page).

9. How will child support funds be used? Who participates in child support decisions?

10. Who is responsible for children's health care decisions and expenses (including medical insurance)?

11. How will college education expenses be met for the children? (For further information, request MSU Extension MontGuides "Estimating the Amount to Save for College" MT 9103 HR and "Financing a College Education: Investment Alternatives" MT 9102 HR. See address on back page.)

12. Will children receive an allowance? If so, how much? What types of expenses will they pay for? Who makes the decisions about how much is saved and spent?

13. Who will inherit family heirlooms? When will estate plan-

ning be done? Have your wills been updated? (For more information, view MontGuide 9701 HR "Who Gets Grandma's Yellow Pie Plate." See ordering information on back page.)

14. Will a former spouse receive retirement benefits from an employee's record?

15. Will assets acquired during the remarriage be held in joint tenancy or as separate property? (For further information, request MontGuide 8907 HR, "Property Ownership." See ordering information on back page.)

16. Will a premarital agreement be prepared? If so, what will it include? (For further information, request MontGuide 9121 HR, "Financial Aspects of Premarital Agreements." See back page for ordering information.)

Successful Strategies

Because money has such powerful emotional overtones, especially in remarried families, and because there is no single type of remarried family, there are no absolute or simple solutions. Listed below are suggestions from Montana remarried families on how financial affairs can be managed to ensure a sense of security and comfort:

1. Discuss feelings about money as well as past experiences with money.

- Schedule a meeting for discussing finances. Plan what will be discussed; then treat it seriously. Make every effort to stick to money business during that time.
- Write it down. Have each marriage partner list separately his/her spending priorities in descending order. Then compare lists. This technique can be very eye-opening and a better tool for discussions than a verbal battle in which one person can be seen as attacking or defending a certain position.
- While in the midst of a discussion, consciously use communication patterns that will not provoke anger. For example, when disagreeing with another person, an "I" message such as, "I am angry" is much more acceptable than a "you" message such as, "You make me mad."
- Don't assume that you understand the other person's point of view. Ask for a clarification whenever a misunderstanding appears to be developing.
- When positions appear polarized, make a special effort to negotiate, striking a bargain where each gives and takes a little and neither loses face. Compromise is often a necessity.

2. Use separate accounts, with joint planning, to minimize financial differences between "his," "her" and "our" children. Remarried families often manage their finances by using one of the following methods:

- The "common-pot" approach, in which all financial resources are pooled and then distributed according to need.
- The "two-pot" system in which partners keep income and accounts separate and each retains control over his or her own individual expenses.
- A "three-pot" system in which a household account is established for joint expenses with each spouse contributing, while each also has a separate account.

Successful couples do not necessarily stick with only one system. As the continuation of a marriage becomes more assured, a couple may gradually move from a two-pot to a common-pot system, with variations of the three-pot system tried during the transition. Regardless of which system is used, both parties need to agree on a workable method and cooperate to make the financial partnership run smoothly, which means they need to decide how financially independent each spouse is going to be.

3. Reduce the problem of one child receiving more money than another. Communicate with each child about the family's financial situation and payments made by the non-custodial parent. Create an awareness of family expenses by having children add up the monthly checks for food, housing, clothing, transportation, recreation, etc.

4. Distribute a portion of the child support directly to the child for clothing, recreation and personal expenses. This provides an opportunity for the children to learn financial decision-making. It is better for children to learn from $5 mistakes than $5,000 ones.

5. Attempt to reach an agreement with the other parent about how financial emergencies and unexpected expenses for a child will be handled. Do not tell the other family how its money should be spent.

6. Talk out feelings with counselors or other remarried families in a similar situation. They may be able to provide ideas and techniques that work for them.

7. Express gratitude to the former spouse for the little things given to the children.

8. Talk with the children as they mature about the family's financial situation. Very few families have the finances to maintain the accustomed standard of living when there are two households to support. Older children need to know something about the financial restraints on their spending. This must be done carefully so that the children within the second family do not resent the children of the first marriage. The parents set the example and the tone and must avoid using language that blames children for the need of financial support from their parent.

9. Relax expectations. There are no perfect solutions. Think about all the things you can control in your financial situation and worry less about those you can't control.

Summary

While the strategies previously mentioned can be helpful to remarried families already formed, the ideal time to discuss money allocation is prior to the marriage. One way for couples contemplating remarriage to avoid financial clashes is to develop a tentative budget or spending plan. Decisions should be made as to whether or not both partners will work outside the home and whether more children are planned. Child support obligations, debts and general feelings about money should be discussed also. Discussing these issues prior to the marriage will not necessarily make the problems go away, but at least it brings them out in the open. Then individuals can enter into the remarriage with more realistic expectations.

Money is a powerful force in our society, and money's effect on the success of the remarriage should not be underestimated. There is no "perfect" way of managing money that will work for all remarried families. To achieve financial success in remarried families, communication and money management must be combined.

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Other MSU Extension Resources

"Making Financial Decisions When a Marriage Ends: A Montana Guide" (EB 155). $5

"Families Facing Divorce." (MT 9514 HR). Free

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