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Financial Considerations for Remarriages

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— By Carol G. Poulin, CPA, CFP®

Whether this is the first marriage for one of you or both of you are veteran marrieds, it's likely that each of you is entering your new partnership with assets much greater in value than toasters and vacuums.

Many couples create pre-nuptial agreements (PNA) to legally sort out the issues listed below. Yes, I know a PNA is not romantic. But if you have significantly more assets than your new spouse, if you have children, or if you own or expect to inherit a business, a PNA makes eminent sense. It's the best way to ensure that what you bring to the marriage is passed on according to your wishes in the event of your death or a divorce.

When it comes to another trip down the aisle, it makes sense for both of you to be forthcoming about:

Full disclosure of credit histories and ongoing debt. Be open about credit card debt. Disclose credit judgments or bankruptcies. Be honest about what you owe on mortgages or for parental care or medical bills. Sometimes, marriage can make you a co-debtor.

Extent of total assets. Itemize real estate, homes, incomes, pensions, savings, cars, collectibles, business interests, investment portfolios, life insurance policies, and so forth. If you live in a community property state, you may want to title specific assets in your name or jointly with your child, not with your new spouse. Your attorney can advise you on the best path here.

Financial support of the marriage. Determine whether you will both keep separate bank accounts or create joint accounts. One compromise is that each of you contributes to a joint account for the new marriage's expenses and retains a separate account for individual discretionary or obligatory expenses.

Obligations from previous unions. Discuss your alimony or child support payments and when they end. Do you have preexisting business debts that you incurred with a former spouse? Are either of you required to provide insurance coverage for an ex-spouse? Does a previous spouse have legal claim to your employer-sponsored retirement plan savings?

On the other hand, if you receive assets from a former spouse, will remarrying stop the receipt of a particular inheritance or discontinue financial consideration? Often, if a woman remarries, she loses alimony or social security benefits from a previous husband.

Property issues. When uniting two households, decide whose house becomes the marital home and what should be done about the other. Figure out who will own or live in the house if the owner dies, if the marriage ends, or if a widowed spouse remarries. Decide whether or not the nonowner spouse should be put on the deed or compensated for contributing to the mortgage or home improvements.

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If you want to leave the house to children, remove the home from consideration as a joint marital asset. This is often done via a PNA or a trust. But beware that, despite the best preventative measures, you still risk losing the home—all it takes is a judge or an aggressive divorce attorney.

Supporting children. Second marriages often involve blended families or the creation of a new family. You both should establish how much financial support each child will receive—and here I mean for nonobligatory expenses not mandated by a court. Decide whether the child’s biological parent will be responsible for this support, whether it will be a joint expense, or whether it will come from the proceeds of past marriages and/or from future marital assets.

You should also be aware that federal financial aid forms require that a stepparent’s income be listed. Even if the stepparent has no legal obligation to contribute to the child’s education, his or her income will likely affect the amount of financial aid the child receives from the government.

Letting your children know upfront that you’ve made provisions to protect their inheritance may also make them more supportive of your new union, especially if it has created a stepfamily or half-siblings. Similarly, specifically naming your stepchildren in your will as beneficiaries—if you wish to leave them assets—is essential. They may not automatically inherit from your estate.

As the children grow up and build lives and families of their own, this conversation may have to continue. The topic may be especially sensitive if you have significantly more assets than your spouse. *The importance of clear communication with your spouse and all of the children cannot be overstated.*

Estate planning. Remarriage is an excellent opportunity to review your will and the beneficiaries of your assets. Many former spouses have inherited life insurance policies that were not part of a divorce settlement!

The laws in some states may entitle your spouse to a portion of your estate, even if your will or trust deems otherwise. If keeping assets “in the family” is mandatory, work with your financial advisor and/or attorney to establish trusts that preserve assets in the way in which you intend. Many people who want both to support a spouse and to pass wealth on to the next generation (instead of to a subsequent spouse) consider Qualified Terminal Interest Property (QTIP) trusts. QTIPs allow for flexibility in treating beneficiaries, preserve assets for children of previous marriages, and generate tax savings and estate tax deferrals.

Seek professional guidance, if needed

While your marriage is your commitment to support and rely on each other above everyone else, seeking professional financial help neither undermines this bond nor pre-destines it to failure. If certain issues seem contentious, you and your future spouse may benefit from engaging an outside professional to help navigate them.

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