MERGING LIVES DOESN'T ALWAYS MEAN MERGING MONEY

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In sickness & in wealth: 1 bank account or 2?

("In Sickness & In Wealth" is a four-part series from NowU that explores the financial concerns associated with marrying later in life. In the first installment, we looked at premarital agreements. Our second article explores whether you should merge your money and your accounts after you marry.)

WHEN SHE married her second husband at the age of 59, Marsha Connellan did so thinking equally with her heart and her head. "I had been divorced for 14 years and had my own company," said Connellan, now 68, of Newport Beach, Calif. "So when I got married, I was very clear that there were things I wanted to keep separate in our marriage."

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Those things included not just her assets, which she protected with a premarital agreement, but also her income, her investments and her bank account. "When you get married later in life you're a much more independent person than you were when you were younger," said Connellan, co-author of "Marrying Later in Life: Be a Beautiful Bride at Any Age." "I'd accomplished a lot on my own in the years I was divorced, and I wanted to protect that independence."

In doing so, Connellan may also have been protecting her marriage. "Statistics show that the number one topic people argue about in a marriage is money," said Karen McIntyre, managing director and senior financial adviser at Philadelphia-based Wescott Financial Advisory Group. "So, discussing how to manage cash flow during the marriage is critical. If we don't, our financial wounds fester, which is when divorce happens."

Joint Accounts May Make for a Happier Marriage

Couples clearly see the merits of joint finances: A 2012 survey by American Express found that most married couples have joint checking (66 percent) and/or savings (51 percent) accounts. However, 42 percent of those couples also maintain individual accounts, according to a 2014 study by TD Bank, which said spouses' reasons for keeping an individual account include independence (38 percent), convenience (16 percent) and privacy (7 percent).

Separate or joint, one major consideration is the lasting effect of your choice. According to one study, the couple who spends together stays together.

Sociologists at Bowling Green State University published the results of a study in 2010 analyzing the relationship between couples' money management and their subsequent divorce rates. Couples who maintain separate bank accounts, they determined, are nearly three times as likely to divorce as couples with joint finances.

"Results show a strong association between moving money out of joint accounts, and consistently keeping money separate, and couple breakup," concluded the study's authors, who theorized that a decision to maintain individual accounts may signal a lack of trust or commitment that undermines their marriages.

Develop a Strategy for Handling Your Money

Based on their experience advising couples, many financial experts recommend a balanced approach that includes both individual and joint accounts, like the spouses in TD Bank's survey.

Here are three different ways to share the wealth — literally:

The premarital approach: Attorney John Heath of Salt Lake City-based Lexington Law firm recommends merging marital assets, but keeping premarital assets separate. Doing so protects spouses' resources in the event of divorce, or in the event that a partner becomes ill, requiring long-term care for which the state eventually will seek reimbursement.

"Anything acquired prior to the marriage is a premarital asset that should be protected and kept separate," he said. "Anything acquired in concert by both parties during the marriage is a marital asset and should be addressed mutually."

The pyramid approach: Certified Financial Planner Ted Jenkin suggests building a financial pyramid based on a shared budget.

"At the top of the pyramid is a joint account where paychecks from both spouses go and from which shared bills are paid," said Jenkin, founder and co-CEO of oXYGen Financial Inc. in Alpharetta, Ga. "The two spouses then agree on an allowance that will go each month from their joint account to their separate checking accounts to be used for fun or ancillary items, which allows them to maintain some level of independence."

The separate-but-equal approach: McIntyre advocates the reverse — keeping money in separate accounts that fund a joint account for shared household expenses.

"I've seen both spouses contribute equally to this account — 50/50 — or proportionally: The spouse who makes more contributes more," she said. "Either way, this approach eliminates a source of disagreement when each spouse is free to spend their non-joint resources in any way they want without having to be responsible to their spouse."

Take Credit Cards and Taxes Into Account

Marital finances encompass a lot more than checking accounts. Couples also should discuss:

Credit: Having separate credit cards protects partners' credit scores, Jenkin said. If one spouse racks up debt, for instance, the other spouse's credit stays intact. And yet, it's a good idea to have one joint card for shared expenses, such as vacations; using the shared card — and paying the bill from a shared bank account — ensures couples enjoy their time together without arguing about who paid for what.

Taxes: Couples generally pay less tax when they file joint returns, according to McIntyre, although special circumstances — for example, a spouse who pays alimony, supports dependents or has significant investment income — could make it more appealing to file separately.

Couples should file in whatever way minimizes their tax liability, regardless of whether they have separate or joint finances.

Division of labor: Couples should consider who pays the bills just as carefully as they consider how. Typically, one spouse naturally emerges as the couple's "CFO," because he or she is better with numbers, more technologically savvy or just more organized.

Couples also can share responsibilities by taking ownership of individual bills. Either way, McIntyre said, it's important that both spouses stay informed about shared inflows and outflows.

"You have to make a decision at the beginning of the marriage how you're going to manage your finances," Connellan said. "No matter how much you love your partner, these are issues that need to be dealt with now to prevent financial conflicts later."

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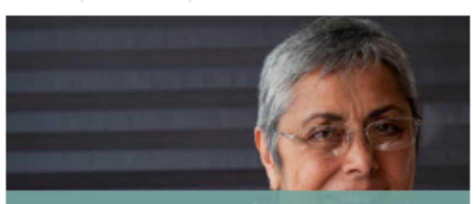

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