Remarriage with Children: Topics to Talk About Before Saying "I Do" Again

By Jane Leibbrand

The saying "hope springs eternal" may capture the sentiments of most couples on the cusp of remarriage. But hope alone doesn't assure smooth sailing the second time around. CAPTRUST Vice President and Financial Advisor Ellen Crowley says clear communication on expectations and proactive financial planning are two important keys to a successful second union. Following are some important steps to take before you say "I do."

Hold a Series of Estate Planning Sessions

Estate Planning Attorney Advice

Once remarriage becomes a solid probability, unearth and review existing wills, trusts, real estate documents, and the divorce decree with an estate planning attorney so that you completely understand any obligations going forward.

Crowley also advises her clients to work with an estate planning attorney to set up a trust that holds their premarital assets. For example, any investment accounts can be put in the name of the trust. Then those assets can't be attached to any claims of the second spouse. Doing this will reassure your family that you have their interests at heart while moving forward with your own life.

Session with Financial Advisor

While protecting your premarital assets, talk with your financial advisor so that you can get a 360-degree view of your financial situation, and share the estate planning work with your advisor.

Family Security

If you have children starting out on their own or in adulthood, hold a family financial and estate planning session with them. Explain your financial situation in general and talk about your plans for your remarriage. If you want a significant percentage of your assets to go to your children when you pass while reserving some for the second spouse, depending on the situation, communicate how you'll protect your assets to assure that outcome.

Heart-to-Heart with Spouse-to-Be

Next, have a conversation on the same subject with your spouse-to-be. Explain your assets and debts. Are there any limitations from the divorce decree that are set in stone as you move forward? Does your future spouse fully understand these parameters, and can she or he live with these circumstances without resentment? Perhaps Nancy, a former wife who never worked outside the home and has raised the children, is guaranteed half of a government retirement pension. While ex-husband Bill is still working, that hasn't yet presented a problem, but when retirement comes, it may affect Bill's lifestyle with his new wife.

If children are part of the combined household, the conversations and financial planning are more complex. Talk about your future together and cover key topics that are going to surface in the remarriage—first, your philosophies on helping children financially—whether they're toddlers, college students, or adults. Project future scenarios if your children are still young. Private high school? Help with college? Down payment assistance on a house? What-ifs can reveal important information about your future mate. Knowing your partner's philosophy now can avoid a second-marriage mistake; children and finances are two of the primary reasons for the demise of the second trip to the altar.[1]

In addition, cover other key subjects: paying for health insurance, covering cash flow, and change in tax status and what it means.

Understand Your Spouse's Philosophy on Assistance to Children Before Remarriage

It's critical that each spouse have a clear understanding of the other's philosophy on assistance to children. A cautionary example: Lisa had her first child with husband Jeff; they divorced when her son was young, and she has custody. She then marries Frank and has a daughter.

Frank has a son, Ryan, by his first marriage. He feels some guilt for not being there for Ryan and somewhat impulsively buys Ryan a car when he turns 18. Lisa and Frank's children, already in college, find out about Ryan's car from Facebook. They're upset when they come home for the Thanksgiving holiday, with the refrain, "Frank bought Ryan a car. …" and it goes downhill from there.

Each spouse, using premarital assets, should decide on what, if any, financial assistance goes to his or her own children, bearing in mind that stepchildren will inevitably compare their situations to that of their other “steps.” It helps if both partners have similar philosophies.

Talk about the future and what it may hold for your children. Some parents like to help with a down payment on a home or help with student debt. Others think that the child is an adult and should resolve the issue on his or her own.

Opposites attract, and that occurs in the financial domain as well. Usually, one member of a couple is the more frugal, while the other may overspend at times. Each can balance the other out if neither go to extremes. However, when making decisions about children, emotions usually come into play.

Children may have very different needs, and they may have needs at different times. For example, Carol and Joseph each have adult sons. Joseph’s son is a financial whiz with a corporate position who needs no help right now, while Carol’s son majored in English, teaches school, has a second job, and is struggling to make ends meet with a baby on the way.

Carol decides to help her son and daughter-in-law, who want to buy a starter home but don’t have enough for the down payment. Joseph has a more laissez-faire attitude, saying the young couple needs to work it out on their own—but he’s not the parent. Crowley’s advice? If you’ve assessed the pros and cons, determined that your child has a valid need, and you want to make a gift to your son using your premarital assets, do it. Your money is your money.

Health Insurance

With the rising costs of health care today and uncertain markets, health insurance can impact finances in a remarriage, especially when children are part of the equation. Take the example of Barbara and Jack. Barbara has three children from a previous marriage, and Jack pays child support for his two children who live with their mother.

When Barbara began to think of marriage to Jack, health insurance became problematic. She had been continuing the insurance she had when she divorced, which covered her and the children. The problem as she remarries: Jack could include Barbara on his health insurance, but since the children are not his biological or adopted children, they would be left to what’s available in the marketplace. In consulting with Crowley, Barbara and Jack saw that it was best for them to continue the health insurance she had from the divorce; she self-insured her and her three children.

Making Cash Flow Equitable

Barbara doesn’t receive alimony or child support; her ex-husband fell ill. However, she received a significant property settlement—the luxury home she lived in with her ex.

After the marriage to Jack, Barbara sold her house, and she and Jack bought a home of their own, with the mortgage in both of their names. Paying her share of household expenses became an issue for Barbara. She felt that since she brings four people to the household—herself and her children—she should pay four-fifths of the expenses. But Barbara is now a homemaker, taking care of her three children.

Crowley helped Barbara see that although Jack works outside of the home, Barbara's contribution as a homemaker is also valuable. Plus, Jack receives tax benefits from being able to claim four tax deductions, and he has no health insurance costs for Barbara and her children.

Working with Crowley, Barbara and Jack split costs for the mortgage and property taxes fairly evenly. Barbara is using an amount from her premarital assets to cover her share. Crowley helped the couple reach an equitable solution to cash flow and conservation of assets. Both are pleased with the outcome. What could have led to a financial sinkhole or a storm—especially for Barbara—at the beginning of this marriage is now manageable and equitable.

New Tax Law Eliminates Tax Deductions for Alimony

Until now, alimony payments could always be deducted for federal income tax purposes. That all changes in divorces settled after Dec. 31, 2018. Beginning in 2019, the law eliminates deductions for alimony payments. This may put some divorcing taxpayers on the fast track, while the parties on the other end find that delaying the divorce would benefit them.

Tax deductions for alimony payments can be very substantial. A husband who could previously deduct significant alimony now may have a substantial unplanned expense in 2019. He may be supporting a new family; the expense may cut into resources available for the second marriage, causing discord.

On the other hand, when a wife remarries, alimony terminates in most cases. That alimony income stream may have been very important if she is not working—especially if the second marriage doesn't work out.

Prenuptial Agreements Are a "Must"

Crowley says everyone going into a remarriage should have a prenuptial agreement to avoid potential financial conflicts that could disrupt the relationship. Rule number 1: Don't jeopardize what you have planned to leave to your children. Life insurance is a relatively inexpensive solution to take care of a second spouse if the spouse with the larger share of assets dies first.

Include in the prenup your wishes for the disposition of any real estate, including the home where you and your spouse live, upon your death. That avoids conflicts that would likely arise if you don't spell it out. Once you've had financial planning conversations with all parties involved and reached an accord, a prenup simply becomes a record of what you have discussed and want to occur.

In some cases, Crowley recommends a postnuptial agreement when a partner's finances change dramatically—for instance, if one becomes a law partner after the marriage and gains a percentage of the firm's profits.

With clear communication, upfront financial planning, and general agreement on major issues before the marriage (or an arrangement to agree to disagree), you and your partner can be off to a great start.

[1]The Huffington Post

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.
