Advising Recently Remarried Clients: Implications from Social Science Research

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Abstract

As a result of high divorce and remarriage rates, about one-half of all marriages involve previously married individuals. Remarried clients have different histories, concerns, and needs compared to persons in first marriages. Undependable child support, unanticipated requests for money by nonresidential children, and unwritten expectations as to who pays for what are issues facing newly remarried couples. While there are not clear norms or well-established guidelines for stepfamily financial practices, the growing body of social science research on remarriage and finances provides guidance to financial advisors. This article reviews key elements of the social science literature on financial decision making in remarriages and stepfamilies to provide guidance for practitioners. The use of prenuptial agreements and QTIPs is advised.

As a result of the high national divorce and remarriage rates (Kreider, 2005; U.S. Bureau of the Census, 1999), a large proportion of adults seeking professional financial assistance are likely to be in remarriages or repartnered relationships. As clients, these individuals may have very different histories, concerns, and needs when compared to couples in first marriages. Recently remarried couples and individuals contemplating remarriage are confronted with complex decisions regarding the management and distribution of their resources. Undependable child support, unanticipated requests for money by nonresidential children, and unwritten expectations as to "who pays for what" are issues that most newly remarried couples will face with little to no guidance (Ganong & Coleman, 2004). While grappling with financial decisions, remarried adults must juggle the loyalties they feel to biological children and stepchildren, the needs of individuals who are related by blood and remarriage, and the expectations of their (step)children and new spouse.

In light of the familial and financial complexities associated with remarriage and stepfamily living, recently remarried clients may consult their financial advisor regarding the best way to manage and distribute their resources. Unfortunately there are no clear norms or established guidelines for stepfamily financial practices (e.g., Ganong & Coleman, 2004; Lown, McFadden, & Crossman, 1989). Although financial questions from newly remarried clients may seem relatively easy to answer, advisors should bear in mind that stepfamily dynamics can be very different from first marriages.

Because finances, resource distribution, and loyalty conflicts are primary areas of stress in remarriages (Ganong & Coleman, 2004), advisors should be particularly sensitive to the relationship consequences of financial decisions. Fortunately for professionals who want to learn about the complexities of remarriage and stepfamily living, research on remarital and stepfamily dynamics is growing. This literature points to a number of issues financial advisors may want to consider when working with remarried clients because misconceptions and lack of awareness of the concerns of remarried families can hamper professional assistance (e.g., Lown & Dolan, 1988). Thus, the purposes of this article are: (a) to review key elements of the social science literature pertaining to financial decision making in newly formed remarriages and stepfamilies, and (b) to draw implications for practitioners from this literature .

Trends in Remarriage

Approximately one in five adults has ever divorced (Bianchi & Casper, 2000; Kreider, 2005). Of these, 75% will remarry (Furstenberg & Cherlin, 1991) and most do so within 4 years of divorce (Wilson & Clarke, 1992). Remarried couples account for 27% of households maintained by married couples (Wineberg & McCarthy, 1998) and approximately one out of every two new marriages is a remarriage for one or both partners (U.S. Bureau of the Census, 1999). For many of these couples there are children from previous relationships and a stepfamily is formed (Ganong & Coleman, 2004). One out of three children under the age of 18 will live in a stepfamily sometime during their life (Malia, 2005). Because the Census Bureau stopped collecting data on remarriage in the late 1990s, more recent national statistics are not available.

Advisor Implications from Social Science Research

The sheer size of this growing client pool is one of many reasons to explore the issues confronting remarried couples and individuals planning to remarry. Another reason is to understand how the complexities of remarriage and stepfamily living may influence clients= financial decisions, including their willingness to accept professional financial advice. In considering what advice to offer remarried clients, it may seem logical to financial advisors who have never personally dealt with remarriage to offer the same advice that they give to clients in first marriages. After all, how different can remarriages really be? On the other hand, a financial advisor who is in a remarriage him/herself may be tempted to share what has worked in his/her own remarriage or stepfamily. As valuable as personal experience and "tried-and-tested" strategies may be, advisors may want to consider social science research findings when advising newly remarried clients. In fact, financial advice that is based on a first-marriage model that fails to acknowledge stepfamily complexities can be counterproductive and discouraging to remarried family members@ (Lown & Dolan, 1988, p. 74).

The following overview of research highlights key issues that may affect remarried clients= financial decisions. This research can be used to inform professional advice and practice. Most of the research on financial aspects of remarriage was conducted in the 1980s and 90s. Additional research is needed as the number of remarried couples continues to expand, financial markets have evolved, and the need for financial planners to understand the issues and underlying dynamics has increased. Planners are likely to encounter clients with children from more than one prior relationship. Additional resources regarding financial issues for individuals in remarriages and the professionals that serve them are listed in the Appendix.

Financial Decision Making

How resources are managed and financial decisions are made can be interpreted as indicators of commitment and loyalty within relationships (e.g., Lown, McFadden, & Crossman, 1989). Economic behavior expresses, both actually and symbolically, a remarried couple's commitment to one another and to each other's children (Fishman, 1983, p. 359). Not surprisingly, equitable decision making, or at least the perception of fairness, emerges as an important characteristic of happily remarried couples (Ganong & Coleman, 2004).

Decision making in remarriages may be more equitable than in first marriages. Experiences in previous relationships may lead individuals to interact with their new partners in more egalitarian ways (e.g., Burgoyne & Morison, 1997). After a divorce, women may seek more financial control and men may be more willing to relinquish power in a remarriage (e.g., Coleman & Ganong, 1989). This appears to be most likely when (a) women perceived the lack of decision making power in their previous relationship or (b) men attributed power imbalances in prior relationships as the basis of their relationship problems (e.g., Pyke, 1994; Pyke & Coltrane, 1996). After being the sole or dominant financial manager, women may be unwilling to give up decision making roles (Furstenburg & Spanier, 1984). Alternatively, some women have more bargaining and decision-making power in remarriages because they bring greater resources (e.g., money, skills, and a house) to their remarriage (Ganong & Coleman, 2004, p. 81).

Implications for financial advisors. In many relationships one spouse manages and/or controls financial decisions. A spouse who managed financial decisions in the first marriage may attempt to continue this practice in his or her new marriage. Both the management of assets and decisions on how resources will be distributed are sources of conflict in remarriages (Ganong & Coleman, 2004). For the sake of relational harmony, newly remarried clients should be encouraged to attend financial advising sessions as a couple and to share decision making responsibilities.

Financial Autonomy and Inheritance

In comparison studies, social scientists have noted that remarried couples tend to prefer more autonomy regarding finances than individuals in first marriages (e.g., Allen, Baucom, Burnett, Epstein, & Rankin-Esquer, 2001). A desire for financial autonomy in remarriages is understandable in light of contentious divorce processes that often lead couples to argue over assets and resources. For some clients, divorce may have left them in financial disarray and there may be a "once bitten, twice shy" attitude entering a remarriage. Others may wish to maintain control of their finances so as not to burden their new spouse with the responsibilities or commitments to support their biological children (Burgoyne & Morison, 1997) and to preserve their assets for their biological children.

Implications for financial advisors. Some remarried clients, especially older ones, may be focused on spending their resources and bequeathing their assets to their biological kin. Couples that enter remarriage with significant assets and/or have large discrepancies in their incomes may feel most comfortable with financial management strategies that allow for a greater degree of financial autonomy. This may be true particularly of couples with children from previous relationships.

Advisors will want to explore newly remarried couples' views about inheritance and whether they expect to bequeath assets along biological lines. Clients should be counseled to adopt financial management, investment, and estate planning practices that accommodate "yours, mine, and ours" commitments. Working with an estate planning attorney is essential to insure that each partner's wishes are met. Prenuptial agreements, also known as antenuptial or premarital agreements, should be encouraged to avoid future disagreements and to encourage discussion of these issues prior to remarriage or repartnering. A prenuptial agreement is a legal contract written prior to marriage (premarital agreement) that specifies how assets will be divided in the event of divorce. Prenups are not only for the wealthy but can be used by persons with children from previous marriages to specify distribution of assets owned prior to marriage in the event of their death. The Nolo Press website <www.nolo.com> provides information on prenuptial agreements, a book on the topic, and electronic forms.

Marital property control trusts are designed to allow the surviving spouse to use the property during his or her life but arrange for the property to pass to biological children at the death of the second spouse (Clifford, 2005). If the spouse does not survive the creator of the trust, the property passes directly to the intended beneficiaries. These trusts can be used by unmarried partners as well. While a Qualified Terminable Interest Property (QTIP) trust may accomplish a similar goal, a QTIP is typically used by wealthy married couples to allow a surviving spouse to use property tax-free. Estate taxes are postponed or deferred until the surviving spouse dies and the property passes to the beneficiaries named by the creator of the trust.

Financial Management Methods

Social scientists have studied models of financial management and their implications for remarital quality and stability. For many years, pooling resources was considered preferable because of the assumption that a *common-pot* model facilitated communication and cooperation (Fishman, 1983). In contrast, the *two-pot* method of separate accounts was considered less desirable.

A recent study on remarriage beliefs found that individuals who endorsed the ideal that finances should be pooled@ had higher levels of remarriage satisfaction and marital adjustment (Higginbotham, 2005). However, there was no evidence of whether participants actually combined their finances or if the spouses had congruent beliefs. In a small study of financial practices, Fishman (1983) reported that about half of remarried participants pooled their incomes while the other half did not. Coleman and Ganong (1985) found that 76% of remarried couples pooled their money; however, contrary to what Fishman and others had hypothesized, both the *common-pot* and *two-pot* couples were satisfied with their financial management arrangement. No longitudinal data are available to reveal the extent to which remarried couples change their financial management paradigm over time, a prime topic for future research.

A mixed method approach to handling finances has been identified in which some income is pooled while other resources are individually controlled (Pasley, Sandras, & Edmondson, 1994). But Pasley and colleagues did not find clear support for one financial management strategy over another. Similarly, Burgoyne and Morison (1997) identified an allowance system as one alternative in remarriage. However, they did not find a clear connection between financial management method and remarriage satisfaction.

Implications for financial advisors. When confronted with questions about pooling resources, financial advisors will want to keep in mind that most of the social science research on financial management and remarital outcomes is from cross-sectional, correlational studies. Mutual agreement of money management practices appears to be more important for relationship satisfaction than any one particular method of financial management (Lown, McFadden, & Crossman, 1989). Consequently, clients should be encouraged to explore disparate expectations about money management to avoid the rift that can be created by incongruent expectations. Don=t assume that this discussion occurred prior to remarriage as only about 20% of couples talk about their finances prior to remarriage (Ganong & Coleman, 1989). Advisors can play a valuable role in facilitating this critical conversation.

Concepts of Fairness

Researchers have noted that when trying to understand the complexity of stepfamily decision making, one must appreciate "the fact that different individuals have different concepts of fairness, that various family members have different needs and claims to resources, and that situational factors sometimes dictate what must be done with finances, even if that violates personal norms of distributive justice" (Ganong & Coleman, 2004, p. 85). For example, a remarried couple may have separate bank accounts but contribute an equal percentage of their income to a shared account to cover household expenses. This may sound like a fair arrangement but what if their incomes are unequal? When trying to decide on "fair" financial strategies, remarried couples often use the terms "equality," "need," and "equity," interchangeably (Jacobson, 1993). However, Jacobson explains that these are distinct constructs:

> Equality is typically defined as the equal distribution of shares among those who receive them. That is, shares are allocated in proportion to the number of recipients, regardless of their contribution to the pool of resources to be distributed. Need, as a principle of allocation, refers to the distribution of shares on the basis of necessity, without regard to contribution. If individuals have different needs, or if their needs are defined as being

> different, then satisfying such needs must entail the unequal distribution of resources. Equity is defined as the relative distribution of resources, where each recipient=s share is proportional to his or her contribution to them. (p. 225)

Efforts to facilitate "fair" financial management decisions are commonly complicated by two important stepfamily characteristics. First, spouses in remarriages have different relationships and responsibilities to residential (and nonresidential) children. The lack of obligation to non-biological children can result in discrepancies between what the biological parent and the stepparent perceive as needs and what constitutes equitable distributions of resources (Jacobson, 1993).

Secondly, fairness in stepfamily finances is complicated by the multiple contexts in which remarried individuals operate. These contexts typically include the residential household and the household of the ex-spouse. When it comes to a fair distribution of resources, "if a single household is taken as the relevant context, and equality as the principle of distribution, then the resources members receive from outside the household (i.e., from other households) are irrelevant, even if consequently the level or amount of resources available to members of the household is unequal" (Jacobson, 1993, p. 227). However, if individuals or financial advisors consider the gifts, opportunities, and income from non-residential parents, then the "principle of equality of distribution from within the household pool may be disregarded, making the operative principle, in effect one of need and/or equity" (Jacobson, p. 227).

Implications for financial advisors. Part of assisting clients with decisions about a financial strategy may include helping them understand how their conceptualizations of fairness differ. Although clients may use the same words (e.g. fairness) to describe their goals for either the distribution of, or contribution to, household resources, it may be helpful to have clients articulate what they mean by fair. It may also be useful to pose some hypothetical situations, such as: Jane's daughter wants to take harp and ballet lessons that each cost $100/hour. Joe's son wants to take piano and chess lessons that each cost $50/hour. If you were Joe and Jane, how would you decide who gets to do what? Who will pay for what? Would it make a difference if a nonresidential parent was willing to cover some of the expenses?

Financial Obligations to Stepchildren

Although stepparents have no legal obligation to financially support stepchildren (Fine & Fine, 1992; Mahoney, 1997), stepparents' financial support of stepchildren is becoming increasingly common and expected (e.g., Ganong, Coleman, & Mistina, 1995). Stepparents predominantly believe that obligations to share financial resources with stepchildren end when the child enters adulthood; although some maintain that it continues through college (Aquilino, 2005). Stepparents are less likely to give monetary gifts to adult stepchildren than they are to their adult biological children (Killian, 2004).

Few adults entering remarriage fully understand that stepparents are under no legal obligation to support minor stepchildren (Fine & Fine, 1992; Mahoney, 1997). Biological parents often consider remarriage to be an implied contract for their new spouse to support their children. Even when courts become involved, judges almost always rule in favor of biological ties for support of children (Mahoney, 1997).

Implications for financial advisors. There is tremendous ambiguity when it comes to obligations to stepchildren. For example, if a nonresidential, biological father is ordered by a court to pay child support, alimony, and cover the children on his insurance plan but he doesn't do it, should the stepfather help out? If his wife can't pay for it, should the stepfather be expected to cover his stepchildren's expenses? If he doesn't, what message does this send to his wife and stepchildren? Because there are few legal precedents for financial obligations to stepchildren, couples will ultimately have to work out an arrangement on their own that meets their needs, expectations, and resources.

Understandably, financial advisors may not want to delve into this area or mediate conflicts that may arise. Rather, they may prefer to let the courts mandate and/or enforce financial obligations. However, the reality is that the judicial processes can be drawn out and costly. Even then, an ex-spouse may not make good on the arrangements and no further legal recourse is available. Advisors can play a valuable role in facilitating communication that will result in financial practices that support long term financial success and security.

As a result of the unpredictability and lack of control over an ex-spouse's financial obligations and non-residential children's financial demands, advisors may want to suggest that their clients maintain more assets in liquid form than what they would typically recommend to first marriage couples. Without sufficient financial reserves, during an unexpected period without child support payments, for example, clients may need to draw on funds from retirement accounts or other sources that incur a penalty or high opportunity costs.

Another way to prepare for uncertainty and clarify ambiguity is with a prenuptial or antenuptial agreement. Despite the fact that the courts favor the biological obligation of parents for minor children, Mahoney (1997) notes that private contracts are binding, even where legislation is absent. It may be in the clients' best interests to form a nuptial agreement as to roles and responsibilities within the relationship even if only for cases of emergencies or unforeseen tragedies. Advisors, as part of their periodic client reviews, may wish to discuss these issues with clients who are considering remarriage or repartnering and encourage consultation with an attorney. While a nuptial agreement may seem the antithesis of romance, it is one way to articulate expectations and promote long term marital and financial satisfaction.

Conclusion

The ambiguity and relative absence of culturally accepted norms related to stepfamilies has been termed the *incomplete institution*. Cherlin (1978) coined the term nearly 30 years ago and wrote, “the day-to-day life of remarried adults and their children includes many problems for which there are no institutionalized solutions” (p. 646). Scholars and clinicians have acknowledged these dynamics and the *incomplete institution* as a source of great stress and conflict for newly remarried couples (Ganong & Coleman, 2004).

Consequently, from the perspective of a remarried client, it is beneficial for financial planners to understand the financial complexities facing stepfamilies. In fact, just asking about their unique financial needs and offering some research-based recommendations can give remarried clients a greater sense of confidence that the advisor truly understand their situation. For example, an advisor could provide a list of important documents that need updating as a result of the recent remarriage (e.g., beneficiaries on their retirement accounts and life insurance policies, living will, and powers of attorney, etc.). Since most states have laws regarding the transfer of beneficiaries in the case of divorce and remarriage, it would be advantageous for advisors to work closely with an estate planning attorney. In the event of premature death, failure to update estate planning documents may result in unintended consequences with assets distributed contrary to the intentions of the remarried couple.

Many remarried couples attempt to mimic the financial arrangements of first marriages only to become frustrated (Lown & Dolan, 1988). As more of these remarried clients look for professional financial advice, the issues and implications presented above can be discussed with clients to both demonstrate advisor awareness of remarital and stepfamily dynamics as well as to develop financial plans that will foster financial and relational harmony. And since finances are near the top of the list of common remarriage problems (Lown & Chandler, 1993), knowledgeable financial planners may even help prevent future marital discord or divorce.

Appendix

On-line resources related to remarriage and finances

Foundations for a successful stepfamily. By Sharon Leigh, Maridith Jackson, and Janet A. Clark (2000). University of Missouri Extension. Advice on a wide-range of topics including expectations, finances, and children. 6 pages. Retrieved September 6, 2006, from http://muextension.missouri.edu/explorepdf/hesguide/humanrel/GH6700.pdf

Premarital agreements. By Alice M. Morrow & Marsha Goetting (1998). Oregon State University Extension. Discusses the dynamics of premarital agreements and topics that should be discussed. Includes questions to consider if one of the parties has a former spouse. 2 pages. Retrieved September 6, 2006, from http://extension.oregonstate.edu/catalog/pdf/fs/fs318-e.pdf

Remarried families: Making financial decisions. By Marsha A. Goetting (2000). Montana State University Extension. Practical advice about finances in remarriage, how to talk about finances, and success strategies. 4 pages. Retrieved September 6, 2006, from http://www.montana.edu/wwwpb/pubs/mt9118.pdf

Remarriage: Legal and financial issues. By Alice M. Morrow (1998). Oregon State University Extension. In-depth look at financial and legal issues in remarriages. Topics include premarital agreements, estate planning, and property ownership. 20 pages. Retrieved September 6, 2006, from http://extension.oregonstate.edu/catalog/pdf/ec/ec1484.pdf

Take charge of your money. By Barbara R. Rowe (2005). Utah State University Extension. A financial workbook and basic guide to family finances. Includes topics such as budgeting, investing, insurance, and wills. 127 pages. Pages 95-109 specifically address financial issues related to remarriage. Retrieved September 6, 2006, from http://extension.usu.edu/files/publications/tcoym2005.pdf

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