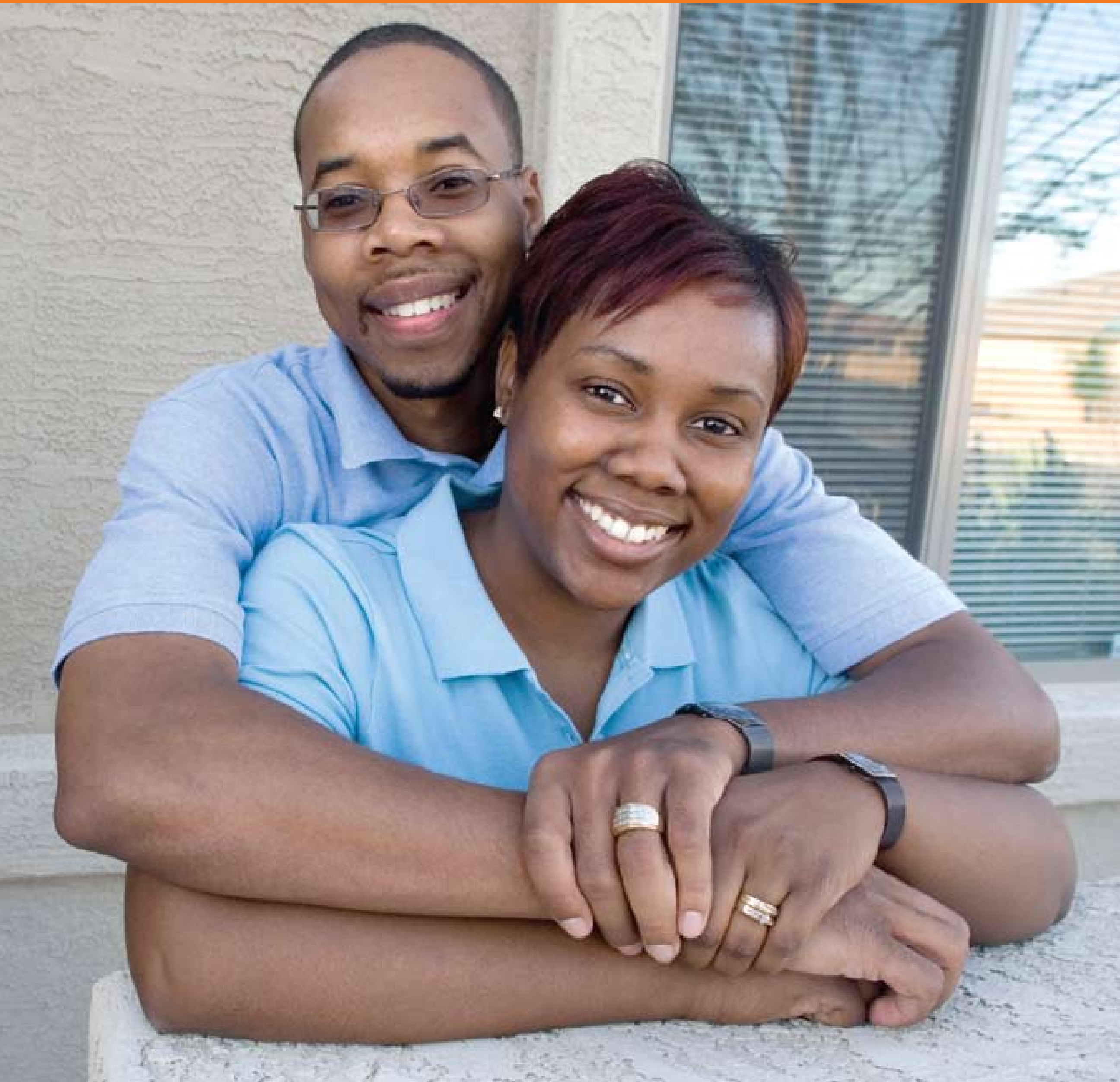
THE USAA EDUCATIONAL FOUNDATION®

Good Information for Good Decisions.®

TRANSITIONS

MARRIAGE AND MONEY



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OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.

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2 DEVELOPING YOUR PLAN

If you are marrying for the first time or remarrying, developing your financial plan for the future can be exciting when done together. Knowing your financial expectations and sharing them with your spouse is an important first step.

Talk about your finances.

- Couples should observe each other's money habits and talk honestly and openly about money attitudes and expectations.
- Each person should understand how their partner handles money — ask your spouse about their financial upbringing — which has been influenced by their parents' attitudes about money and whether they grew up rich, poor or middle class.
- Evaluate spending priorities — agree where your money will go. Come up with an equitable plan that takes both person's priorities into account.
- Discuss the type of lifestyle you will lead and your financial goals:
  - Buying a home — discuss down payment and loan options.
  - Preparing for children — when to start a college savings fund.
  - Investing for retirement — talk about how comfortable you are assuming risk with your investments.
  - Paying on existing debt and opening new credit accounts.
  - Establishing ground rules for purchase of big-ticket items — dollar amount and timing.
- Do not keep secrets.
- Assess your individual financial skills and decide how you will divide the money management tasks; such as paying bills, preparing tax returns and making investment decisions.

Compromise — learning how to make joint decisions.

- As you talk with each other, you will begin to understand why your views may differ from your spouse's views.
  - Consider the deeper, emotional issues that direct behavior without judging or criticizing.
  - This financial understanding of each other is the basis for compromises you will need to make about money management.
- Establish financial goals — decide when you want to achieve financial independence — determine where you want to be in 10, 20 or 30 years.
  - You should consult your attorney, financial planning professional, tax accountant or other professionals when you make legal and financial decisions.
  - Specific state laws and your unique circumstances will determine how you use the information contained in this publication.

Things To Consider

GOAL SETTING	MONEY MANAGEMENT
What are your financial goals? What are your dreams and goals for retirement? What assets do you bring to the marriage? How do you feel about financial responsibilities to aging parents, ex-spouses or children from a previous relationship, if any? What financial expectations and beliefs do you have about raising a child? Who will care for your children should you die and how will that financial situation be handled? How will you make decisions about life insurance and wills? Will you designate each other as beneficiary?	What are your spending habits? Are you frugal, a spender or somewhere in-between? Do you prefer to have joint accounts or separate accounts? If you opt for joint accounts, who will manage the checkbook and pay expenses? If you opt for separate accounts, who will pay household and other expenses? If only one of you works outside the home, how will money decisions be made? How will you make a decision if one of you gets a job offer that requires relocation? Do you need to keep some part of your financial life separate? Can you both agree to that? Why?
CREDIT AND DEBT	**SAVING AND INVESTING**
What are your debts? Who will be responsible for those debts? What is your credit score? How will you decide about new purchases? Are you willing to share credit cards? What kinds of charges should be made on credit cards you share?	What is your income? Do you save? Do you invest? Who will make investment decisions? What if you disagree? If both of you own a home, how will you decide whether to sell or lease the second home?

4 MERGING FINANCES IN MARRIAGE

Develop a written budget — be sure to cover your needs and some of your wants.
A budget helps you focus on important financial goals. To create your own budget, add every dollar you spend for a month and monitor what you purchase. You may be surprised how much you spend and on what things.

- Gather pay statements and other income statements, check registers, bank statements, credit card statements, bills and receipts.
- Copy the budget work sheet (on pages 6 and 7). Use it to record the amounts you plan to spend for the month. Depending on your financial goals, financial planning professionals recommend saving or investing 10 percent to 15 percent of monthly net income.
- Total your monthly net income and subtract your monthly expenses to determine your net cash flow.
- Monitor your spending. Keep written records of your purchases and payments. Record the amounts you actually spent for the month.
- Review your plan. Compare what you spent to the amounts you planned to spend. How well did you do for the month? Did you have extra money (net positive cash flow), or did you borrow money by using a credit card? Look for areas that require special attention, and reduce or eliminate expenses as needed. Review your spending plan at least once each month.
- Adjust your plan. Modify expenses to reach your financial goals.

Agree upon your money management strategies.

- Decide on the use of joint or separate bank accounts.
  - A joint account can be used for family expenses: mortgage or rent, utilities, groceries and common bills.
  - Each person can have an individual discretionary account for personal spending.
- Work out a plan for payment of existing debt — do not commingle your debt — keep existing credit card and loan accounts in the original holder's name.
- Allocate income for payment of monthly bills; mortgage or rent, utilities and insurance.
- Establish an emergency fund — save enough money to cover 3 to 6 months of basic living expenses — in case of an extended illness, an unexpected job loss or other "unbudgeted" expense.
- Build-in provisions for automatic saving and investing.
- Consider using an online bill pay tool — offered free by some financial institutions.
- Track your cash flow — know how much you are spending each month.
- Annually calculate your net worth, then revise your financial plan as necessary to meet your goals.

Update financial accounts and records.

- When merging finances the most important thing to remember is honesty — disclose all financial related matters to your partner.
- Find and reduce duplications in employee benefits, insurance policies and financial accounts.
  - Compare each employer's policies about matching 401(k) contributions. If one individual's employer matches at a higher rate, you may want to consider fully funding that individual's 401(k) up to the matching percent first.
  - Check with your insurer for possible savings. Combining auto policies into one could get you a discount. Review your insurance policies to see if they still meet your needs. Review your coverage limits on combined personal property.
  - If both of you bank at the same institution, make sure your various accounts — individual and joint — are connected at the bank or credit union. The connection could help qualify you for lower fees, higher interest rates on savings or other valuable benefits.
  - Check for other duplications including subscriptions, memberships and services, such as Internet, phone and cable/satellite.
- Change beneficiary on insurance policies and company pension plans.
- Order a copy of your credit reports.
  - Your spouse's credit score will affect your ability to get joint credit.
  - Talk about how to improve your credit scores.
- Evaluate existing saving, investing and tax arrangements.
  - Establish an investment money market account for holding emergency funds.
  - Determine level of contribution to tax-advantaged retirement accounts such as; private employer 401(k), military Thrift Savings Plan (TSP) or Traditional/Roth Individual Retirement Account (IRA).
  - Update retirement account beneficiaries.
  - Calculate appropriate withholding amount on federal and state income taxes.
  - Notify the U.S. Social Security Administration of your marriage to ensure eligibility for your spouse's benefits.

Establish a plan for regular saving and investing.

- As soon as you decide to get married, begin saving. Pay yourself first. As a goal, save 10 percent to 15 percent of your net income.
- When you get a salary increase, contribute more to your employer-sponsored retirement plan and IRA accounts (not to exceed IRS guidelines).
- Make automatic deductions from your pay into a savings or investing account, or through regular automatic transfers from your checking account into a savings or investment account.

Use copies of this work sheet to track your spending for several months. *Skip items that do not apply.*

BUDGET WORK SHEET

Income For The Month Of:	**AMOUNT**	
Monthly gross income	$	
Other income (spouse, interest, etc.)		
Total Monthly Gross Income	=$	
Deductions		
FITW — Federal Income Tax Withholding (if applicable)	$	
SITW — State Income Tax Withholding (if applicable)		
FICA — Social Security		
FICA — Medicare		
Total Deductions	=$	
Monthly Net Income (total gross income minus total deductions)	**=$**	
EXPENSES	**AMOUNT PLANNED**	**ACTUAL EXPENSES**
Charitable Giving		
Place of worship	$	$
Other		
Savings/Investments (target at least 10%–15% of monthly net income)		
Emergency fund	$	$
Retirement accounts (IRA, 401(k), etc.)		
Other		
Home/Utilities		
Food	$	$
Rent/Mortgage payment		
Utilities		
Home maintenance		
Property taxes (1/12 of total annual expense)		
Furniture		
Phone/Cell phone		
Internet service		
Debt		
Credit card(s) payment	$	$
Loan(s) payment		

EXPENSES *(CONTINUED)*	AMOUNT PLANNED	ACTUAL EXPENSES
Insurance		
Auto insurance	$	$
Renters/Homeowners insurance		
Health insurance		
Disability insurance		
Life insurance		
Education		
Tuition	$	$
Room/Board/Travel		
Books/School supplies/Uniforms		
Transportation		
Vehicle payment	$	$
Gasoline/Parking/Tolls		
Vehicle maintenance		
Registration/License fees (1/12 of total annual expense)		
Public transportation		
Personal		
Clothing	$	$
Laundry/Dry cleaning		
Grooming (hair care, toiletries, etc.)		
Child-care expenses (babysitters, child-care center)		
Recreation/Entertainment		
Vacation(s) (1/12 of total annual expense)	$	$
Entertainment/Dining out		
Hobbies (for example, golf or tennis equipment and fees)		
Club fees/Organization dues		
Cable/Satellite television		
Total Monthly Expenses	**=$**	**=$**
CALCULATE MONTHLY CASH FLOW		
Monthly Net Income	**$**	**$**
Less Total Monthly Expenses	**–$**	**–$**
Net Cash Flow (Deficit)*	**=$**	**=$**

**If your net cash flow is positive, you can save more for emergencies or other financial goals. If negative, you will have to cut expenses or increase income (by taking a second job, for example) to reduce or eliminate debt.*

Decide how you want to hold title to property you own together.

- Assets, including real estate, investments and other financial accounts, can be owned by a married couple in more than one way. State laws dictate how the ownership of some marital assets is treated. Depending on applicable state law, property that the two of you own together may be titled in one of several ways, for example:
  - **Tenants in common** each own a separate piece of the property rights, although not necessarily an equal share. Each individual generally has the right to sell, give away during their life, or at death through a will, their own part of the property without affecting the other tenant's ownership rights to the property. There is no right of survivorship that transfers the decedent's interest to the other co-owner.
  - **Joint tenants with a right of survivorship** each own the entire property, not just a part of it. If one joint tenant dies, the surviving joint tenant automatically receives the deceased tenant's interest in the property without being subject to probate. Joint tenants must generally both consent to the sale of real property or to any loans made against it.
  - **Tenants by entirety** is a form of co-ownership that applies only to legally married couples who own real estate. Neither tenant can transfer property while both are alive without the other's permission. When one tenant dies, however, the surviving tenant automatically receives the deceased tenant's ownership rights. (Not all states recognize this form of ownership.)
- Because of legal consequences, consult an attorney for advice about the ownership arrangement for your assets that is right for you and your spouse.

Discuss financial matters periodically.

- Agree upon a formal time, perhaps weekly or monthly, to go over financial matters.
  - Review cash flow and discuss budget adjustments.
  - Evaluate progress you have made in achieving your short-term, intermediate-term and long-term financial goals.
  - Establish new goals based on recent life events.
- Review your credit report at least once each year — consider a review during federal income tax filing time when all your financial documents are available.
- Work as a team.

Estate planning is the process used to arrange for the transfer of your property to your heirs and to other beneficiaries, in a way that will achieve your personal objectives and minimize the associated costs and taxes. Like the other areas of financial planning, estate planning is individualized and goal-oriented.

On the financial side, a good estate plan coordinates what will happen with your home, your investments, your business, your life insurance, your employee benefits (such as a pension plan) and other property in the event you became disabled or die.

YOU SHOULD CONSIDER UPDATING YOUR WILL AT REGULAR INTERVALS AND WHENEVER A SIGNIFICANT LIFE EVENT OC-CURS, SUCH AS MARRIAGE, THE BIRTH OR ADOP-TION OF A CHILD OR MOVING TO ANOTHER STATE.

Wills

In addition to insurance, a will is a necessary part of good financial management. If you do not have a will, a state court finalizes your affairs upon your death and charges your estate for the expenses. Your remaining assets are divided among your relatives according to state law. If you are unmarried and have no blood relatives, the state may take your property.

With a will:

- You can designate who receives your property when you die.
- You can appoint a guardian for your minor children.
- You can provide financial security for your spouse and children.
- You can leave money to a worthy cause.

You should consider updating your will at regular intervals and whenever a significant life event occurs, such as marriage, the birth or adoption of a child or moving to another state.

Powers Of Attorney

- You can give another individual the legal authority to act on your behalf for a purpose you designate, such as paying your bills, managing your personal affairs or handling your finances.
- You must be of sound mind and not under mental duress to prepare and execute any of these documents.
- Unless it is a durable power of attorney, a general power of attorney expires if you become incapacitated.
- You have several options for authorizing another individual to act on your behalf.

Durable Power Of Attorney For Financial Transactions

- This document continues to operate even if you become unable to manage your own personal and financial affairs.
- As long as you are mentally competent, you can revoke a durable power of attorney whenever you wish.
- Consider executing a new durable power of attorney every 3 to 5 years to confirm your intention.
- Take your durable power of attorney to your financial institutions while you remain competent to confirm they will accept it.

On the personal health side, a good estate plan includes directions to carry out your wishes regarding health care matters, so that if you ever are unable to give the directions yourself, someone you select would do that for you.

Durable Health Care Power Of Attorney Or Health Care Proxy

- Allows you to appoint someone to make health care decisions on your behalf should you become incapacitated.
- Have it prepared by an attorney who specializes in the field to ensure it conforms to your state's laws.

Health Care Directive, Living Will Or Directive To Physicians

- Designates medical procedures you want taken if you become too ill to state your preferences.
- You can specify types of treatment you would reject or accept, such as no cardiac resuscitation, but maximum pain relief.
- You determine when your instructions apply, such as when your diagnosis is a terminal condition.
- Consult with your physician to determine your options.
- Leave a copy of your living will with your physician.
- Review your options periodically. Revise your health care directive to reflect changes in your preferences. New medical discoveries could alter your decisions.

Health Insurance

Without health insurance, just one trip to the emergency room could put serious financial strain on your family or deplete your savings. It is one of the most important ways you can financially protect yourself and your family. Without health insurance you could incur significant debts as a result of medical treatment. Without health insurance you are less likely to seek preventive care or timely diagnosis of an illness. If your employer offers subsidized group health insurance coverage as one of its benefits, taking that coverage is usually a better choice financially than buying a private medical insurance policy. If private health insurance is your only choice, you will need to include it in your budget.

Disability Insurance

If a severe injury or illness prevents you from working, disability insurance can help you keep sufficient income coming into the household. The policy replaces a portion of your income after certain requirements are met. You may be able to get some disability coverage through your benefits plan at work that will typically cover as much as 60 percent of your gross income. Premiums vary depending on the type of plan you choose and payments to you may be subject to federal income tax.

Life Insurance

When you are single and have no dependents, life insurance may not be a necessity, unless you have significant debt. When you marry and someone depends on you and your income, life insurance is an important consideration. Life insurance is designed to cover debts and replace the income lost to your beneficiaries when you die. Talk to a financial planning professional about what kind of life insurance policy is best for you.

Long-Term Care Insurance

A long-term care insurance policy can help safeguard your savings from the high cost of long-term care services such as home health care, rehabilitation or nursing home care. If you are in your 20s or 30s, you should regard long-term care insurance as a future expenditure. As you move into your 40s and 50s, purchasing the coverage may be a consideration. Research the options that long-term care insurance offers and review specific policies available to find the one best suited to your needs.

In summary, the intended purposes of estate planning are to establish the legal disposition of your financial assets, to minimize potential taxes and fees and to set up contingency plans for making sure your wishes regarding health care treatment are followed.

Financial planning professionals recommend you use an attorney with estate planning knowledge and experience to prepare the legal documents required for your specific needs. Legal expenses for estate planning vary. Remember to review and update your will and estate plan periodically, especially if your family circumstances change because of significant events such as a birth, adoption, divorce or death.

12 PRENUPTIAL AND POSTNUPTIAL AGREEMENTS

Prenuptial Agreement

Prenuptial agreements are most commonly used to prearrange financial matters and protect future inheritances. Allow at least three months before the wedding to work out the details. A valid prenuptial agreement generally involves lawyers and full financial disclosure. Most prenuptial agreements provide that whatever property or debts you bring to the marriage will remain yours if the marriage dissolves. They protect what you do not have yet, including property you expect to inherit. They can be used to specify rights and privileges within a marriage, or they can provide for the division of property and custody of children if a couple divorces. Generally, states will not allow you to waive child support, dictate child custody or otherwise impinge on the rights of your children.

Do you need a prenuptial agreement? Probably not, if you are both young, have not accumulated any real assets and are not likely to inherit a sizeable amount of money or property. In this case, the laws of your state which establish how property is divided in marriage may fit your needs and no other contract would ever be needed.

If, however, you are coming into marriage with considerable assets, including, for example, stocks, real estate, other investments, vehicles, jewelry, art or anticipate an inheritance, you should consider a prenuptial agreement, regardless of your age or previous marital status. You may also want a prenuptial agreement if you own a business. Consider the following steps in preparing a prenuptial agreement:

- Talk to each other about what you want to include: for example, assets, support for children from a previous marriage and inheritances.
- Decide what agreements you might want to make with each other.
- Consult an attorney knowledgeable about family law for advice.
- Incorporate your agreements into a written contract prepared by your attorneys.
- In the contract, you may want to specify a date or timeframe for reviewing and, if needed, revising the agreement every 2 to 5 years, for example.
- Make sure you both believe the agreements are fair and equitable before you sign anything.

Postnuptial Agreement

You may also accomplish the same goals by making a postmarital agreement, a similar legal document created after you marry, but these agreements are less common than those made before marriage.

Whether you choose to change your name or not, you will need to consider any possible legal consequences of your decision. Use the Name And Address Change Checklist to notify others of this change. As you consider the following options, remember that laws vary from state to state.

As soon as possible after your marriage, record your new name on all legal, business and official documents. You should consult an attorney regarding your specific situation.

- **The wife keeps her maiden name.** Sign your maiden name on your marriage certificate and future documents. In many states, if you want to keep your maiden name after marriage, you have no obligation to notify any official agencies. However, you should check your own state for possible special requirements.
- **The wife takes her husband's last name.** Sign your new name on your marriage certificate and all future documents. To change your name on documents, some entities require you to make the change in person, complete forms or provide a certified copy of your marriage license (or certificate).

  Gather the forms required by employers and financial institutions at least one month before you marry. Financial planning professionals suggest you begin by contacting your local office of the Social Security Administration because employers, many financial institutions and others require that their records be consistent with Social Security records.
- **The wife uses a hyphenated last name, incorporating her maiden name and her husband's last name; her husband keeps his own last name.** Or, less common, both husband and wife hyphenate their last names. Sign your new, hyphenated name on the marriage certificate and future documents.
- **The wife uses her maiden name as a middle name and takes her husband's last name.** Sign your new name on your marriage certificate and future documents.
- **The wife uses both her husband's last name and her maiden name.** Problems can arise when you use the two names interchangeably on legal documents. To avoid future complications, use only your maiden name on legal documents and joint federal income tax returns. The IRS may require proof of your marriage and request a notarized copy of your marriage license (or certificate) if you choose this option and file a joint return.
- **The husband takes his wife's maiden name.** This generally is chosen when changing the wife's last name is difficult for professional reasons and both partners want to share the same last name.

Name And Address Change Checklist

This checklist below lists sources of records where your name and address may appear. If you choose to change your name, change each record that applies.

DOCUMENTS/RECORDS

- ❑ Automobile Insurance Provider
- ❑ Business Cards
- ❑ Checking Account
- ❑ Club Membership
- ❑ Credit Card(s)
- ❑ Dentist
- ❑ Driver's License
- ❑ Employee Records
- ❑ Health Insurance Provider
- ❑ Homeowners/Renters Insurance Provider
- ❑ Internet Service Provider
- ❑ IRA
- ❑ Life Insurance Provider
- ❑ Loan Account(s)
- ❑ Medical Specialist(s)
- ❑ Military Or Department Of Veteran Affairs
- ❑ Mutual Fund
- ❑ Passport
- ❑ Pension Plan
- ❑ Personal Physician
- ❑ Phone Company
- ❑ Post Office
- ❑ Professional Licensing Organization (for physicians, attorneys, other licensed professionals)
- ❑ Property Title Or Lease
- ❑ Safe Deposit Box
- ❑ Savings Account(s)
- ❑ School Records
- ❑ Social Security Card
- ❑ Stock/Bond Registration(s)
- ❑ Subscription(s)
- ❑ Taxes/Internal Revenue Service
- ❑ Trust(s)
- ❑ Utility Company(s)
- ❑ Vehicle Registration
- ❑ Voicemail Message
- ❑ Voter Registration
- ❑ Will (Revise or write new will)

WHEN YOU DECIDE TO MARRY:

- ❑ Talk to each other about your financial habits, attitudes and behaviors.
- ❑ Disclose your assets to each other.
- ❑ Disclose your debts to each other.
- ❑ Set goals for yourselves as a couple.
- ❑ Create a budget together.
- ❑ Begin saving for joint financial goals.
- ❑ Begin to pay debts in full by the time you marry.
- ❑ Discuss whether or not you want or need a prenuptial agreement. If so, what needs to be included?

TWO MONTHS BEFORE YOUR WEDDING:

- ❑ Begin to create your post-wedding budget.
- ❑ Decide how money will be managed in your marriage.
- ❑ Decide if you will change your name when married.

ONE MONTH BEFORE YOUR WEDDING:

- ❑ Finalize your post-wedding budget.
- ❑ Decide who will assume financial responsibilities.
- ❑ Establish your emergency fund.
- ❑ Identify sources of records where you will need to change your name/address.
- ❑ Continue to openly discuss financial management matters.
- ❑ If you need health, disability or life insurance, begin considering policies.
- ❑ Continue to work on a prenuptial agreement with your attorney(s). Sign the agreement 2 weeks before your wedding.

IMMEDIATELY AFTER YOUR WEDDING:

- ❑ Make name and address changes, as necessary.
- ❑ Change beneficiary designations or insurance policies, pension plans, other documents, as necessary.
- ❑ Review all insurance policies. Cancel duplicate policies, memberships, subscriptions and services.
- ❑ Update your will. If you have no will, prepare and execute one.
- ❑ Create a durable power of attorney for financial matters and for health care. Consider signing a Directive to Physician.
- ❑ Contact your employer to make changes to benefits as needed, that reflect your requirements as a new couple.
- ❑ Schedule a time for your financial management discussions.
- ❑ Organize your personal documents.
- ❑ Review federal income tax status and decide which filing status is most beneficial.

RESOURCES

The USAA Educational Foundation offers the following publications.

MANAGING CREDIT AND DEBT (#501)

BUILDING AND MAINTAINING GOOD CREDIT (#536)

FINANCIAL PLANNING AND GOAL SETTING (#511)

ESTATE PLANNING (#518)

MANAGING YOUR PERSONAL RECORDS (#506)

RETIREMENT PLANNING IN YOUR 20S AND 30S (#516)

BASIC INVESTING (#503)

AUTO INSURANCE (#526)

HOMEOWNERS INSURANCE (#558)

HEALTH INSURANCE (#545)

LIFE INSURANCE (#507)

LONG-TERM CARE (#537)

BUYING A VEHICLE THAT MEETS YOUR NEEDS (#505)

FAMILY VALUES: BUILDING A LEGACY (#562)

IDENTITY THEFT (#520)

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