Regions Wealth Podcast

Episode 15: Partners & Portfolios
Many people struggle with how to manage finances in a marriage. Should one person handle them, or should it be a joint effort? Should you and your spouse keep separate accounts? And retirement planning? Chief Investment Officer Alan McKnight joins us in this episode to discuss money and marriage, including how to talk to your spouse about money and the best ways to manage finances in a partnership.

Episode Transcript

Anne Johnsos:
Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host Anne Johnsos. Every marriage is a partnership and finance is no different. Do you and your spouse manage your money together or does just one of you handle it? How much does each person need to know and what's a helpful amount of transparency? Joining me in studio is Alan McKnight. He's the chief investment officer at Regions Bank. Alan, thanks for being here.

Alan McKnight, Chief Investment Officer, Regions Bank
Thanks for having me today.

Anne:
In this episode we're talking about partners and portfolios. We've taken frequently asked questions from a bunch of people and developed a character who needs your advice. Let's listen.

Chris:
Hello. I'm Chris. I'm 52. I'm a college professor and recently married to a woman who is way out of my league. I'm a pretty lucky guy. Emily and I lived together for two years before we got engaged, so we mostly had the whole cohabitation thing down. But since we weren't married, we didn't combine finances. Everything was a 50/50 split. And it still is. But that's kind of an issue for me. I think, as a married couple with a lot of shared expenses, it makes more sense for us to combine finances. We already make purchasing decisions together, only now we tradeoff -- I buy the groceries one week, she gets the next week, that sort of thing. Here's the tricky part: Emily is against combining our finances. And I see where she's coming from. It would help me more than it would help her. For starters, she outearns me. She's an attorney and makes

well into the six figures. As a professor, I make about half her salary. But to me, switching to joint accounts -- savings, investments, and so on -- just makes sense. We fully share our lives now, and we have a laundry list of goals we're hoping to achieve together, like buying a new home. So why are we saving for these goals in silos?

Anne:
Chris clearly feels strongly about combining his finances with his wife's. What are the pros of that, and what are the cons of that?

Alan:
Interestingly, so much of it is psychological and it's how you think about the world and how you've lived and worked and even how you were raised. From a basis perspective or a bias perspective, people generally want to follow that same path going forward. What we have found is by working together, and similar to how real estate people say, location, location, location, we argue for transparency, transparency, transparency. If you can work together and share common goals and have a vision for what that might look like, as well as the know exactly where you stand. What does that look like from a savings perspective, an expense perspective, a revenue perspective, you have a much higher probability of achieving your goals over time. His views are certainly founded in what he's experienced over time, but we found is that's rarely the best way to go forward.

Anne:
When it comes to a savings goal, like the purchase of a first home, what are the benefits and drawbacks of combining the savings into a single account?

Alan:
The benefit is from a borrowing perspective, the organization, the bank that is looking at you can see what do you have in totality; you're coming together to this, you have equal parts in this. Rather than, "who is really going to own the home? Are you borrowing for you? Are you borrowing as a couple or one of the two?" Just from a cohesive perspective and financially you have much more wherewithal when you actually combine your finances. Now, the opportunity set there is that you also get to look at the balance sheet and say, "Okay, what do we actually have? How much do we have? What can we afford?" rather than looking in isolation. In addition, it can create some psychological tension along the way. If one person is taking the lead on that and it's their loan, it's their house, versus a combined purchase, that is fraught with challenges along the way and so again, the ability to work together on that and combine them is very positive. It also allows you to consider, "what other debts might

we have as a couple? Do we need to keep certain ones of those isolated?" Because it's better from a total borrowing perspective.

Anne:
Yeah, that makes sense. Alright, let's get back to Chris and hear what else is on his mind.

Chris:
And then there's retirement. Wouldn't we be able to save more effectively for retirement if we saved together? We both have this goal of retiring in 10 years and buying a second home in Calabria, Italy. I have a pension, but still maintain a self-directed trading account, which probably isn't as robust as the investment portfolio Emily's advisor put together for her. This is a huge dream -- a shared dream -- and I just feel like it would be easier for us to actually realize this dream if we're truly working together. You know, getting that single view of everything. Whew. Sorry if I'm rambling. It's just -- Emily values her independence and I respect that. I love that about her. I'm also willing to admit I'm not an expert here, so it's possible there's a middle ground I'm missing. I know we could keep our separate accounts AND open a joint account, but that seems like it only complicates things more.

Anne:
Alright. Let's start with the idea that he believes pooling their money into a single retirement fund will help them be more effective. Is that the case?

Alan:
Well, it's critical to follow the rules and regulations around that. In many cases people don't realize what these retirement accounts are meant to do and even the regulations around them. Understanding what that means to start is critical because in many cases you can't combine those two accounts. You really have to keep them separate and they were set up that way to ensure that each individual would have an appropriate retirement plan for themselves. That said, there's nothing to stop a couple from looking at them in a combined way, and understanding in totality how much do we have specifically for retirement? If it is retirement, certain assets should be ring fenced in that regard to say these are for retirement. This is not necessarily the house in Italy. This is not necessarily a health care plan. This is specific to the retirement funds we need. Similarly, his pension plan would be considered that as well and it's a critical element to it.

Anne:

Great. Are there benefits to keeping the separate investment funds? I mean you just talked about the fact that there are legalities around it. But is it better for her to have maybe a bigger fund where she's contributing more? Is there some way that that works out better?

Alan:
It can be. In certain cases and in certain companies, she may be able to add more to her retirement account and she should try to maximize that. Any amount of money that they can put pretax into retirement fund of some sort, and there are a host of different ways to do that, she should do that and really should try to maximize that. The ability to work with an advisor to understand where can we get the most of our pretax dollars, where can we put them for the longest period of time where they can grow and build without any risk or with limited risk to any withdrawals or need, the better. She really should attempt to that as well as think to his pension account and is that being maximized? Are there things he could be doing that could aid in that process over the longer term?

Anne:
Is there a possible solution that respects Emily's wishes to remain financially independent but also satisfies Chris's desire to combine the finances?

Alan:
There is. It'd be very easy to create a plan for the two of them. A plan that encompasses both sides, the balance sheet, both hers and his, and look at it that way despite the actual account residing under their names. There's nothing says that you... just because the accounts are in someone's name, that the holistic plan and the goal setting doesn't include all of those. The ability to do that is actually critical because it may allow her to feel more confident in the short term, specifically after many years of doing it on her own and having her own plan in place to say it still resides in your name and they are your assets. But let's look at our plan as a couple. The easiest way to do that is to think about this home in Italy. If you have a common goal that is truly a goal, not just a dream or an aspiration, then how are we going to achieve that and what are the odds we're going to achieve it if we're not working together on it? That also dispels any beliefs that are aspirational and just dreams and really aren't grounded in what they both want. If you haven't put that on the table and looked at the numbers behind it, again, you're not going to achieve that. In common language it's, if you can't measure it, you can't manage it.

Anne:

Yeah, that's a great way to think about it – aligning goals together into one plan. And then getting the numbers on the table. Let's wrap up with Chris about how he's handling everything.

Chris:
My best friend recently got divorced. They fought a lot, mostly about finances. That scares me. Don't get me wrong, I trust Emily completely. It's just that, this is my second marriage. I want this one to be as successful as it can. And since we're newly married, now feels like our opportunity to figure this kind of stuff out, you know?

Anne:
So financial stress is one of the leading causes of divorce. How early should couples begin discussing their finances? Like first date?

Alan:
First date over appetizers with a nice big glass of red wine. It's the perfect opportunity to discuss household finances.

Anne:
That will go very well.

Alan:
That's right. It's a winning relationship to start. The reality is couples should start to talk about it as soon as they can, when they feel that there are in a long-term relationship. It's an understanding of what would be a daily expense, a weekly expense, big ticket items and how they look at it. One may feel that big ticket items are very much rational, a home in Italy versus another who has a real challenge with the coffee every day. The three shots, instead of having one cup of coffee, all those types of things can bake into a person's view of the other. That ultimately creates the tension around finance, when folks don't know what the other is spending or what savings are meant to do. You may have the vision that it's the house in Italy. Well your partner, the person you just married, may think that's just a wild pipe dream I talk about, and I always agree with you, but that's not really what I want. If you haven't had that discussion, you may go off in parallel with very different views of the future. Then when you get there and you have the discussion, tension arises because you've been working with completely separate worldviews and it becomes problematic.

Anne:

All right. Okay. Well, Chris mentioned that this is his second marriage. He also says he trusts Emily, but he's worried if they're not on the same page now, it could be a problem later. How can he approach this topic with her?

Alan:
In our minds, the best way to do that is to bring an honesty and transparency to both expenses and savings to the table and do it in a manner that is both reflective – let's look at how we've done this historically – but let's also talk about how can we be more successful going forward. By doing so, we believe that the couple can then start to work together on it or make small strides to working together. Because we talked about earlier, that doesn't mean that everything has to get dropped into one pooled account. That may mean that we have a coherent plan for the couple, but they're in separate accounts. But at least we know how we're going to arrive at the ultimate goal. I think if you provide that runway for success, the couple has a better opportunity along the way to tweak, to modify, to get to the right place for them because it's going to be different for everyone. The core components, the foundational, and it should be the same regardless of who you are and what you are trying to achieve, but the elements of customization around you specifically and maybe the home, second home, retirement, moving to the beach, whatever those things that occur to you, you have to tweak the plan as associated and the more you can flush that out at the beginning and allow for nice runway to, it doesn't have to happen overnight, the better.

Anne:
Okay. So we've touched on this a bit, but I'm curious, what do you suggest couples do to avoid unnecessary financial stress?

Alan:
The greatest thing that any couple can do is understand the basics, the simplicity of what they do every day, and how that rolls up to the big picture. The big disconnect is around what I do today, how I spend, what is valuable to me, and what I have saved and what I have to invest to achieve my long-term goals. It can be easy to look at the big picture and say, well, I'm just going to get to this number. Or conversely, I know what I spend every week, but I don't really have a plan or a way to direct into this big goal. Over time that the couples can get to that place. If they can start to have that guided discovery together around what does this look like? What are the things that we can tweak here or there? What things do I need to give up? What are the tradeoffs you might be able to make for us to achieve that? The better. That ultimately then allows you to think over the long term, and the reality is life expectancies are only

getting higher and this is not the plan for in many cases, five or 10 years, it can be 25, 35 and you still have time. The only time that you are unable to achieve these things if you decide too late to start.

Anne:
Well, and I think that's worth touching upon because we're talking about partners and portfolios and I'd read that when a spouse dies and the other spouse doesn't know where the finance is, that's the biggest stressor of the loss, because you're not just dealing with the loss of your partner and the shifts in your family and what happens with properties or whatever. But you might not even know where the safe deposit box is or what accounts you have.

Alan:
Without a doubt. I have a very real experience in that regard. My father passed away when I was in college. My mom had been the one who had stepped away from expenses savings, really had no idea anything in that regard. You're already dealing with the loss of a husband, with the loss of my father, and suddenly all of this is thrust upon you without any idea of how to move forward. The amount of fear and concern was very real, and it was because along the way there just never been that dialogue. Then you wake up one morning and it's there and you're trying to deal with it, and it really impacts everyone. We council is that even if it's not the most interesting thing to you and you'd rather not do it, be a part of the dialogue.

Anne:
At the end of these podcasts, we like to ask for a few takeaways. Something that a listener might share with a friend because it's just that thing that the light bulb went off. Right? If you could tell Chris a few things what would you tell him?

Alan:
I would start with, begin the dialogue. Start now, share some of these sentiments around the financial picture and what you would like to achieve. Open it up and recognize that it may not come immediately. But if you come to with the view of, “we're trying to achieve these things together, and I want to talk with you about it” it's a much higher likelihood that over time she'll want to share with you and you'll be able to understand what does that mean and what are the implications of this, and it doesn't have to be binary. It's not all or nothing, there is a path you can take. If you start down that path and you can start to talk to her about that and why he wants to do it, again, there's a higher likelihood of success and it may be more understandable for her. Or she may be more willing to share along that way when it doesn't feel as

though I'm pulling off the Band-Aid and I've got to change how I've done everything for the past however many years that is a runway and they can start to work on it together. I think that's the starting point for him. Number two would be to understand what really they're trying to achieve. The idea of the home, Chris may believe that's a common dream, but is it a common dream? Is it a common goal? Or is it just something they like to chat about over dinner at night, but she doesn't share that sentiment around how important it is? If you don't have that as a crystal goal and really understanding what does this look like and how's it compared to what she may have? Again, the likelihood is very low. Then the third one would be understand the timeline. Where are we today? Understanding with regard to cashflow about what retirement looks like, what he's thinking about retirement versus what she's thinking about with retirement. Then really the implementation of that around working longer, will that help the cash flows that we receive? If I stay five more years versus 10 more years? For her, can she defer more pre-tax and put it into a different type of account? You can't get to those conversations if you haven't had the first two.

Anne:
Thanks again, Alan McKnight, chief investment officer at Regions Bank. Thanks so much for helping us.

Alan:
Thoroughly enjoyed it. Thanks for having me today.

Anne:
And thank you to the listeners for joining us, too. We hoped you learned something and that you'll recommend us to a friend. Until next time, thanks for tuning into the Regions Wealth Podcast.

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