Everyone’s got an emotional relationship with money that’s complex, lifelong, and rarely examined. And a close romantic relationship or marriage brings together not just two people, but also their money habits.

“Most of the numbers show that financial tension is one of the top predictors of divorce,” said Morningstar behavioral economist Sarah Newcomb, Ph.D., author of the new book *Loaded: Money, Psychology, and How to Get Ahead without Leaving Your Values Behind*. “So, financial advisors are pretty likely to come across couples arguing about their money.”

But how and when should an advisor start addressing these issues? Does an advisor even have a place confronting these tensions?

“I think that it can be a difficult situation for advisors to be in,” Newcomb said. “Yet that may be the very thing that helps advisors differentiate themselves from the advisor next door or a robo-advisor.”
The Romance of “Freedom Funds”

“I would say one of the biggest issues with marriage and divorce is people staying in bad relationships because they’re afraid they can’t make it on their own,” Newcomb said. “And they may be right. “This is not unique to women, but traditionally more women fall prey to this because of traditional gender roles.”

That’s why Newcomb said that advisors should encourage single clients thinking about marriage to set up what she calls a “freedom fund.”

“Everyone should have a freedom fund—a fund that gives you the freedom to say ‘I quit,’ or ‘get out,’ or ‘I’m going to Europe for a year,’” Newcomb said. “If you feel your life has gotten off track, the fund lets you make that shift—you are not stuck. Before people couple up, they should give each other permission to have a freedom fund—and a plan to keep it funded.”

While some people might be horrified at the idea of a planned escape, Newcomb said freedom funds (and prenuptial agreements) can and should be seen as romantic gestures. Advisors can reinforce that mindset, knowing that, ultimately, these plans are positive for everyone involved.

“What’s really, really important to remember about this kind of fund is that it’s extremely romantic,” Newcomb said. “People think a backup plan isn’t romantic because it means they don’t believe in real love or something like that. I think it’s incredibly romantic, because having a freedom fund means a person is free to stay in that relationship because they want to be there. And that is far more romantic than wondering if your partner is with you because you pay the bills. As your clients’ incomes grow, the freedom funds should grow along with them.

“You can design a prenup however you want. It can be whatever you think is fair,” Newcomb said. “So, I think we need to change the story to focus on protecting both sides of a couple financially, so that when they’re together, they’re thriving together and, if they’re apart, no one is suffering poverty.”

This premariage financial planning isn’t a cure-all, obviously. Advisors and their clients face a lot more work even if the preflight checklist works perfectly.
Advisors and the Art of Productive Arguments

Advisors who have couples as clients probably have noticed the tensions, the disagreements, the arguments. These are actually opportunities to add value, to make sure the arguments focus on what’s important.

“Financial disagreements are—according to some studies—the strongest predictor of divorce,” Newcomb said. “And this is not financial hardship, but financial disagreement. People can have financial hardship, but if they’re better at communicating about money and they’re hurting each other’s feelings less when they do communicate about money, they’re still more likely to stay together.

“People need to be able to have productive arguments about money. Your clients should learn how to have the arguments that, at the other side of the argument, they’re closer to a resolution than where they were when they started. These are productive arguments that bring them closer together—even though it’s ugly and it’s uncomfortable to have those conversations,” Newcomb said. “I think this is where advisors who learn some negotiation skills can really excel. When advisors learn how to help people argue more productively, they can be there as a mediator to help them argue about money.

“Advisors may be thinking, ‘I’m not a marital counselor. I’m not licensed here. Leave that for their marriage counseling.’ The problem with that is that most marital counselors do not understand money,” Newcomb said. “Your clients end up with a marital counselor who can’t help them have their financial arguments and a financial counselor who can’t help them have their financial arguments. They’re hiring all these people to help them stay together, and neither expert is delving into the very things they need help with the most.”
Spenders, Savers, and Dante’s *Inferno*

The central part of understanding a client’s financial behavior—and how it relates to their marriage—is figuring out the needs that drive the behavior. And couples can run into big trouble when their needs collide.

“When couples come to me for budgeting advice and one of them is clearly a spender and the other one is clearly a saver, I always think of Dante’s *Inferno*, because in the fourth circle of hell there are the hoarders and the wasters, rolling stones up against one another,” Newcomb said. “The hoarders on one side say, ‘why do you waste?’ while the waster say, ‘why do you hoard?’ To me, that’s the eternal argument.

“I think the strategy starts with a financial advisor being able to recognize that every single financial behavior traces back to a need and a belief that a particular behavior is going to meet that need—whether it’s true or not.”

Real-world examples of this aren’t tough to find.

“Let’s say you have a couple. They’ve had an unexpected expense, and suddenly they’re behind financially and really feeling the pinch,” Newcomb said. “One of them is a saver and associates money in the bank with security and peace of mind. And that has now shrunk, so that security and peace of mind are threatened. The spender, on the other hand, associates money with freedom and opportunity, so having less money is now making them feel pinched in the area of adventure, freedom, and opportunity.

“So, one of them is going to want to see more money in the bank to feel more peaceful. The other one is going to want to spend more money right now to feel less pinched and less suffocated. And the saver doesn’t understand why now—of all times—someone would spend money frivolously. It doesn’t make any logical sense, so they just think that their spouse is crazy or irresponsible. Yes, it is financially irresponsible, but it’s not emotionally irresponsible.

“Advisors can talk to a couple like this on the level of these more fundamental needs,” Newcomb said. “What will happen if you don’t buy that thing or if you don’t have that money in the bank? What are you afraid of? Have those conversations. Talk about those fears. Once they’re tapped into what it is that the other person needs, then they can find ways to meet each other’s needs without sacrificing their relationship or finances.”
Guilt, Not Shame

After assessing basic needs and the couple’s strategies for meeting their needs, comes the more nuts-and-bolts financial planning. But Newcomb said there are a couple of traps people can run into, and she suggested some ways to avoid them.

“There is absolutely no right way to manage finances as a couple. I tend to really like the yours/mine/ours approach. This allows for a joint account for joint expenses but then also separate accounts and separate assets that keep things clean in case you do split or just in a sense of fairness,” she said. “Some people don’t like the feeling of being entirely dependent on someone else, and so they want to be able to keep something separate for themselves. I wish there were a right way or some proven method. But because we’re humans and we have different personalities, you can’t say that one approach is going to work for every couple. I think the only approach that really works for all couples is learning how to talk to each other about money.

“Let’s say a couple has a budget and a target spending amount. Now, they should set some ground rules—have some if-then rules that make financial decisions a little easier,” Newcomb said. “If the amount is more than, say, $100 or $200—whatever it is with their budget and their priorities—then they need to discuss it. If someone violates those rules, it’s the basis for a reasonable discussion—Why is this happening? What happened here?

“ Asking someone to take responsibility is constructively placing guilt, but shame is where we get nasty and we make the other person out to be a bad person because of their financial behavior,” she said. As an advisor, you can help keep couples focused on goals and move away from personal attacks.

“Your clients can either talk about the behavior as something that’s interfering with their goals, or they can talk about the person as being someone who is interfering with their happiness,” Newcomb said. “There is a difference between the kind of self-reflection that helps us all be accountable to ourselves, our partners, and our goals and the kind that destroys our self-control even more because we beat ourselves down.”

Setting up these ground rules and if-then conditions on budgets can help advisors start conversations with clients that are less adversarial and more constructive for all parties.
Things Fall Apart

Even then, marriages can end in divorce. And with that comes the break-up after the break-up: dividing the assets (or, just as likely, the debts).

“In a perfect world, even as a couple separates their assets, they can be logical about it, and an advisor can help. But anyone who has been through the dismantling of a relationship knows that it’s not always nice and friendly. And the worst of your clients does tend to come out, especially when money is brought into the picture, because that turns up the volume in everyone’s ears,” Newcomb said. “Your clients have to know that, if the marriage does fall apart, things don’t always stay pleasant.

“The first thing your clients should do is freeze any joint accounts and make it so that a withdrawal—a large withdrawal—cannot be made without the agreement of both parties,” she said. “Otherwise you run the risk of one draining the account before the other can get to it. The first thing they should do is call their bank or call the financial institution and let them know that they’re in the process of a divorce. And that can, at least, buy some time and some peace of mind. From there, it’s usually worth the expense for clients to hire a mediator to help them communicate and disentangle their assets. It’s not a time to try to save money by doing it themselves.

“Your clients have to know that, if the marriage does fall apart, things don’t always stay pleasant.”

The upheaval of a divorce also means that your clients’ old, bad financial habits could creep up on them.

“It’s pretty intuitive that, when we’re under intense emotional strain, we’re not peak in our self-control. So, whatever lazy or emotional financial habits we have are probably going to come to the fore at that time,” Newcomb said. “Your clients definitely want to be on the lookout for emotional

NON-DIVORCE

In addition to the traditional phases of marriage and divorce, Newcomb pointed out another trend that’s getting more media attention lately.

“OK, now you’re married. Let’s say you didn’t start your freedom fund, and all your assets are mingled. And it’s not just your assets that mingled. More often than not, divorce is not so much about dividing assets as dividing debts,” Newcomb said. “Enter the non-divorce, which is where couples break up, but they stay married because they don’t feel like they can afford to get divorced.

“Maybe they live in the same house, but they don’t live in the same bedroom anymore. It’s effectively—emotionally—a divorce, but financially they stay together. There are some financial-planning resources to help advisors counsel couples going through non-divorce,” she said. “It’s largely due to financial dependence. Some people do it for the kids. Most people do it for the assets.

They don’t want to lose the house, or they don’t know how to separate their finances, so they amicably—especially when people are older and they’re not necessarily interested in finding another life partner—just stay together.

“It’s a phenomenon that advisors may want to look up if they have couples where the marriage is over but the financial relationship is continuing,” Newcomb said. If this is happening with your clients, you can help the couple address it and set some goals for how they should address it, whether they intend to stay in the non-divorce or want to make financial adjustments that would allow them to pursue an actual divorce in the future.
spending. If they tend to be emotional spenders, then of course they’re going to want to do that more. When we are grieving—and that’s the process we go through in a divorce, because it’s a death of a relationship—all of our emotional buttons get pushed.”

A New Life, With New Goals

“As a financial advisor, when you first sit down with a couple, you want to find out what their financial goals are and what they want their lifestyle to look like in retirement. And then you create a financial plan based on that and how much they’re willing to take on,” Newcomb said. “When someone is coming to you after a divorce, the reality for that person is that she had a plan. She had a life. She was on track, or maybe she wasn’t, but there was a plan. Now everything is different.

“And I think one of the most helpful things a financial planner or financial advisor can do is help this individual see how a beautiful life is still possible,” she said. “Say ‘OK, now this other person isn’t in the picture anymore. Now it’s just you retiring. Where do you want to be? What do you want to be doing? What kind of lifestyle do you want to be having?’ Help paint a picture of a great life in retirement that your client can look forward to.

“And then do exactly what you did before,” Newcomb said. “You say, ‘This is the lifestyle that you want in retirement. Now, let’s see where you are. How can we get you there?’ This is a really wonderful service you can provide. It’s just building a plan—building a plan for the individual and helping her see that the future is different from the way that she pictured, but it’s still a great future.”

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