Blending the Money in a Blended Family

By Mary and Bill Staton

First comes love. Then comes the second marriage, and the blended family, and the financial surprises.

Blended families face special financial challenges. Should you sign a pre-nuptial agreement? What if he's saved for his children's college education, but your kids have no college fund? Maybe your kids are accustomed to expensive extracurricular activities, and his aren't. How can you unite a blended family when it comes to money?

As financial coaches, money manager, and authors of *Worry-Free Family Finances* (McGraw-Hill), we discovered those challenges firsthand when we married in 1994. But we also found that compromise, negotiation, and a sense of humor helped us through all the money debates and difficulties. Try these strategies, all of which we have used, to bring a little financial harmony to your blended home.

Skip the prenuptial agreement. Don't begin your engagement by trying to figure out who gets what if it doesn't work out. That's like looking for the exit before you get through the front door. Most people don't need a pre-nuptial agreement, and demanding one is asking for problems. A few years ago we read about a California attorney who specialized only in pre-nups. After five years in the business, he gave up his practice and went into general law because he found that more than 90% of his pre-nup clients had separated or divorced.

Separate or together? People marrying for the second time have lived independently for a while, often a long while. Some opt to maintain two bank accounts and keep their money separate. Others open joint accounts. We think either way works fine, as long as you're open with your spouse about how you're are saving and investing. Investment decisions should always be made together.

Write and use a monthly budget together. Ugh, you think. But this is the key to getting what you want with your money. Involve your kids, too.

Here's how we handled the process. Before we married, Mary always wrote budgets. Bill never did. But we finally agreed to do one together. After estimating our income for 2004 and our major expenses, we drew up a wish list of what we wanted to do with the money. That helped us talk through our priorities. Now we track how we're faring with monthly budgets. If Mary is hoping to redecorate the den, or Bill wants to plan a trip for the family, we have a clear sense of whether we can afford it.

Play catch up with college funds. In our case, Mary hadn't been able to save much towards college for her children. Bill had set aside a substantial amount for his son and daughter. We knew it wasn't fair to take from one set of kids and give to the other. Saving for Mary's children became one of our priorities. We reassured Bill's children that their money was safe. Though our youngest, Will, is still at home, Tate, Whitney and Gracie have all been able to pursue the college education of their choice.

Remember that scholarships, loans, and 529 plans are plentiful. (Excellence resources include savingsforcollege.com, collegesavings.com, and kiplinger.com). Tax advantages, such as the Lifetime learning credit and the Hope credit, can help too. IRS publication 970, "Tax Benefits for Education," explains more about them. (Download a copy at www.irs.gov/pub/irs-pdf/p970.pdf).

Think fair, not equal. If your daughter gets horseback riding lessons, does your son need a new car? Thinking that way will make you poor in a hurry. Don't try to spend exactly the same dollar amount on each child. Avoid the temptation to be the good step-parent by buying things. Listen to each child to determine what she really needs. The only time we believe "equal is fair" is birthdays and holidays. We spend an equal amount on each child then.

Talk with your kids about money. If you don't have the money, tell them you don't, regardless of what their friends have. Money has never appeared like magic for most families. It comes from hard work and diligent saving, and all children ought to know that.

Help your children become investors as soon as you can. We encouraged each of our children to become investors by giving them money to start their own stock portfolios. We selected stocks with them and agreed to match whatever they put in. You can do the same with as little as $250 per child. By having a portfolio of their own, your children will start to think like savers, rather than just spenders.

Four parents, not two. We typically think of the mom and dad as making all the key financial decisions. But in a blended family, it's more often Mom, Mom's ex, Dad, and Dad's ex. No wonder money dilemmas can become so testy and complicated.

Separation agreements may feel very black-and white when you are negotiating them. Later you realize all the issues you didn't anticipate. Let's say your ex-husband agreed to pay for your son's college education. But your son wants to take his junior year abroad, and your ex balks at paying for it. What to do?

These situations come up often in blended families. That's why we urge you to be friendly and pleasant to the ex-spouses. Negotiation and compromise will be much more likely when everyone is cordial. There are no insurmountable obstacles as long as everyone keeps talking.

Prepare for life after work. Being a single parent isn't easy financially, and there's a good chance one of you hasn't been able to save enough for retirement. Look carefully at your retirement accounts. If needed, invest more heavily in one of them to ensure you can retire together -- and enjoy those blended grandkids.

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Save $5,000 This Year

Think of all the enjoyable things you could buy with $5,000. A big family trip. A widescreen TV. A new pet (maybe several new pets).

Whatever your heart desires, chances are you think it would be tough to save $5,000 more than you're saving now. We're here to say you and your family can do it. Here's the way:

1. Post a note on your fridge that says **$14 A Day**. Get your whole family to agree on that savings goal. In a family of four, the parents might save $5 each day, the kids, $2 each day. Decide how you'll spend or invest the money. You might want to open a separate savings account just for this money.

2. Look at big expenditures and ways you might save. Increase your insurance deductibles and lower the premiums. Pay your credit card bills on time and see how much you can save by eliminating finance charges. If buying a new car, don't ignore choices in the $15,000 to $20,000 range. Your insurance and operating costs will likely be lower with a less expensive car. Or research carefully and buy used.

3. Sweat the small stuff. Wasted money comes from bad habits. For one week, record every expenditure on an index card and see what you can cut. Return materials on time and don't pay late fees to the library or video store. Don't buy so many lattes at Starbucks or soft drinks from the vending machine. Avoid ATM machines that charge fees.

Even five or six-year-olds can come up with ways to save. Ask your kids to help you figure out what else the family doesn't need. Most middle-class kids already have too many toys. Cell phones for teenagers have to be one of the biggest money-wasters in history. (They're a waste for plenty of adults, too.)

4. Stash your savings in a big jar and deposit it weekly. Borrow a technique from professional fundraisers and post the updated tally after each deposit. We guarantee your kids will feel fresh enthusiasm for saving as their money pile grows.

– Bill and Mary Staton