Blended finances for blended families

Merging households with children can be financially complicated.

CANADIAN FAMILIES COME IN ALL SHAPES AND SIZES. About one in eight (12.6 per cent) are blended families (or stepfamilies) in which one or both adults brought children from a previous union into a married or common-law relationship.[1] Merging two households with children can be full of promise, joy and excitement – but it can also be financially complicated.

As couples with children from previous marriages or partnerships start to consider joining their lives together, they also need to think about the financial implications of integrating their incomes, expenses, assets and debts, selling one or both homes, and filing taxes.

Open communication is key. It's important to make sure everyone is on the same page when it comes to what will be shared and what won't. An in-depth conversation can set up a solid foundation for new blended families. Address the following questions together. Then, bringing an advisor into the conversation at the right time can help you evaluate your options and choose the best plan forward for the family.

1. What will each partner contribute financially?

It's a good idea to create a list of each partner's sources of income, savings and investments. Also write down any financial obligations, including debts and expenses such as alimony and child support payments. Now there's a starting point for creating a realistic budget and approach to day-to-day cash management for the blended family.

[1] Mireille Vézina, "Being a parent in a stepfamily: A profile," Statistics Canada Catalogue no. 89-650-X, last modified November 30, 2015, www.statcan.gc.ca/pub/89-650-x/89-650-x2012002-eng.htm.

2. What are your shared financial goals?

Joining forces can help partners achieve their goals faster – if they agree on what those goals are. Start to talk about what each partner wants in the short, medium and long term. Then discuss what has to happen for both partners to reach their goals. Aim to get right down into the details: How much needs to be saved each month, for how long? What expenses can be cut to make that happen?

3. What's your approach to kids and money?

Do kids get an allowance? At what age, and how much? Is the allowance paid no matter what, or earned through completing chores? And, if they do receive an allowance, what are they expected to pay for? In some families, allowances are for the fun stuff – toys and treats. In others, they're for essentials, such as lunches and bus fare. It's important to agree on a single, consistent approach for all the children.

4. How are you saving for the children's education?

It's common for blended families to have different amounts saved for the post-secondary education of each partner's children. It may be possible to merge education savings in a family RESP so all children have access to the same pool of money.[2] On the other hand, if ex-partners are contributing too, they may prefer to keep plans separate. Figure out what works for all children within the constraints of family dynamics.

5. Where will you live?

Prior to marriage or living common-law, each person may sell his or her principal residence without paying capital gains tax. Once the individuals become spouses,[3] only one home can qualify for the principal residence exemption.[4] Make sure you consider this factor before deciding where to live.

6. Should you formalize your arrangements?

If both partners are open to the idea, consider drawing up a marriage contract. While they may not seem very romantic, marriage contracts help ensure that both partners clearly understand their joint financial starting point. They're a way to protect both partners. And they can formalize parents' wishes concerning which assets will go to which children.[5]

7. How does your relationship affect your estate plan?

Set aside time to talk to an advisor and a legal professional about how merging families affects estate planning – keeping in mind that marriage revokes wills in some provinces. Together, decide on an approach that protects each partner and treats children from each family fairly. In addition to updating wills and any trusts, it may be necessary to update beneficiary designations on registered accounts such as RRSPs and RRIFs, insurance policies and pension plans.[6]

8. How does your relationship affect your tax plan?

Canadian tax law considers partners to be spouses once they get married, or have lived together in a conjugal relationship for 12 months or more (whether or not the relationship is same-sex). Spouses can claim the spousal credit, transfer some tax credits to each other, take advantage of spousal RRSPs, split pension income, leave assets to each other on a tax-deferred basis and more.[7] Sharing a tax professional can help blended families maximize the tax benefits.

Speak with an advisor

Joint financial planning can strengthen new blended families, improving financial well-being today and in the future – and working closely with an advisor through what can be a complex transition can help minimize negative surprises and conflicts. ■

[2] www.moneysmartsblog.com/resp-individual-and-family-plans [3] The term "spouse" includes a spouse or common-law partner as defined by the Income Tax Act (Canada).
[4,7] www.theglobeandmail.com/globe-investor/personal-finance/taxes/the-tax-pros-and-cons-of-getting-married/article34959872
[5,6] www.advisor.ca/tax/tax-news/five-ways-to-navigate-blended-family-finances-209630