Morgan Stanley

PRIVATE WEALTH MANAGEMENT

MARRIAGE AND DOMESTIC PARTNERSHIP

Entering into a committed relationship is an exciting and enriching period of your life. Combining two households into one will require many adjustments in the way you live and the plans you make for the future. Sound wealth management practices help carry you through these transitions, minimizing avoidable conflict and supporting strong relationships.

A Financial Timeline for the Family in Formation

1 Moving in Together

Key considerations:

- Dividing expenses
- Managing joint property
- Taking on joint liabilities
- Setting expectations

2 Getting Married

Key considerations:

- Combining and segregating assets
- Covering wedding costs
- Signing prenuptial agreements

3 Living as Newlyweds

Key considerations:

- Establishing a household budget
- Developing a saving plan
- Tax filings
- Forming a basic estate plan
- Life insurance and beneficiary designation

WEDDING EXPENSES: WHO PAYS FOR WHAT?[1]

According to the American tradition, the bride's family pays for the better part of the wedding and reception, leaving the groom and his family to cover:

- The bride's wedding and engagement rings
- The marriage license and officiant's fee
- The bridal party's bouquets, corsages and/or boutonnieres
- Gifts for ushers
- The rehearsal dinner
- The honeymoon

With the average cost of an American wedding surpassing surpassing 36,000 for 2025,[2] and many affluent families spending well into six figures, fewer couples adhere strictly to tradition. It is now common for the marrying couples to pay for a significant portion of their own wedding, asking their families to make contributions according to both tradition and their relative wealth.

Who pays for wedding expenses when the son or daughter of an ultra high net worth family marries someone from a middle class background? There should be no automatic answer to this question. The newly combining families should consider having an open discussion with the intent of making the wedding day a joyous shared occasion, expecting some compromises to be made by everyone involved. It's probably best to avoid assumptions that the wealthier family pays the bills, nor that they can dictate the style, regardless of whom pays. Remember, wedding receptions last one evening and family relationships, hopefully, last a lifetime.

FINANCIAL TIPS FOR UNMARRIED COUPLES

According to the US census, there were 20 million unmarried-partner households in the United States in 2022, an increase of 194% over 2010.[3] In deciding to share a home, all of these couples have entered into a relationship with some level of shared financial responsibility. Sheryl Garrett, co-author of "Money Without Matrimony: The Unmarried Couple's Guide to Financial Security,"[4] suggests that new couples jointly draft a domestic-partner agreement that spells out your mutual understanding of how expenses will be shared and how common assets will be split if the relationship should end. Unmarried couple should seek legal advice in connection with any decisions relating to joint financial arrangements or before considering purchasing a home together.

PRENUPTIAL AGREEMENTS

A prenuptial agreement, or "prenup," is a formal agreement made by a couple before they marry concerning the ownership of their respective assets should the marriage fail. While you hope they are never needed, prenups should be considered by anyone who has, or expects to inherit, significant assets. As with all legal documents, proper execution of prenups is essential. Hire an attorney who is experienced in matrimonial law to draft your prenup. Here are some other important cautions:

DO

DO *hire separate attorneys for you and your fiancée.*

DO *make sure the terms of the prenup are reflected in both of your estate plans. (The prenup sets the minimums for spousal bequests, but anything more generous is allowable).*

DO *set forth how marital property and separate property are to be defined.*

DO *be honest. Full financial disclosure is critical.*

DON'T

DON'T *be too one-sided, or you may render your prenup unenforceable.*

DON'T *agree to agree. Be precise about the terms to avoid potential dispute later.*

DON'T *wait until right before the wedding to sign the prenup.*

DON'T *include provisions relating to child support or custody. They are not enforceable as prenups don't deal with kids.*

NOTE: Some parents' estate plans require children to have a prenup before any distributions are made to them. While such a provision is likely unenforceable in court, the mere existence of such a provision could help the child raise the topic of prenups with their partners.

ESSENTIAL LEGAL DOCUMENTS FOR EVERY MARRIED COUPLE

- Durable Power of Attorney
- Living Wills
- Wills
- Prenuptial Agreement

JOINT ACCOUNTS, SEPARATE ACCOUNTS OR BOTH?

As you combine households and share expenses, many couples find it more convenient to also combine bank accounts. While there are certain benefits to both joint and separate accounts, the right choice is the one that makes you and your partner or spouse feel most comfortable.

SEPARATE ACCOUNTS

The upside:
Many find that having their own bank account(s) gives them a greater sense of independence. You can spend money as you see fit, without having to coordinate with your partner. Some find that separate accounts support a more romantic relationship, allowing you to buy gifts and take each other on dates with your own money.

The downside:
It may be less convenient to pay for joint expenses, like the rent bill, out of separate accounts. Some couples also find it awkward to keep a running tally of who owes what. There may even be conflict over what constitutes a joint expense and what doesn't.

JOINT ACCOUNTS

The upside:
As common expenses like mortgages and child care costs begin to eclipse more individual expenses, joint accounts may simplify your household finances. If only one partner works outside the home, it may also make the stay-at-home partner feel more integrated into the family finances.

The downside:
Full visibility into your partner's spending may not always be desirable, and joint accounts do take coordination so the couple doesn't inadvertently start bouncing checks. If your bank offers it, set up overdraft protection on your account just in case. You may also need to discuss who makes what contributions to the account to avoid misunderstandings.

Of course, if you aren't sure which route is right for you, do both. You can set up a joint account for your shared expenses and keep individual accounts for individual expenses.

FOUR ESSENTIAL ESTATE/HEALTH DOCUMENTS EVERY COUPLE SHOULD HAVE IN PLACE

1. A valid, up-to-date will.
2. A health care proxy that allows your partner to make health care decisions on your behalf if you are unable to do so yourself.
3. A living will that documents your wishes concerning medical treatment, particularly that which sustains or prolongs life, for use if you are incapacitated.
4. A power of attorney form, allowing your partner to act on your behalf in specified matters.

WHEN YOU COME FROM DISPARATE FINANCIAL BACKGROUNDS

Many factors other than family economic background shape one's attitudes toward money, but it is an important input. If you are from an affluent family and your partner is not, you should expect to address issues that might not occur to other couples. What seems normal to you may seem extravagant to your partner, for example, or you might have widely differing views about accepting financial support from your family. Here are some thoughts to keep in mind:

- It's OK to have disagreements about money, but try to understand the other's point of view.
- Set common goals, and try to stay on track. It's easier to agree when you want the same thing.
- Be careful to share time with both sides of the family. The wealthier family with the nicer home shouldn't become the automatic destination for family holidays.
- Remember that equal partnerships help build successful relationships.
- Do not let differences in family financial backgrounds create an imbalance in power.

UNDERSTANDING LIFE INSURANCE[5]

The more your spouse depends on your income, the more important it becomes to have life insurance coverage. The amount and type of insurance you may need depends on a number of variables, some of which may be motivated by tax implications. Ask your Private Wealth Advisor or insurance agent to help you determine an appropriate level of coverage for your family.

HOW MUCH DO YOU NEED? When life insurance is meant to replace income, the general rule of thumb is that you should have enough life insurance to cover ten to twelve years of your current annual compensation. If you have, or are expecting children, you may need more. Stay-at-home parents should also be adequately insured. If your spouse will receive a significant inheritance in the event of your death, you may need less.

WHAT TYPE OF INSURANCE DO YOU NEED?
There are two main types of life insurance: **term insurance** and **permanent life insurance.**

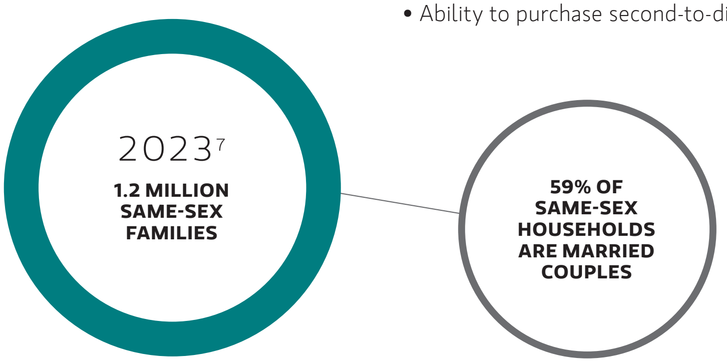
- Term insurance provides a set level of coverage at a set premium rate for a set period of time, usually 5, 10, 15 or 20 years. This is a lower cost way to obtain coverage and is often the preferred strategy for young families.
- Permanent insurance is generally intended to provide coverage for life. These policies typically set aside a portion of each premium, which accumulates tax deferred. These savings may be available as income later in life, or used to pay your future premiums.

OTHER CONSIDERATIONS: Life insurance can be used for more than income replacement. It is often employed as an estate planning tool, particularly for ultra high net worth families that own privately held companies and other large, relatively illiquid assets or those who simply wish to offset a significant estate tax liability.

SPECIAL CONSIDERATIONS FOR SAME-SEX COUPLES

In a landmark decision in the case of Obergefell v. Hodges, the Supreme Court ruled that the fundamental right to marry is guaranteed to same-sex couples.[6] Decided on June 26, 2015, the ruling requires that all states issue marriage licenses to same-sex couples and recognize same-sex marriages performed in other jurisdictions. As a result, same-sex couples will now be governed by the same set of state and federal inheritance, custody, divorce and other domestic laws, and by the same set of tax codes. Among the many opportunities this creates are:

- The option to file either jointly or individually.
- Gift and estate tax exclusions.
- Potential increases in deductible IRA contributions.
- Increased personal and dependent deductions.
- Tax exclusion for coverage under partner's employer paid health care.
- Ability to purchase second-to-die life insurance.



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7 Source: United States Census Data. Available at: https://www.commerce.gov/news/blog/2023/06/pride-month-us-census-bureau-data-same-sex-households#:~:text=There%20were%201.2%20million%20same-sex%20couple%20households%20in,64%25%20percent%20of%20same-sex%20households%20owned%20their%20home

DISCLOSURES