CALAMOS®
WEALTH
MANAGEMENT

FAMILY MATTERS

Insights on key topics—
through a multi-generational lens.

TOPIC:

LOVE AND MARRIAGE

Marriage—and divorce—are financially life-changing events whether you're 20, 40 or 60.

From the rise of "gray divorce" to young couples acting with the more seasoned practicality of "second-timers," this installment of Family Matters touches on issues too important to leave unaddressed.

We are pleased to offer insights from Naperville, Ill.-based attorney Leah D. Setzen of Grunyk Family Law as well as Calamos Wealth Management wealth advisor Christina Castrejon, CFP®.

We created the *Family Matters* insight series to spark ideas and spur conversation among family members on a wide range of important financial topics. They're purposely written as a primer for more in-depth discussions with your Calamos Wealth Management advisor on how the matters presented will apply to you and your family's unique situation. We hope you find that the multi-generational lens by which topics are presented promotes pass-along readership to multiple family members. Your Calamos Wealth Management advisor is available to all members of your family to provide guidance on matters you care about most.

It's been a bittersweet year for Wendy and Farzad Farzan—especially for Wendy. She suspected that something was amiss at her step-daughter's wedding, when her parents, both physically fit and usually up for a turn on the dance floor, practically had to be dragged out of their seats. Only a few weeks later, her mom unceremoniously announced that she and her father were ending their marriage. Though they both had been through divorces themselves, the news still shocked Wendy and it somewhat unnerved Farzad, who was still basking in the glow of having just walked his first-born, Lakshmi, down the aisle.

The brutal math of "gray divorce"

In the back of her mind, Wendy always felt her parents weren't fulfilled, but she had assumed that after 36 years, they were simply resigned to finishing their lives together. Now that the shock has worn off, she's just worried about how they will manage things, each on their own.

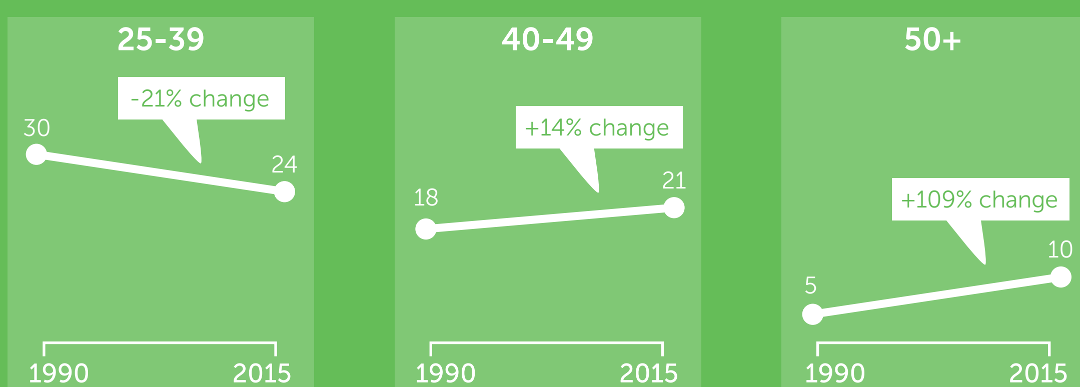
The divorce rate among older Americans is still lower than that of younger couples, but it has spiked sharply as Baby Boomers started reaching their 50s. According to Pew Research, the divorce rate declined materially among 25- to 39-year-old Americans since 1990 and it was up only modestly for those in their 40s. However, for those over 50, it more than doubled—and among those over 65, the rate has tripled!

Divorce can be a disruptor of wealth, according to Christina Castrejon, wealth advisor at Calamos Wealth Management in Naperville, Ill. But for couples entering retirement—the phase of their lives where they begin distributing rather than accumulating wealth—the financial impact can be eye opening. "All the saving and planning had focused on two people living in one household," she said, "but now we are talking about two households."

Castrejon adds that for women, who may have forgone building a career to focus on raising children, causes and effects of gray divorce can feel like two sides of the same coin. Oftentimes, kids leaving home to live on their own is the catalyst for couples to split up. But with the kids gone, that eliminates the need to award childcare payments, which have traditionally been one of the levers courts use to

Divorce Rate For Adults Ages 50 and Older Has Roughly Doubled in the Past 25 years

Number of persons who divorced per 1,000 married persons in given age group



Note: Divorce rate is the number of persons who divorced per 1,000 married persons in the year prior to the survey among adults in that age group. Percent change calculated before rounding.

Source: Pew research Center analysis of the 2015 American Community Survey (IPUMS) and 1990 Vital Statistics following the methodology in Brown and Lin's "The Gray Divorce Revolution: Rising Divorce Among Middle-Aged and Older Adults. 1990-2010."

recognize—and compensate—women for the hard work they do and sacrifices they make by taking primary responsibility for raising the kids. A study in the journal Research on Aging found that one in four gray divorced women live in poverty, while fewer than one in eight gray divorced men do.

Even among the affluent who are at no risk of falling into poverty, the financial challenges of gray divorce are significant. One example is the need to ensure both parties keep health insurance coverage in place when they were historically covered under one person's employer-provided plan. Castrejon notes that in such a situation, divorce can trigger continuation of benefits for up to 36 months for the individual covered by their spouse's plan under COBRA. But she adds that the amount of the monthly premium outlay is often an eye-opener for those who have grown used to an employer footing most of the bill.

Health insurance can prove to be such a challenge, according to attorney Leah Setzen, a partner at Grunyk Family Law, in Naperville, Ill.,that some older couples that are inclined to divorce undertake a legal separation instead, especially if the separation is amicable and one of the parties is experiencing health issues that might make it tough or extremely expensive to secure new coverage. "It's basically a divorce without the divorce," she says, explaining that the agreements are filed in court and typically cover spousal support and the division of assets and liabilities. And separation agreements are essentially the precursor to a divorce proceeding, so down the line, they can usually form the basis for a final divorce if the couple decides to take that extra step later.

Retirement accounts and social security can represent another tricky area for gray divorces. Obviously, they are important in any divorce, but the consequences of any misstep are amplified when they represent, or will soon represent, the main sources of income for the two parties. Castrejon is aware of individuals acting on a QDRO (qualified domestic relations order)—a court order mandating transfer of a tax-exempt retirement account from one party to another—who have triggered a taxable event by not handling the transfer appropriately.

For her part Setzen became aware of a gray divorcee who took her then-husband's advice and filed to begin collecting social security at age 62. Doing so might not have been ideal even if the marriage had continued, but it proved particularly costly to her given that the couple subsequently divorced. She would have done much better to have deferred that move until she reached her full retirement age (or even later).

Getting it right the second time around

Farzad and Wendy fell head over heels and got married quickly. Only afterward did they focus on what was in fact, a fairly complicated financial picture that involved children from their first marriages and a sizeable inheritance that would one day come Farzad's way.

As a rule, couples entering a second marriage tend to be a bit more pragmatic and forthright with each other about the financial aspects of their union—good thing, says Calamos Wealth Management's Castrejon, as second marriages may come with more complications. Some common complicating factors include:

- Beneficiary designations relating to children from first marriages;
- Significant assets that older individuals have often accumulated (and, in some cases large disparities in those assets);
- Inheritances that are likely to come sooner than later, by the simple fact that parents of remarrying couples tend to be older.

Castrejon notes that remarried couples often start out on the right foot—they review and revise beneficiaries on insurance policies, retirement accounts and trusts and, hopefully, they come to an understanding about inheritances.

Since assets brought into the marriage are, by law, presumed to be non-marital assets, it may make sense to maintain separate accounts. However, Castrejon warns that the execution of separate account arrangements can be tricky over time. For example, if one spouse inherits real property that he or she rents out, but the other spouse's income or marital assets are used to cover upkeep, property taxes and insurance—or even if that second spouse simply invest physical time and energy in managing the property, the issue of the property retaining its non-marital nature may become muddied.

Due to such complicating factors, Grunyk Law's Setzen recommends that remarried couples revisit their initial arrangements periodically—with legal and financial advisors, if warranted—and, to the extent circumstances have changed, adjust their plans and memorialize the adjustment in writing.

Finances amid love's first blush

Lakshmi and her new husband are successful professionals who lived together for nearly three years before marrying and already own a condo together. Still, they both wondered what changes they should make to their finances once they made it official.

While couples marrying for the first time have historically done so with a sense of unbridled optimism and avoided considering the realities of "till death do us part," Castrejon observes that many younger couples today are breaking the mold. Whether it's because they are waiting longer (and thus come to the marriage with more assets), they have seen divorce firsthand, or they are simply more open as communicators, today's young newlyweds are increasingly behaving like second-timers when it comes to finances. They don't rush to commingle all of their assets and are careful about assuming liabilities jointly such as consumer installment debt, student loans or mortgages without careful planning.

Setzen agrees: "I have seen more prenuptial agreements recently than I have in previous years. The stigma around them is changing—they're coming to be viewed by the younger generation more as a financial planning tool than as a taboo." The pragmatism, she says, even extends to unmarried couples that are living together and decide to jointly make a big purchase such as a home. In such cases, she has seen many couples enter into a co-habitation agreement that spells out ownership rights and responsibilities in detail.

Anyone who has ever planned a wedding knows the assistance of a professional planner is invaluable. But the ceremony and reception are just the beginning of marital complexity. Marriage and partnerships creates complex financial and contractual relationships that need to be understood and managed. Experienced legal and financial professionals are there to help.

FAMILY MATTERS

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