Love, Marriage & Debt

A Hoyes, Michalos & Associates Inc. – Harris/Decima Research Study

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Why We Conducted this Poll

Hoyes, Michalos & Associates is one of Ontario's largest personal insolvency firms specializing in helping individuals find workable solutions to their debt problems. Each day we meet with people, both single and in a relationship, who carry too much debt. While we know from experience that a significant number of insolvencies are caused by a marital breakdown, we wanted to understand some of the underlying conditions that contributed to marital debts. In addition, we wanted to understand possible answers to the question:

Do the financial problems cause the marriage problems, or vice versa?

We approached Harris/Decima to conduct a study on relationships and debt among Canadians who are either married or living common law. Data were collected between January 3rd and 6th, 2014 using Harris/Decima's national telephone omnibus. A total of 613 surveys were completed with a margin of error of 4.0%, 19 times out of 20.

Research Findings

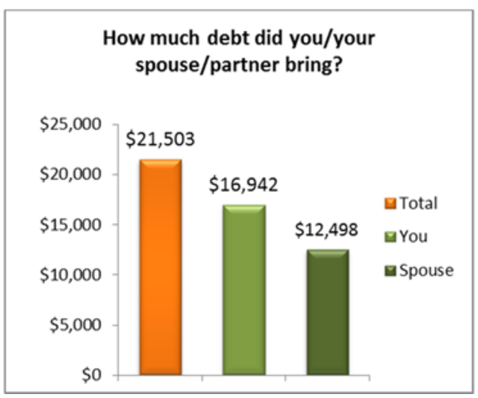
Fast Facts:

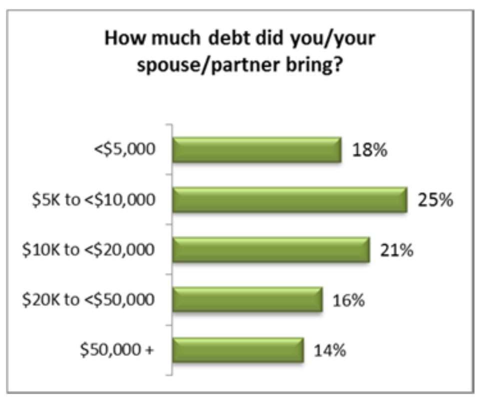
- 4-in-10 (43%) Canadians who are either married or in a common law relationship said they began their relationship with debt.
- 29% brought debt into the relationship themselves and 35% say their spouse brought debt into the marriage.
- Almost half (47%) of younger respondents (25-34) said they brought debt with them into the relationship while 61% say their spouse did.
- The average debt brought in was $16,942.
    - Of the two partners, males were more likely to bring debts into the marriage and brought in more on average ($17,239 compared to $16,596).
    - Those aged 45-54 brought in the highest debts ($19,488).
    - Current students brought in the highest debts ($35,045).
    - 1 in 4 brought in $20,000 or more.
- In total the average couple brought in $21,503.
- More than 1 in 3 (36%) say they did not discuss their debt with their spouse prior to getting married.
- 6 in 10 (61%) have paid off their original debt in full however almost half (46%) have admitted to adding new debt (excluding their mortgage) since being married.
    - 21% say they have been able to partially pay off their original debt
    - 13% have added to their original debt
- Those who did not discuss their debts prior to getting married were more likely to have only added to their debts

Bringing Debt into a Relationship

Four in ten (43%) Canadians say they began their relationship in debt. That's a staggering number. In terms of who brings the debt, both spouses seem to be almost fairly equal contributors. In our survey, 29% said they had pre-marital debts while slightly more (35%) said that their spouse or partner did. This is particularly true among younger couples, as 47% of those between the ages of 25 and 34 said that they personally brought debt into the relationship, while 61% said their spouse or partner brought debt with them.

Among those who said they brought debt into their relationship, the average amount they carried was $16,942. Of those who said their spouse or partner brought debt into the relationship, the average amount carried by their spouse or partner was $12,498. The average couple who brings debt with them to a relationship carries $21,503 in debt between the two of them. More than half (51%) brought in $10,000 or more in debt, and a distressing 15% came into their relationship with $50,000 or more in combined debts.



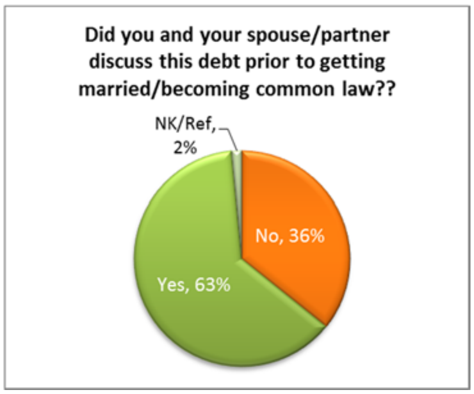


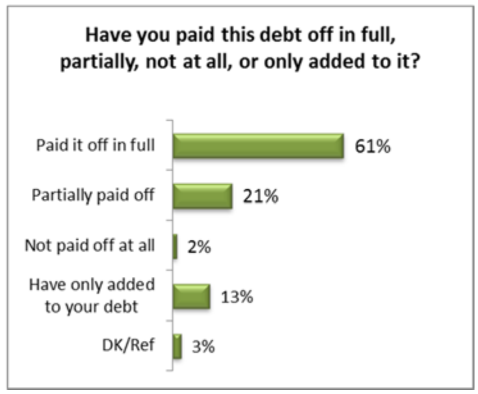
Dealing With Debt In A Relationship

One of the key areas we looked at was the communication about debt prior to marriage. We also wondered how this communication affected their overall debt levels and money management.

Of those who said they had debt at the beginning of their relationship – either carried by themselves or their partner – more than one in three (36%) said they did NOT discuss this debt with their partner prior to getting married or becoming common law.

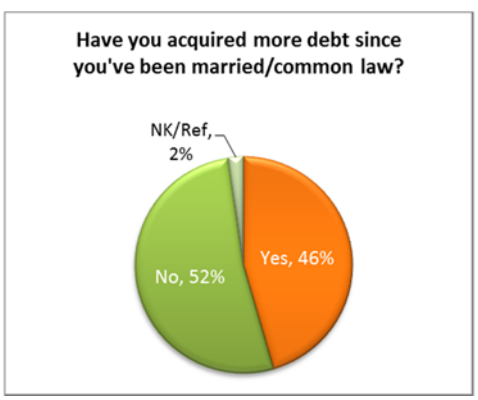
Six in ten (61%) who brought debt or whose partner brought debt with them to the relationship said that they have been able to pay this debt off in full, while 21% said they have partially paid it off, and 13% said they have only added to their debt.

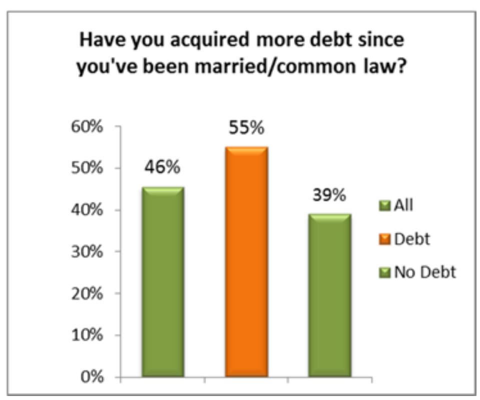




Unsurprisingly, younger couples and those with lower household incomes are more likely to have only added to their debts, while older couples and those with higher household incomes are more likely to have paid off their debts.

Of those married or living common law, nearly half (46%) said they have acquired more debt (aside from mortgage debt) since they have been married or common law. Those who brought debt with them or those whose partner brought debt with them into the relationship were more likely to say that they have since acquired more debt than those who did not bring any debt with them into the relationship.





Communication an Issue

As our concern, and part of the reason for this study, was to find the factors behind why people find themselves not just in debt, but in over their heads, we asked questions about how couples communicated about debt specifically. Our findings showed that the failure to communicate was a significant factor in determining behaviours towards their debt.

Overall, 15% of all those surveyed said they do not discuss their spending habits with their spouse and have no idea what they spend money on.

In particular we were concerned to find those who do **not** discuss their debt with their partner or spouse **prior** to the relationship

- are more likely to have only added to their debt (26% compared to 13% overall);
- tend to bring more debt into the relationship than average ($18,960 vs $16,942);
- are even less likely to discuss spending habits after;
- are somewhat more likely to believe that debt is just a part of life.

Attitudes Towards Debt

Nearly nine in ten (87%) Canadians who are married or living common law agree (somewhat or strongly) that they hate carrying a debt while 61% agree that having debt is just a part of life.

Of those who are married or living common law who are currently living with debt, 58% agreed (somewhat or strongly) that they had to cut back on their spending because of debt, 38% agreed that debt is a major cause of stress for them, and 20% agreed that they feel ashamed to talk about their debt to family or friends.

Which returns us full circle, to the original question **what came first, the financial problems or the marriage problems**. Almost one-in-five (18%) insolvent debtors blame a relationship breakdown as a major contributor to their financial problems. It is clear from this study however that a significant number of relationships have debt challenges from the inception.

Tips for Dealing With Pre-Marital Debts

1. Be honest about your debts up front.
2. Discuss a repayment plan ahead of time.
3. Prepare a family budget.
4. Postpone major purchases (and perhaps a family) until after the debts are dealt with.
5. Consider carefully before co-signing on your spouse's pre-marital debts.
6. Don't open a joint bank account at the same bank where one spouse owes any debt.
7. Discuss any decision to take on new debt together.
8. Consider a pre-nuptial agreement to protect any assets in the event of a marital breakdown.

When Debt Problems Happen

When debt problems happen it's not important to find a way to lay blame. The starting point is to assess just how bad it really is and determine a plan to deal with the debts, no matter who owes them. Communication between both spouses is critical. Both spouses must understand the total amount of debt they owe as a family, and what will be required to get out of debt. Both spouses must be "on the same page".

The best place to start is by making a list of all debts: his, hers and those owed jointly. Include the amount owing, the interest rate, and the minimum monthly payment. The next step is to determine what they can afford to pay towards those debts each month. If there is enough cash to get the debts under control in a reasonable period of time, both parties should work towards that goal. If the debts are too large, it may be necessary to seek some professional advice from a financial planner, credit counsellor or trustee.

Marriage & Debt FAQ

Q: Am I responsible for my spouse's debts?

A: As long as you have not co-signed or guaranteed any of your spouse's debts you cannot be held legally liable for those debts. However, if as a couple you are working together to pay off one spouse's debt you will have reduced funds to build your life together.

Q: What is a joint debt and what does it mean?

A: A joint debt is a debt that is guaranteed by more than one person. For example, if a husband and wife by co-sign for a line of credit, the line of credit is a joint debt. If the payments are not made as agreed, the lender can pursue both parties.

People mistakenly believe that a joint debt is "50-50", where each person owes half of the debt. That's not true. It's "100% – 100%" because both parties are fully liable for the entire debt.

Q: What about a spousal or supplementary credit card?

A: If you both go to the bank and apply for a credit card, that's a joint debt. If one spouse qualifies for a credit card and ticks the box on the application form to get a card for their spouse, that's a supplementary card. The big difference is that the spouse did not apply for the card, so in the event of default they are not legally liable. If you don't sign for it, it's not your debt.

However, there are numerous cases where the credit card company pursues a spouse for the balance owing on a supplementary card, even when they did not sign on the original application. If the supplementary spouse uses the credit card, issued in their name, and signs for it, the credit card company may allege that you have agreed to pay for the card. It is important to review all applications before consenting to anything, and if you are worried that you won't be able to pay for the credit card, don't use it!

Q: If my spouse declares bankruptcy, will it affect my credit?

A: Your credit report only includes details of your credit, so if your spouse declares bankruptcy it is not reported on your credit report. However, if you have a joint debt with your spouse and they declare bankruptcy, you are now liable for the joint debt, and if you don't pay it will impact your credit.

In addition, while your spouse's bankruptcy does not impact you directly, it will be more difficult in the future for your spouse to act as a co-signer, which may make it more difficult to qualify for a joint mortgage or other joint debt in the future.

Q: What happens to joint debts in the event of bankruptcy?

A: Bankruptcy discharges debts for the person (or people) that declare bankruptcy, but does not eliminate the debts for the people who did not go bankrupt. So, if the husband and wife have a joint debt and only the husband declares bankruptcy, the wife is liable for the full amount owing on the joint debt. If the joint debts are significant, it may be necessary for both parties to declare bankruptcy, or perhaps to file a joint consumer proposal.

Q: Can the trustee seize my assets if my spouse goes bankrupt?

A: Your assets are your assets, so if you are not bankrupt, the trustee cannot seize your assets. If you have joint assets, the trustee is required to realize on the portion owned by the bankrupt.

For example, if a husband and wife jointly own a house, the trustee is required to realize on the husband's share of equity in the house. If the house has equity of $10,000, the trustee is required to realize on the husband's 50% interest in the house, or $5,000. There are many ways to accomplish this, including having the bankrupt spouse pay an extra $5,000 during the bankruptcy to repurchase his share of the equity, or the non-bankrupt partner in the house could purchase the bankrupt's interest in the house. The trustee does not have any greater power than the bankrupt, so the trustee is not permitted to sell the jointly owned house without the other spouse's permission.

Q: What happens to my income if my spouse declares bankruptcy?

A: During a bankruptcy the bankrupt is required to make payments based on their share of the family income. The non-bankrupt spouse is not required to make any payments during the bankruptcy.

Q: What is a joint consumer proposal?

A: In a joint consumer proposal a husband and wife can file one proposal to cover all of their debts. This is a great solution if some or all of your debts are joint, because the cost of a joint proposal may be less than the cost of two separate proposals, and a joint proposal may have a greater chance of creditor acceptance.