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Opinion: Young Americans' twin debt problems: marriage and college

By Elliot Blair Smith
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A young couple entering marriage with two college loans can get troublingly indebted quickly

Everett Collection
Weddings haven't gotten cheaper since Marlon Brando starred in 'The Godfather.'

In a rite of spring, the estimated $60 billion bridal industry glows with satisfaction. The average wedding cost a record $32,641 last year. That's only slightly more than the Class of 2016's average student-loan debt load. And the trend for both has been rising.

A young couple that enters marriage with two college loans—along with the expense of rings, wedding and honeymoon—can easily start out life together more than $100,000 in debt.

Sophia Bera, 32, the divorced founder of Gen Y Planning in Austin, Texas, relates how she graduated a little more than a decade ago with $10,000 in unused college-tuition savings. She poured that money into the purchase of a house and took on two roommates to help shoulder the mortgage. It all seemed smart and grown-up. So very responsible.

But the real estate market cratered, and the house turned into a bad investment. Even after upgrading the kitchen and bath, Bera says she sold the property for $10,000 less than she'd paid for it. In other words, she lost the nest egg that she'd started out with.

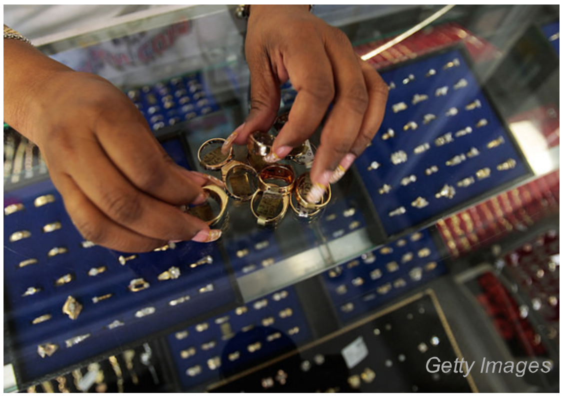
That experience catapulted her on a personal and career mission: "I want to help young people with their money," says Bera, who established her own financial planning firm in 2013

Kelly Luethje, 38, the owner of Willow Planning Group in Boston, also specializes in serving millennials and has observed that people in their 20s and 30s "are trying to understand how to save while paying down debt. That can be a really hard thing," says Luethje, who put herself through an MBA program at the Simmons School of Management in Boston a decade ago and graduated at the same time as Bera did.

"One day I woke up and asked myself, 'How did I end up with so much debt?' " she recounts. "I had student-loan debt, I had credit-card debt, and I was paying a lot of rent.

"I downsized. I got a roommate. And I even sold my car. At that point, I was helping friends and families sort through their budgets, and I thought: Hey, I'm really interested in this."

Coming full circle, weddings peak in June—the most popular date this year is Saturday, June 18, says Laura Nolan, a spokeswoman for the New York–based consumer media company XO Group XOXO, +1.23% and its wedding-planning service the Knot. And weddings and marriage, though not always well saved for, are among each generation's largest financial commitments.



As love sours, rings may end up at a pawn shop.

Kristen Euretig, 33, a certified financial planner and owner of Brooklyn Plans in New York—who also blogs as Young, Broke & Awesome—tells me she has a female client who's budgeted a $30,000 wedding in mid-2018. Yet only when they began planning the commitment did they realize the bride and groom will each need to save $625 a month.

"That's a huge amount of money," Euretig says. "And that's if you have no other financial goals, like paying off student loans or saving for retirement."

On Wednesday, the Federal Reserve's most recent Report on the Economic Well-Being of U.S. Households—while mostly upbeat—found:

• 32% of adult respondents have no rainy-day fund that would cover three months' worth of expenses.

• 46% of adult respondents say they could not cover an emergency expense of even $400, or would so do by borrowing money or selling something.

• The average student-loan debt is $30,156, rising to $36,000 for those with a master's degree, and $100,000 for those with a doctoral or professional degree.

• More than one in five student-loan borrowers who attended a for-profit institution are now behind on their payments.

What might also surprise the 2.1 million U.S. couples who are tying the knot this year—many of them a blushing and fainting subset of the 43 million student-loan borrowers owing almost $1.3 trillion—is that expensive engagement rings and costly weddings are statistically correlated with negative outcomes in marriage.

Spending $2,000 to $4,000 on an engagement ring "is significantly associated with an increase in the hazard of divorce," according to Emory University economists Andrew Francis and Hugo Mialon. And spending $20,000 or more on the wedding can be even more toxic.

Also read: The larger the rock, the rockier the marriage

Specifically, more expensive engagement rings are associated with a 1.3 times greater likelihood of divorce, while costlier weddings coincide with a 1.6 times heightened divorce risk, according to the economists' cheekily titled paper, "A Diamond is Forever and Other Fairy Tales: The Relationship between Wedding Expenses and Marriage Duration."

That said, going cheap and dirty—with no engagement ring, and less than $1,000 in wedding expense—also elevates the divorce probability while spending quite a bit more on the ring ($8,000) might be associated with a purchase of happiness, the research shows.

A quick aside: If your eye is set on a rock, you often can find pretty good deals just this side of the half-carat and full carat diamonds that fetch a price premium.

"The key lesson for consumers is: There is a big discount—up to 20%—to purchasing loose diamonds that are slightly under 1 carat or 0.5 carats, even though the diamonds are otherwise the same quality. The visual difference is imperceptible," says University of Kentucky economist Aaron Yelowitz, co-author of the paper, "Pricing Anomalies in the Market for Diamonds: Evidence of Conformist. "However," Yelowitz adds, "some couples may feel that it sends a bad signal between each other if the groom is cheap or prudent, even if no one else knows the diamond is slightly smaller. Couples pay a substantial premium for 'boasting rights.' "

These days, wedding preparation often takes a year or more, compared with the two months recommended by Bride's magazine in 1959, and 80% of engagement rings contain a diamond, compared with just 10% before World War II, Emory University's Francis and Mialon relate while concluding: "Our findings provide little evidence to support the validity of the wedding industry's general message that connects expensive weddings with positive marital outcomes."

So is marriage a bad bargain? Not necessarily. But stated otherwise, the marriage industry is very good for the divorce industry. And one reason for that is financial stress. U.S. marriage rates today are near historic lows, even as cohabitation rose sharply last decade.

So what are some effective ways to reduce the financial stresses that contribute to unhappy marriages and divorce?

"One of my favorite questions," responds Bera, "is: What was money to you when you were growing up? In other words: What was your mom like with money? What was your dad like with money? Which describes you?" She continues: "Often, couples don't start talking about money until they are engaged, or later [but] it's important to have regular conversations about money. Know your credit score, income, debt, savings."

Learning the answers to such questions—and filling out your financial objectives—can be the basis for heartfelt conversations between significant others, Bera says, which she recommends take the form of "money dates."

"Put everything on the table—like those debts, a bad credit score, or if you're spending on something the other person doesn't know about," adds Willow Planning's Luethje, who says that when couples come to her for guidance and confusion crops up in the details, "that's a red flag."

Kristen Euretig at Brooklyn Plans says a same-sex couple recently came to her for financial counseling. "When they started talking, they weren't talking like a unit. They had some shared expenses, but they didn't act as if they were on the same team." Speaking pragmatically—much like a marriage counselor—Euretig says she told them they needed two plans, not one.

While no financial template is right for everyone (the usual disclaimer is important nonetheless), Gen Y's Bera offers the following recommendations for millennials:

1. Save the equivalent of three months of net income for emergencies. "That usually lasts six months in an actual emergency, when one spouse loses a job, or there is a medical emergency, or something happens to the house."

2. Set aside 15% to 20% of income for retirement—or at least enough to maximize your employer's match if the company offers 401(k) retirement accounts.

3. Steer clear of buying a house—at least right away. "Millennials often value mobility. We don't know where we're going to live in five years, and navigating your career is easier—it's easier to take a job in a new state—if you're renting." Housing expenses include "not just the cost of the mortgage but also moving, furnishing, yard work—and then you need a barbecue and firepit, and all of these costs add up." The other sacrifice a settled life can mean is living outside "the hustle and bustle of life: going to shows and listening to music."

And don't forget to save for the wedding. The average cost of a wedding has increased by more than 20%, or about $5,500, over the past five years, according to XO Group.

Other eye-opening details: $1,469 is the average cost of a wedding dress: the number of guests averages 139; groom's age: 31; bride's age: 29; and most expensive place to get married: Manhattan, $82,299.

Now, since December is the most popular month for getting engaged—and Alaska the least expensive place for getting married at $17,361—there may be opportunities to combine the two. Even if not, there are other ways to hold the marriage together beyond the wedding day: Invite a lot of people to the wedding, and take a honeymoon, because each is "significantly associated with a lower hazard of divorce," according to the economists Francis and Mialon.

Gen Y's Bera agrees: "When people overspend on their wedding they tend to delay their honeymoon one, two, three years. What's great about starting a life together is the experience of taking a trip together. To overspend on one day —on a party for friends and family—might mean missing out. Honeymoons can be very special."

She also advises her millennial clientele to "focus on growing your income. When you're young, your income is your best [financial] asset. Take on overtime, take on side projects, ask for promotions and a raise." Bigger picture: "Be extraordinary. Go above and beyond. Put together a unique skill set. Network at events, and make great connections, leading to your next job opportunity. Use money to match your values to lead an amazing life."

At Pawn USA in Woodbridge, Va., about 5,000 used rings line the glass jewelry case, and saleswoman Pam Salyers is having trouble finding time, between sales, to speak with a visitor.

Salyers sees her customers coming and going, including the happily married contractor's wife who recently traded up to a $26,000 two-carat diamond as the couple's business prospers; and those who leave behind at the pawn shop the glittering memory of a failed marriage.

Yet in this way, the more expensive diamond rings can be handy after all.

"For some women," Salyers says, "their engagement ring is sometimes the most valuable thing they own—and they might need the money."