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For richer or poorer: Financial Planning Tips for Newlyweds

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Who, being loved, is poor? – Oscar Wilde

August is the busiest wedding month for Canadians, with about a quarter of all couples tying the knot during this month.[1] But while the wedding and reception are usually planned in great detail for months ahead, the resulting changes to the couple's personal finances after the big day often receive far less attention. Whether you're a couple who's about to get married or you're simply considering moving in together, it's important to have an open and frank discussion about finances before you take the big step.

Finances can take a personal toll on your future relationship with one in four (27%)[2] married or common-law Canadians acknowledging that financial stress affects their relationship. That number is even higher (41%)[3] for younger couples. In fact, recent U.S. research observed that financial disagreements are a strong predictor of divorce[4] with couples who argued over finances several times a week more than 30 percent more likely to divorce than those who only did so less than once a month.

No one says talking about money is easy. After all, it's not romantic. A recent CIBC poll finds that only 35% of couples planning to get married or live common law within the next 24 months have actually had a serious talk about money, even though virtually everyone surveyed admitted it's important to discuss how to plan and manage their finances together as a couple before they commit to one another.[5] A recent U.S. survey also found that the most challenging topic to discuss with others is personal finances (44%), whereas death (38%), politics (35%), religion (32%), taxes (21%), and personal health (20%) all ranked as less difficult.[6] Although it may be a difficult conversation, it's important you have the "money talk" early in your relationship so you can agree on how your finances will be handled.

A starting point might be to identify your "money personality."

Identifying your money personality

Perhaps the springboard for having the "big talk" about money is identifying your (and your partner's) philosophies on handling finances. Here are four common money personalities:

> **The Super-Saver:** I take pleasure in saving every penny I earn. I avoid any spending unless absolutely necessary.
>
> **The Cautious Spender:** I am careful with my money. I spend it prudently - putting my needs over my wants - and try to save as much as I can.

The Carefree Spender: I believe that money is meant for spending and enjoying. I have a hard time saving money and meeting my long-term financial goals.

The Avoider: I don't pay attention to how much money I have, owe, or spend. I have a laissez-faire attitude towards my finances. I prefer someone else to take care of them for me.

You and your partner don't need to have the same money personality for your relationship to be successful but discussing your personality differences in advance may prevent tension and stress down the road, especially since two-thirds of those who plan to marry or live common-law bring debt with them into their union.

For example, suppose you're a super-saver while your partner is a carefree spender. Your partner's impulse purchases may lead you to feel as if your saving goals are being undermined. On the other hand, your partner may perceive you as "cheap" and not willing to enjoy life in the present moment.

So how do you marry your money personalities?

Managing Joint Finances

Having an open and sincere dialogue before you move in together can foster financial harmony, especially when you have different money personalities. It's important for you and your partner to get on the same page early on and agree upon an approach for managing your finances. Here are three methods to consider.

Share everything

Sharing everything is most useful if you and your partner do, in fact, share everything – including common financial goals and the tendency to be super-savers or cautious spenders. It allows you to simplify your finances by having one joint bank account and having all your money deposited into that account. Without a tendency to spend on unneeded items (or ignore spending altogether), you can jointly direct your excess funds to meet your overall financial goals, ideally through regular transfers to savings accounts.

Sharing everything may be more problematic if you have different money personalities, particularly if one partner consistently spends more than the other on personal, discretionary expenses. To prevent erosion of shared funds, it may be better to consider another method of financial management.

Expenses-only

With the expenses-only approach, you create a common plan as a couple for all household expenses, such as rent or mortgage payments, utilities and food, as well as for activities you enjoy as a couple, such as entertainment or joint travel. Then, you both fund a shared "joint account" with a set amount of regular (e.g. weekly, monthly) contributions and all household and shared expenses are paid from this account.

Any extra earnings that you each make beyond the amount required to be contributed to the joint account is kept separate in personal accounts of each partner. Often, each partner may have their own credit or debit card on their personal account to pay for personal, discretionary expenses.

If you and your partner have similar incomes, the amounts contributed to your joint account can be equal; however, if you make significantly more or less money than your partner, the joint account used for your household expenses might be funded according to each of your means.

For example, suppose your household expenses are $50,000 annually and your partner earns $40,000 after-tax while you earn $60,000 after-tax. You might decide to each contribute half of your after-tax annual incomes to the joint account, such that your partner would contribute $20,000 while you would contribute $30,000. This would also leave you and your partner with unequal amounts for personal spending.

If you wanted to equalize amounts for personal spending, you might choose instead to fund household expenses in different proportions. If your partner funded $15,000 of household expenses and you funded $35,000, you would each have $25,000 for personal spending.

If you are a single-income couple, perhaps because one of you is a stay-at-home parent, you may wish to divide the earner's income between you, so you each can "contribute" to shared expenses and have your own discretionary spending.

The expenses-only method is ideal for couples who have differing money personalities, as it accommodates shared expenses as a couple while still allowing each of you to spend independently without "checking-in."

Assign expenses

While less common, you may decide in advance which expenses each of you will cover. For example, your partner could be responsible for all household expenses (rent or mortgage payments, utilities, repairs, maintenance, etc.) while you pay for food, entertainment and travel. This is more common in second marriages particularly where one partner either earns significantly more than the other or has a much higher net worth coming into the marriage.

A similar approach may be to live off of one partner's income and save all the other's.

Don't forget to plan for savings!

No matter which approach you choose to take as a couple, it's also important to discuss how you are going to save for common future goals, such as buying a car or a home, starting a family or saving for retirement. Savings is something that should be planned and can either come out of your joint account or you may each choose to save on your own.

Tax and estate planning considerations

Finally, don't forget that once you move in together, your tax and estate planning needs become more important. For example, tax planning may involve using spousal RRSPs to save for retirement to achieve post-retirement income splitting benefits. You can also start sharing certain tax credits (donations, medical, tuition fees, etc.) come tax season.

Be sure to speak to your lawyer about creating or updating powers of attorney and wills. Beneficiaries of your estate should be consistent with beneficiary designations on your RRSP, RRIF and/or TFSA. You may also want to explore the use of disability and life insurance, which can be important tools to ensure that your financial partnership is protected.

Speak to a financial advisor

Nearly two-thirds (63%) of those surveyed by CIBC said they had no plans to speak to a financial advisor, with half acknowledging that they hadn't thought about it and admitting that it's probably a good idea. Moving in together is exciting and, as you start your life together, things can get complicated. Couples can get caught up in the whirlwind of excitement before their wedding making the topic of money a delicate one. It does really help to talk to someone who can be impartial to help with difficult questions and concerns. Reach out to a knowledgeable financial advisor who can coach you along the path to financial health and harmony before your big day arrives.

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1 http://www.weddingbells.ca/planning/wedding-trends-in-canada-2015/

2 http://www.mnp.ca/en/posts/two-in-five-married-or-common-law-canadians-consider-themselves-to-be-struggling

3 Ibid.

4 "Examining the Relationship Between Financial Issues and Divorce", Jeffrey Dew, Sonya Britt and Sandra Huston (2012)

5 2016 CIBC Couple Finances Poll (August 2016).

6 https://www.wellsfargo.com/about/press/2014/20140220_financial-health

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