FINANCIAL PLANNING FOR NEWLYWEDS

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Considering tying the knot? You may want to ask yourselves these questions to help you get your finances in order and reduce the stresses around money issues.

When you're madly in love and about to get married, it can be difficult to concentrate at all…even if you're not head over heels in love, logistical, family, and other concerns can keep you from thinking rationally about seemingly less pressing matters, like your money. Due to the pressures involved in starting a new life together, many happy couples forget to organize their finances until money become an issue.

Trying to combine financial plans, together with goals and budgets, and deal with household expenses can be very stressful. Not having a plan and not being disciplined about money matters cause insecurity and stress, which often lead to arguments and marital discord.

Since arguing about financial issues is often blamed as a main cause of marital strife, it is suggested that newlyweds ask themselves these questions before the honeymoon is over:

1. ARE WE GOING TO COMBINE OUR FINANCES OR MANAGE THEM SEPARATELY?

There is no evidence that one way works better than another. Although many couples choose to pool their money in joint accounts, the key to staying organized and reducing stress is to maintain financial discipline regardless of how you decide to structure your finances. Making decisions up front and being disciplined around the process for collecting money and paying bills will result in a lot less bickering about money issues.

If each of you is going to manage your own finances, make sure to create a comprehensive budget that includes not only your monthly expenses but the money that you are going to need to save. Be sure you're thinking about saving enough to cover emergencies and future financial needs like retirement. Make sure that each partner pays into the communal kitty before making personal expenditures so neither is light when the bills need to be paid.

Although pooling income and expenditures is traditional, it is not easier nor does it require less discipline than managing them separately. Once again, it all comes back to sticking with a budget and living within your means.

2. WHAT IS OUR CREDIT SITUATION? DOES ONE OR BOTH OF US NEED SOME CREDIT REPAIR?

You should know if your credit rating—or your spouse's—is going to help or hinder your ability to finance the purchase of a home, car, or some other asset you need. A free credit report from annualcreditreport.com can easily tell you what your credit position is. It's something everyone should do every year. Your credit situation can have a bearing on how you structure your credit accounts. If one of you has great credit, then setting up joint accounts can help build the other's credit rating over time. If neither of you has decent credit, work together to fix one or both of your credit scores before you need to borrow.

3. HOW ARE THE DEBTS WE ARE BRINGING TO THE MARRIAGE GOING TO BE FINANCED?

When planning for a new life together, a partner's debt load may not seem important, but it can be a significant burden on a new marriage. You must have an explicit plan for when and how debt will be paid so that it doesn't spiral out of control. If the plan isn't explicit, it's likely that each of you will create your own, which may not be appropriate for both of you or help you reach your financial objectives.

The return from paying down debt equals the interest rate, so consider paying high-interest-rate debt first. The return will be higher than you can realistically expect from your investment portfolio.

4. WHAT ARE OUR SAVINGS GOALS, AND WHAT DO WE DO WITH ADDITIONAL SAVINGS THAT COME FROM JOINING HOUSEHOLDS?

One benefit of joining households is that it creates efficiencies that can lead to cost savings. There may be many new opportunities to sock away money, but if as a couple you have not determined what you are going to do with the extra money, it can easily become an excuse to spend. Many newly married couples miss the opportunity to invest early in their marriage because they were not proactive about saving.

5. WHAT ARE OUR INVESTMENT GOALS AND PREFERENCES? WILL WE BE INVESTING THROUGH INDIVIDUAL OR JOINT ACCOUNTS?

Just like deciding on how to manage the household finances, you must decide early on what your long-term financial goals are and how you are going to achieve them. Wealth management is all about increasing the probability of reaching your financial goals, so you and your spouse must be in sync when it comes to what you will be investing for. If it is retirement you are saving for, make sure you are both in agreement about how much money you will need to spend in retirement and how much capital you will need to support that future lifestyle. In addition to determining long-term goals as a couple, you will also have to agree on your combined risk tolerance and other investment preferences.

6. WHO IN THE FAMILY WILL ASSUME THE RESPONSIBILITY FOR MANAGING INVESTMENTS?

Once you have determined your long-term goals (and constraints), then you can determine if one of you is better suited to take the lead in executing the investment plan. If one of you will be substantially responsible for investments, it can make a lot of sense to employ a financial adviser who has fiduciary responsibility to the both of you. This can reduce the risk that a souring relationship will adversely affect your investments.

7. DO WE SHARE THE SAME PHILOSOPHY AND LEVEL OF KNOWLEDGE ABOUT INVESTING? SHOULD WE GET A FINANCIAL ADVISER? DOES ONE OF US HAVE A FINANCIAL ADVISER ALREADY?

Newly married couples may decide that as a family they have much different investing philosophy (and often very different risk tolerances) than they did as individuals. Couples should review their existing portfolios to make sure they are appropriate to meet the needs of the family. If one member of the family is using an investment adviser, the couple needs to decide if that adviser is appropriate to manage the family's investments going forward. Individuals will have different attitudes towards risk and other investment constraints. One of the adviser's tasks is to help clients design a portfolio that achieve their desired investment outcome within the risk parameters and other investment constraints provide.

Once a decision about using an adviser has been made, it's important that both parties meet with the adviser on a regular basis.

A problem that many new couples face is that they find it hard to talk about money or they feel embarrassed about issues like their debt or lack of credit. The key to reducing stress around money issues is to communicate openly and to create a plan for dealing with financial issues and achieving financial goals. Keeping your household finances and investments in order is all about maintaining discipline and following a predetermined strategy. No two people have the same ideas and philosophy about money and investing, so it is important to determine upfront what is important to the both of you. Ask yourselves the tough questions and determine your combined financial goals and investing preferences. Once you do that, then you can start making better decisions about your money and investments as a couple.

For information on finding and selecting an investment adviser, visit TrustCFA.org.

William Ortel contributed to this article.

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