McRae
Capital Management, Inc.
Investment Counsel

COMMENTARY

TIMELESS MARKET WISDOM THAT MATTERS NOW

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This Commentary is geared towards a younger couple starting out on their first marriage, but marriage takes several forms. Some couples get married later in life or get married a second time. In those instances, financial considerations can get a little more complicated. Second marriages can have more "stakeholders" as each of you may have established families that you want to consider. You may consider a prenuptial agreement before you get married, or trust agreements for your children. If you get married later in life, you may be more accustomed to being independent that can create a unique financial formula that works for you that would be different for a younger couple just starting out. The key point to remember is that your financial considerations are unique to your specific situation. At McRae we are happy to sit down with you and discuss what is best for you and your family.

Wedding Bells

How To Manage Your Finances As A New Couple

It's thrilling to find the person you want to share the rest of your life with. But as you contemplate your new life together, you will likely encounter some of the most challenging conversations you've ever had. And many of them are about money.

What kind of a home do you want for yourselves? Are you both going to keep working? Do you want children? Your families might have opinions—well, let's face it, they WILL have opinions. But the choices are yours, as a couple, and the financial consequences will play out for decades.

It's all quite a bit daunting. But couples need to work together in every possible way, and from a financial perspective that means starting out with a comprehensive understanding of your individual assets and liabilities, dreams and ambitions, habits and strengths. You need to be able to talk clearly and honestly so you can strategize about what's realistic and what's out of reach, at least for right now.

At McRae Capital, we've worked with couples like you for more than forty years, and we're very familiar with the challenges of figuring out finances in a new marriage. We can help clarify your options, so you can make better informed decisions together.

Getting Started: A Foundational Finance Conversation

People marry because they fall in love. In the midst of all that joy and celebration, discussing family finances can seem boring and unromantic. But the financial discipline you put in place now can impact your happiness for years to come. So set aside a convenient time in a distraction-free place where the two of you can spend a few hours talking about money. Bring bank statements, tax forms, credit card statements, and any other helpful information. And coffee…bring lots of coffee.

The main point of this meeting is to honestly assess your individual assets and liabilities, as a starting point for your joint life together.

- **On the assets side:** What are your individual salaries or other income sources? What's in your bank accounts and retirement funds? Do either of you own stocks, bonds, or real estate?
- **On the liabilities side:** What debts do you both have, like credit cards, student loans, auto loans, and mortgages? How much do the minimum payments cost each month?

Individually (or jointly, if you're already living together), you should list your expenses going back over the last several months, separate them into

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categories, and find out where your money really goes. How much do you spend on must-haves (like groceries and utilities) versus nice-to-haves (like restaurants and bars) that you could pare back if needed?

The goal isn't to get rid of everything you enjoy—it's to understand your current earning, spending, and saving in detail, so you can fine-tune these to meet your future goals. If your monthly costs outweigh your monthly income, hard choices may need to be made, like moving into a smaller place or giving up travel or fancy restaurants for the first year or two. (Even modest substitutions can help you save real money over time.) A simple spreadsheet can help you stay on point for long-term success.

Finally, you probably already have some insight into each other's monetary habits, but now's the time to get honest about any concerns. Are either of you spendaholics? Have an expensive hobby or a lot of debt? It's best to discuss these things early on, instead of fighting over spending habits later. You won't solve everything in this initial conversation. But it should help you understand the true state of your finances so you can begin to make decisions and shape a strategy for the future.

Make a Plan To Combine Assets (And Liabilities)

When two independent people join forces to share one life, the result can take many forms. To some extent you will be sharing your income, liabilities and debts, and you should probably think about coordinating your spending and saving in a way that helps both of you. The key is getting to a workable financial plan that also builds savings over time.

Many new couples keep their separate accounts, but also create a joint account they can each contribute to and draw from. This system gets the bills paid while helping you both gradually become more comfortable with comingling your assets. A different option is selecting one of your checking accounts to use for fixed living expenses like rent and utilities, and keeping the other account open for social events and discretionary expenses. Whatever you decide, both of you should be involved and aware of how much you're taking in and spending, even if one of you is better at managing the accounts on a day-to-day basis.

Other decisions include deciding whether you'll file your taxes jointly or separately, and who'll be responsible for getting the taxes done. On the health insurance front, does it make sense to switch from individuals to a family plan, or for one spouse to add the other onto their plan? Should retirement accounts be managed together or separately? How will you work toward paying down debts as a couple so you can make the smartest decisions? (For example, if one partner has more debt at a higher interest rate, you might wisely decide to both focus on paying that off first.)

Set Your Strategy (And Prepare for Setbacks)

Once you've honestly discussed your assets and liabilities, you can create a realistic financial plan. Balancing your current needs against your long-term goals can be difficult, but it's the key to future financial success, and something nearly every couple has to face. The first big item most couples need to save for is a down payment on a home. This can take time, so you need to start a plan to save as early as possible.

Savings. You need to plan for the unknown and unknowable, building a liquid savings account, so that an illness, a job loss, or even a failed water heater doesn't cause a major crisis. Many investment advisers like McRae suggest setting aside at least 3-6 months worth of salary—an amount you can build up over time so it's there when you need it.

Housing. Whether you buy or rent, the cost can be substantial, and some couples talk themselves into renting or buying a house they can't really afford. This leads to a situation we call being "house poor," where housing costs represent too high a share of your costs, forcing you to cut back hard on other things. To avoid this situation, try to live as small as you can in the beginning. If you buy within your budget and maintain the property, a house can be an important investment that helps you grow your wealth so you can afford other important things, like making contributions to your retirement.

Retirement. Retirement can seem very far away, but it's in these early years, when you don't yet have childcare costs and when retirement contributions will have the longest possible time to grow, that you should really be making regular contributions. Even small amounts can grow substantially thanks to the power of compounding, where you earn interest on your investments but you also earn interest on that interest.

Children. If you plan on one day starting a family, there are things to consider, like whether you're both going to continue working and how you'll manage childcare. Saving for college is one obvious big-ticket item, but children represent significant ongoing costs long before college: food and clothing, increased healthcare and insurance spending, a bigger car, and lacrosse equipment, to name a few.

Making it All Work

It can be hard to imagine saving for any of these items—let alone all of them. When you've only been out of college for a few years, your income is relatively low, and daily expenses are competing for

Seven Things To Discuss BEFORE You Get Married

Some conversations can wait until after the wedding bells have rung. But if you really want to start off on the right foot financially, these talks shouldn't wait.

Finances. Make a shared list of your individual bank accounts, retirement accounts, and debts. Be honest and don't leave anything out.

Documents. Organize where you'll keep files, whether to change beneficiaries to each other on any documents, and who'll have access to which accounts.

Taxes. Discuss—with a tax accountant or a financial adviser if possible—whether to file your tax returns separately or as a joint return.

Insurance. Reconsider your plans: Does life insurance for one or both of you make sense, now? Should one of you join the other's healthcare plan?

Housing. Discuss where you both want to live, now and for the next ten years. If a move is in your future, it's best to decide on that early so you can plan.

Children. You've probably already discussed whether you want to have children, but if you do, start looking into the expenses involved.

Debts. Make a plan to pay off any credit card debt or other debt with a high interest rate first.

those same dollars. But you do have time on your side, and there are ways to organize for success. A financial adviser like McRae can discuss the options and help you find a strategy that's just right for you. But here are some of the broad principles.

1 **Start paying down your debts—this is priority one.** Most couples will have some debt when they marry. But not all debt is the same—think high-interest credit-card debt and lower-interest mortgages—and if not managed well, a couple's debt load can become a runaway train. Chipping away at the principal on higher-interest rate loans first is a start. Paying the minimum just keeps you locked in the cycle: It's worth tightening the belt to contribute say $75/month toward the principal as well, to start drawing those balances down toward zero. There are also common ways to consolidate debts, get some debt forgiven, or refinance to lower these payments. McRae can help.

2 **Set up a regular contribution to the future**—no matter how small. Even just a $20 contribution out of each paycheck can build up over time. The key is applying this contribution where it's needed most at each point in your life. For example, in the beginning of your marriage, this regular contribution could be divided 50% toward building up a 6-month emergency fund and 50% toward retirement, switching to 100% retirement once the emergency fund is full, and then switching to 50% retirement / 50% college fund when you have your first baby.

Setting a Sustainable Budget AFTER You Get Married

Tied the knot? Excellent—now the REAL work begins. Armed with your bank and credit card statements from your first few months together, find out exactly how much you're spending at the moment, and what you'll have to adjust to make your spending sustainable.

Step 1: Start with your income(s). How much money do the two of you make, post-taxes? This is the topline of your budget—spending more than this puts you in a hole that can be nearly impossible to get out of.

Step 2: Next, total your necessary costs. Make a list of the bills that MUST be paid: Rent, utilities, car payments, and student loans, the minimum payments for credit cards, and any other recurring payments.

Step 3: Then, figure out your optional costs. Pretty much everything else goes here: Subscription services like Netflix, clothes, entertainment, travel, and gear. Food isn't optional, but how much you spend on it is—park these numbers here for now.

Step 4: Finally, make a list of future costs—items you'd like to pay toward if at all possible (e.g. contributions to retirement, paying off the principal of student loans, saving for a house or a rainy day, paying down the principal on any debt).

Step 5: Now, create a working budget. Start a shared spreadsheet so you can see how all of this plays out. If you subtract your necessary costs from your income, what's left is your discretionary budget: the pot of money available for all other costs. You may well find that you have to cut back on your optional costs—no travel, less socializing, and swapping bargain coffee for Starbucks—to leave enough left over for savings and retirement contributions. But taking this first look together will help you understand the discipline you'll need as a couple to make it all work.

3 **Develop a realistic budget you can stick to**, that factors in debt payments and contributions to the future, and that restricts other optional spending to what you can really afford. It may not be the life you've dreamed of at first, but marriage is all about the long haul, and this is a great way to work now toward the future you want and deserve.

Each couple's situation is unique, and we'd be happy to walk you through the options and give you impartial, educated advice based on our decades of experience. Reach out for your free consultation at (973) 387-1080.

McRAE CAPITAL MANAGEMENT, INC.

MCRAE CAPITAL MANAGEMENT HAS A WEALTH OF INVESTMENT INFORMATION FOR YOU.

If there's ever anything we can help you with, please don't hesitate to give us a call.

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