From Pillow Talk to Money Talk

Many couples take the oath to love and cherish each other for richer or poorer, yet many avoid talking about money prior to getting married. This sometimes eventually leads to trouble in their relationship. Studies have shown that economic hardship has negative effects on relationships. Couples with extreme financial stress tend to have lower levels of satisfaction in their relationships. Emotionally strained by their financial struggles, some people become more hostile, irritable, or uncommunicative towards their spouse. Many couples even point fingers at each other for their financial failings. This is not to say that low-income couples are doomed to have less successful relationships than those who are financially stable, but with constructive communication and compromise, a financially challenged couple, married or not, can save their relationship and thrive through a financial crisis.

Hashing out monetary matters may not make for romantic pillow talks, especially for those with debt, but a little financial planning can do a lot for your love life down the line. As long as the intention is to combine households, you will need to discuss joint financial responsibilities and decide how money will be handled and who will handle what. Here are a few pointers to help you stay financially smart when following your heart:

Get Acquainted Early

You must 'talk money' even before your relationship becomes serious because a person's financial habits are an incredible insight into their values and ethics. That doesn't mean a lousy credit score is a reason to break up, but if you find that your new love interest doesn't handle money responsibly, you have to question what else they aren't going to be upright about. If you're the one with the issues, be honest about your shortcomings. A good relationship is one in which each party helps the other make better choices—and you and your significant other can help each other become smarter about money.

Decide Where The Money Will Be Kept

There is no one-size-fits-all approach to managing finances as a couple. You'll need to decide how to best combine finances for your relationship. For couples where both partners work, and especially if you've both been earning independently for a while, the "yours, mine, and ours" approach to bank accounts often (not always) works best. The idea here is that each person has some money set aside that they are free to spend (or invest) without discussion and there's also a shared account for the family expenses and shared financial goals. You'll need to decide together how to allocate income among these accounts and what rules you might need or want for spending from the shared bucket. If you decide to keep your bank accounts separate (as is the case for many couples), decide upfront who is responsible for paying what bills and how you'd handle things if a job loss or illness/injury changes household income.

Find Out What Is Important to You Financially

Whether you combine all your money, keep it all separate, or choose a hybrid approach, you must first discuss and settle on shared financial goals. These may include paying off any individual loans (like student loans) or shared debt, how much to keep in your emergency fund, and what you need to invest for retirement. Also, discuss other goals like saving for a house, going to college or graduate school, or having a college fund for children. Then together, make a plan for how you will reach those goals.

Couples that Budget Together, Stay Together

Once you clearly understand your goals, expenses, and income, it's time to start budgeting. For many couples, budgeting can feel overwhelming and daunting, but it doesn't have to be. A budget can help improve your spending habits, pinpoint areas where you can lower your overall expenses, and put you in a position to save funds to invest. Try creating a budget worksheet in Excel or Google Sheets. There are also numerous budgeting apps that help to make the process a lot easier. If your expenses exceed your income, then each expense item must be reviewed. Discard or cut non-essentials or work together to build other sources of income. With a partner, you can keep each other in check and provide support as you build and go through this process together.

Decide how you will split your expenses

This can be the most challenging part. It might make for a tough conversation, but if you're both already acquainted, on the same page about your goals, and are both open and honest about your current financial reality and the source(s) of your income, it doesn't have to feel daunting. As a couple, you must decide how you pay the bills - if they will be done individually, jointly, or in a hybrid style. Maybe, for example, your partner covers the groceries while you cover the utility bills. Expense and incomes will vary over time if you decide to assign bills, discuss things like changes to expense allocation when kids come along or if you decide to buy a house. Additionally, the passage of time may warrant another discussion about the reallocation of expenses. For instance, a mortgage might be a huge expense at the start relative to the grocery bill, but it often remains fixed over its life, while the grocery bill will rise with the addition of children and just the impact of inflation over time.

Investing as a Couple

Now that you have become acquainted, identified goals, and created a budget, you are in a better position to start investing to reach those goals. You and your partner should also discuss your views on investing to ensure you're aligned, particularly when it comes to your risk appetite. Are you more of a risk-taker, which means you are willing to accept greater economic or market fluctuations in exchange for a higher potential return on any initial investment? Or, are you more of a conservative investor, one who does not like the uncertainties, and the possibility of losing your money may cause you to squirm? As a couple, do you have the same risk profile, or do you have different risk profiles? It is important that you discuss the amount of risk you are willing to take together and how you will invest. Decide if you will make each investment decision together or one person will handle the investing. Even if you decide to go with the latter, be sure to make time to discuss your investment portfolio, its performance, and planned investment activities together as you work towards your financial goals.

Building a life together as a couple can be exciting as you plan, but it must also include having hard and sometimes uncomfortable conversations about your finances. Getting on the same page is crucial for managing the stress that can come when making decisions about your finances or in challenging financial periods. Knowing that you both want the same things makes it easier to budget, plan and invest together. This can help you avoid some of the most common relationship stressors. It will also enable couples to achieve financial independence, whether through investing and/or generating passive cash flow. However, the bottom line is that this begins with intentionality — taking active and concrete steps to get where you both want to go. It will put your family up for financial freedom and put you in a better position to enjoy your journey together.

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