Newlyweds: Creating a Strong Financial Foundation

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It's wonderful to be swept away emotionally when getting married but couples shouldn't get swept away financially too. Once the wedding is over and cake has been eaten, newlyweds are faced with the task of building a new *financial* life together. Often couples have different spending priorities and different attitudes toward saving. Getting on the same page financially involves talking together about your dreams for the future to build *shared financial goals*. Focus on a big common goal, such as buying a home: this will help you make those small sacrifices, like eating out less often, that will help you save. To succeed, both partners must be involved in the family financial plan. Allowing one person to be blissfully ignorant of money matters is asking for trouble.

A Time of Savings

Historically, the newlywed period has been a time of saving – couples often had little assets and needed to live frugally to save up for a down payment on a home. If you are a twenty-something newlywed in 2009, odds are your parents are baby boomers. Your generation has many names including the Echo Generation (echoing the boom), Gen Y, the Millenials (for entering adulthood at the turn of the millennium) or Net Gen (for being technologically savvy).

Quite possibly, as a Net Gener you've enjoyed a very comfortable upbringing with all the toys like cell phones, your own car and hundreds of channels on TV. However, this affluence can make it much harder for you to shift into savings mode when you first get married and move out on your own. Yes your parents might help you financially by paying for your education, wedding expenses or even a down payment on a home. That can be a blessing, but it can also work against you if you fail to learn how to live below your means and save for the future.

Regardless of how much help your parents are (or are not) giving you, make your first few years of marriage a time of intense saving together to create a strong financial foundation. Don't expect to have all it all from day one. Trying to do so usually means taking on significant consumer debt that will strap your cash flow and waste thousands of dollars in interest charges. Newlyweds are at the beginning of their lifelong financial journey and need to think long term: sacrificing in the early years to build up savings will pay off with a lifetime of financial security.

Get it Together

On a practical level, the first year of marriage is a time of combining your financial affairs. Ideally, as a committed couple, you should share a single, joint chequing account for all your income and expenses. A new marriage is an excellent time to start a new budgeting program. It takes a little bit of effort to get started but the payoff is huge and for tech savvy Net Geners, it should be a breeze. There are excellent software programs like Quicken by Intuit that enable couples to input their income and expenses, design a budget and track how their spending matches up. Once again, both of you need to be involved in creating a budget and monitoring your progress.

Newlyweds often bring debt with them, whether student loans, credit card debt or even wedding debt. Debt should not be seen as his or hers: once you agree to work together to build a strong financial foundation, everything is shared: income, assets and debts. Paying off the debt should become a top priority. You have to make a commitment not to incur any more debt while working together to pay off the existing debt as quickly as possible. Once you've made that commitment, paying down debt IS the first step toward saving for retirement. After all, you cannot retire if you have debts to pay.

RRSPs and Buying a Home

While debt repayment is always a priority, contributing to an RRSP can be a good tax planning strategy for a higher income earner, say someone in the middle or especially the top tax bracket. The contribution reduces your taxable income off the top, directly reducing the amount of income that is taxed at the higher rate. And if you are saving for a down payment on a home, contributing to an RRSP can help you buy that home sooner. You will get the tax refund on your contribution and can also withdraw up to $20,000 tax-free from your RRSP to buy a first home under the Home Buyer's Plan. So for high income earners, an RRSP can be an excellent way to reduce your taxes and accelerate your savings. If you plan to use money from your RRSP for buying a home in the short or medium term, avoid volatile equity markets – instead choose a money market fund that pays interest so your capital is protected.

If you are hoping to start a family as soon as possible, the best start you can give your family is to buy a home first. Everyone needs a place to live. Money spent on rent is gone forever but mortgage payments are building equity. Once a baby enters the picture, reduced income due to maternity leave and increased expenses with the baby make saving the initial down payment much harder.

The biggest mistake you can make when buying your first home is going overboard. Newlyweds in more expensive, urban areas should not expect their matrimonial home to be a 4 bedroom, detached house with a 2 car garage. Condominiums and townhouses are much more affordable. While condo units in buildings may be the only affordable option in high priced downtown areas, they can be harder to resell later because there are so many of them. If you decide to buy a condo, do your research and buy the best value you can find, insisting on a desirable neighbourhood and building. If you can comfortably afford a townhouse, it will likely offer a better resale value and be easier to sell. Compared to a detached home, the lower purchase price on a condo or townhome will save not only on mortgage interest, but also on property tax and utilities. Choose a starter home that will meet your needs for the next 5 -10 years not the next 30 years.

If you don't have a big down payment already, whenever possible, try to save up at least 10% of the purchase price before you buy. Mortgage Loan Insurance premiums are added to your mortgage at the outset when you put less than 20% down. With 10%, the premium is 2% of your mortgage balance, while a 5% down payment will cost you 2.75%. On a $300,000 mortgage, this means an additional $2250 added to your mortgage balance if you have less than 10% compared to if you have the 10% to put down.

Vehicles

Often newlyweds will bring two vehicles into the marriage but consider if you can get by with just one. You'll save thousands of dollars each year on depreciation, maintenance, insurance and gas. Whether or not you can reasonably manage with one car depends on your daily commute. When buying a home, choose a place to live that allows one or both of you to take transit, walk or carpool to work. For those working near downtown areas, a centrally located condo may have the advantage of allowing for a car-free commute. It's not easy sharing a car these days, but if you make it a priority it is certainly possible. Even if you need to go back to two cars when kids enter the picture, getting by with just one car for the first few years can help kick-start your savings. Savings in the early years will make a huge difference in the long run because of the time value of money, or as I like to put it: money now is worth more than money later.

Investing

With regard to investing, we find ourselves at a point in history where markets have recently taken a steep nosedive. For newlyweds, the timing couldn't be better. This is an excellent opportunity to begin investing in equity markets because everything is ON SALE. Investing doesn't need to be complicated: the main concern is to keep fees to a minimum and NEVER lock yourself in. If your work place offers a group RRSP or Defined Contribution Pension plan, you may be able to boost contributions there and benefit from the low fees that are typical of a group plan. If your employer matches or tops up your contribution, this is a no-brainer.

If not, you can start investing on your own with an index fund that tracks the S&P/TSX index. Index funds require very little effort by the fund managers so the fees should be very low. One of the lowest are *TD e-funds*, available only online. Their Management Expense Ratio or MERs are between 0.31% and 0.5%. Once you have some money saved, you might prefer to pay a little more for active management but again, *invest directly*, don't go through an advisor or the fees will water down your returns. *Steadyhand* (www.steadyhand.com) makes direct investing easy with just 5 funds to cover a range of needs from fixed income to global equities. Their Equity Fund of North American stocks, has a friendly MER of just 1.35% and their minimum initial investment is $10,000. If you have at least $25,000 saved, you may prefer *Phillips, Hager & North* (www.phn.com). Their Canadian Equity Fund has an MER of 1.12%, while their Balanced Fund charges an MER of just 0.87%. Full disclosure: the bulk of my retirement savings is invested the PH&N Balanced Fund.

Newlyweds face many challenges and often a steep learning curve when it comes to their finances. Educating yourself on financial matters is crucial to your success. Most of the "free" financial advice you can get from your mortgage broker, insurance rep or investment advisor is biased in their favor. You need to understand the options and know how to make the right choices that will help you keep more money for your future.

My book Spend Smarter, Save Bigger is a perfect resource for newlyweds, with advice for saving on life's biggest expenses, including your buying a home, choosing mortgage terms, vehicles and insurance. I also include an excellent overview of investing basics for new investors and more details on how to create your own low fee investing strategy. You can read chapters 1 & 2 for free on my website at www.spendsmarter.ca. Spend Smarter, Save Bigger is no longer available in stores but may be purchased exclusively through my website. Thank you for your support and good luck on your journey to financial freedom!

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