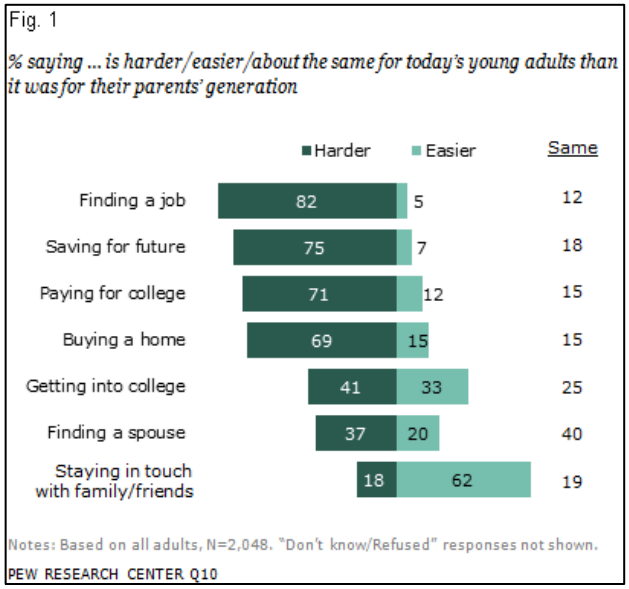
July 1, 2012

College Grads and Newlyweds:
It is Time to Start Fresh!

Each year, as we welcome and look forward to the beauty of summer, we inevitably find ourselves being invited to such joyful occasions as graduations and weddings. Not only do these events represent a new beginning but, from a financial planning standpoint, they also provide an excellent opportunity to lay the groundwork for a successful financial future. In this quarterly letter, I will discuss how financial planning can help you deal with some of these life-changing events.

Graduating (from college) is a major achievement and will be followed by many others to come in life. However, it also means that these "newly grads" must leave their "comfort zone"—moving to a new town, becoming part of the work force for real and for a long time. More unexpected scenarios could be waiting, like the possibility that you have not landed a job or received your first paycheck. During this stage, knowing and controlling your spending is of utmost importance. Keep your receipts, or a spending journal, and review them at least once a month to help you recognize spending patterns or habits, where money is coming and going, and identify (potential) problem areas. For example, if you tend to eat out a lot, or visit a coffee shop a few times a week, you can try cooking at home more and brewing your own cup of Joe. Cutting the cord to subscription TV, as most shows are available on the Internet for free or at a substantially lower fee, can also help as can doing away with your cell phone provider's texting plan by switching to an app that allows free messaging. These measures could save you hundreds each month and will release tremendous pressure from your (or your parents') cash flow, especially during tough economic times like now where unemployment rate is still at elevated levels (Fig. 1 shows how the younger generation feels about the job market etc. according to a recent Pew Research poll).



If you and your loved one have decided to tie the knot, congratulations! At this stage, hopefully, at least one of you has a stable job and can manage to support a household. If there will be a wedding, the very first thing you two, as a couple, should figure out is how much you, and your families, can afford to spend on it. Remember to tack on any existing student loans or credit card debt you already have, as these often already represent a sizeable financial hole to climb out of. Consider entering a pre-nuptial agreement that

delineates "who will be responsible for which debts and shields the party who isn't,"[1]advises Arlene Dubin, author of *Prenups for Lovers: A Romantic Guide to Prenuptial Agreements*.

Once the honeymoon is over, reality begins to kick in. Having a joint checking account is not tantamount to sharing financial obligations. Questions such as who is supposed to handle utility bills and how much each spouse contributes to the joint account need to be defined and agreed upon beforehand. One party cannot simply assume all of the responsibility; as the old saying goes: It takes two to tango! I would suggest that the person in the pair who is most worried about money be in charge of the household budget (with the agreement of the other) and the other one write the checks and reconcile the accounts each month. This forces the one who is more likely to spend money to come to terms with what is actually happening in the household accounts.

A wedding, while an easy and obvious marker for suggesting the need for some financial planning, is not the only time at which couples should consider how they wish to handle their finances. These days many people are opting to simply cohabitate. In such cases, all the suggestions above still apply, along with some other serious matters which are only pertinent to nonconventional households. The need for clear responsibilities and more robust financial as well as estate planning (in writing) is not reduced by the lack of a marriage certificate, but rather becomes much more important. Federal law does not necessarily treat domestic partners as legal spouses; therefore, many rules and regulations do not apply. Registered domestic partners, for instance, will not inherit anything if the other partner dies intestate (without a valid will or a trust). These issues are especially challenging if children are involved.

TABLE 1. TYPICAL BUDGET ALLOCATIONS

Non-Discretionary Items (Needs)	
Housing (Rent/Mortgage)	25%
Food (Groceries/Dining-Out)	10%
Transportation	10%
Health Insurance	5%-10%
Taxes	7%-40%
Debt Repayments	10%
Savings	10%
Discretionary Items (Wants)	
Clothing	5%
Entertainment/Vacation	5-10%
Charity	5-10%

Even if one realizes the importance of developing healthy financial habits, many will still struggle with follow through. Here are some tips: Start with small, achievable goals like saving receipts and reviewing them on a regular basis. Try to do this without being overbearing or critical. Get your spouse or partner motivated and involved in the process and assign tasks so both of you can have a hands-on experience, which will help solidify your relationship[2]. Keep criticism to what is *truly important*, and remember you are doing this for the benefit of your combined family. Should you find irregularities or mistakes, work to correct them instead of finger-point and assigning blame. Remember financial matters tend to exacerbate other problems in a relationship and are also one of the main causes for divorce[3]. Do not be afraid or ashamed to seek professional help. Family, or pre-marriage counseling and professional financial planning can help you build a solid foundation toward "happily ever after"!

- *Henry Yu, CFP®*

[1] Dubin, Arlene. *Debunking the Pre-nup Myths.* June 12, 2012. WealthManagement.com. http://wealthmanagement.com/estate-planning/debunking-pre-nup-myths

[2] Washburn, Carolyn and Darlene Christensen. *Financial harmony: A key component of successful marriage relationship*. 2008. http://ncsu.edu/ffci/publications/2008/v13-n1-2008-spring/Washburn-Christensen.php

[3] Amato, Paul and Denise Previti. July 2003. *People's Reasons for Divorcing.* Journal of Family Issues.