5 Important Questions To Ask Your Partner Before Your Next Big Step

Description

With Valentine’s Day approaching, many of us will be celebrating another milestone in our relationships – especially for those of us who are in it for the long term. Frankly speaking, the thought of committing to one person for the rest of our life does seem a little intimidating, but there are some steps we can take to make the road ahead more smooth-sailing.

At the core of your discussions for a future together, experts recommend that financial considerations should be at the heart of everything you do. If you’ve not discussed these things with your partner yet, here are some questions to get you started:

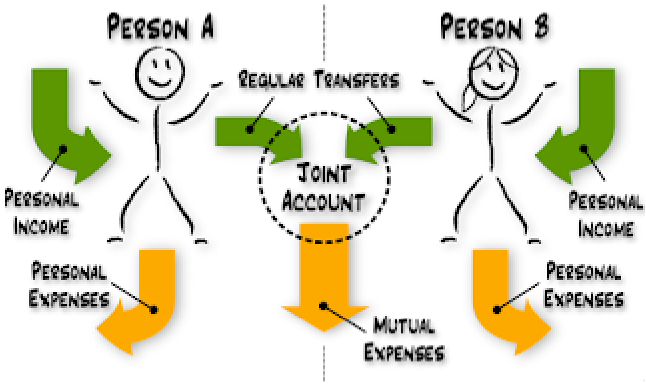
1. How will we manage our money in the future?

I remember much of the arguments my parents had from my early days as a child. Their household budgeting basically involves each spouse taking responsibility for different types of bills. My dad covers the more “boring” bills (that we seldom see) – utilities, groceries, maid levy; whereas my mom pays for our education, toys and other children-related expenses. The housing loan is the only bill they split 50-50. While common amongst many couples, this way of dividing up the household expenses caused multiple arguments as my mom always felt as though she was paying the lion’s share.

Due to the fact that my mom frequently complained in front of us, I used to think she was the superhero paying for almost everything. It wasn’t until I was much older when I realized that without my dad paying for all the other recurring bills, I would not have had my hot showers, TV drama serials, MSN messenger chats or Neopets games.

Learning from my parents, I’m of the view that couples should develop a system that works for them right from the start. If you don’t plan for your couple finances, you’re essentially setting your marriage up to fail in the future.

If you don't already have a system planned, here are some common strategies you can tweak:



Credits here.

The "what's yours is yours, what's mine is mine" method – couples with very different styles of managing their money would be best suited for this. Retain your respective individual accounts, but deposit an agreed amount each month into a joint account meant for your shared expenses (rent, mortgage, utilities, etc.). If one partner is earning significantly more, you could discuss to contribute a proportion that is relative to your individual income so that the financial burden is more balanced. Each partner is free to spend whatever money they have left in their individual account as and when they like.

The "let's share everything" method – for couples who have very similar spending styles and saving goals (how rare is this?!), you can consider combining all your income and expenses into a single account. That way, both parties will always know how much is coming in and how much is going out.

The "pocket money" method – for couples who wish to share their savings and limit their expenses, but yet have individual control over what they each spend on. Open a joint account combining your savings and monthly income, and withdraw an equal amount for each person every month to spend as they wish. Any excess can be channeled either back to the joint account, or a separate individual savings account (especially if one spouse is delaying spending for a bigger-ticket item).

Another factor to consider when you're working out future monetary arrangements also includes the element of debt. Asking your partner about how much debt they have might be perhaps the toughest question, but it is also the most important. You don't just marry your partner; you also marry their debts and financial obligations, which will affect your own financial status. Thankfully, my boyfriend and I have no outstanding debt, but for most young couples, their student loans will probably be the most pertinent. If you're looking for a guide on how to pay off your TFL as soon as possible, check out these tips.

Work out a debt repayment plan before you start discussing about saving for other bigger-ticket items like your wedding, honeymoon or house.

2. How much should we have in our emergency fund?

Work Building up a shared emergency fund should be a priority of all couples, because there are simply too many possible scenarios that could crop up and derail your financial goals. Read more about emergency funds here.

Open a joint account and decide how much cash you wish to deposit as emergency funds. You can project this by taking your monthly household expenses (include your housing loan) and multiplying this over a duration of 3 – 12 months. For a start, I personally believe $20,000 is a good number to work with.

Most banks allow you to dictate conditional fund withdrawals, so set it up such that the signatures / approval of both parties are required before the money can be taken out of the account.

3. Are we ready for the next big (financial) step?

Becoming committed to a lifelong partner involves a number of large financial commitments as well, including your wedding ceremony, buying a house and preparing to have and raise children.

(i) What type of house should we buy?

One mistake many newlyweds make is to buy their dream house as their first home. Often, this ends up being a house they cannot afford (especially for those who are hankering after condos or large HDB flats).

Rethink your romanticism and adopt a more practical stance instead. It pays to be prudent with your first home as it is a long-term financial commitment. Avoid buying a bigger house on the assumption that your income will increase in the future – what happens then if you don't get a pay raise? Ensure that you will always have enough to pay for your monthly housing instalments before you commit.

I used the Our First Home calculator provided by CPF to estimate what housing prices we could afford to go for before we decided on gunning for a 3-room HDB flat, as our combined income now is under $6,000 every month. Some people may find this small, but we would rather buy a house that we can afford now without breaking our backs, and upgrade in the future instead when our earning powers have increased.

After all, a dream home is not necessarily equivalent to a big house.

(ii) How much are we willing to spend on our wedding?

The average wedding costs range from $40,000 to $75,000 for most couples. Read more about a breakdown of the estimated costs you'll be spending (and some other ways to do it for cheaper) here. This isn't surprising when you consider the fact that the diamond engagement ring already costs a 4-digit sum alone.

While a wedding is indeed a once-in-a-lifetime affair, there's no need to get into debt and start your marriage off on the wrong note over this one-day event either. Some of my friends have been getting married for under $20,000 lately and we're trying to pull off ours for the same budget – now that's a practice you might want to consider, especially if you aren't earning a lot.

(iii) How should we prepare to have a child?

The estimated cost of having a kid is Singapore is about $1 million dollars, if you include their university fees and tuition costs which will take up a huge chunk of expenses. This doesn't mean that you have to have this money upfront before you welcome your kids into the world, but it certainly means that you have to be sure you have enough money to support the extra lives!

Even if both of you still have some time before you think of starting a family, that doesn't mean you can afford to neglect the planning process until you're completely ready. You need to consider whether both of you are financially prepared to have children, and if not, then how should you go about preparing for it?

4. How can we invest in our future, together?

Living the rest of your lives together also means you should be looking at making your money grow and work for you – in other words, look at investments that would positively impact your shared future.

Spending on the *right* insurance policies is one such "investment" – you both want to make sure you set up a protection net for your loved ones in case anything unfortunate happens to either of you. Another example would be to invest in a second house together, which you can then rent out (provided both of you are earning enough to consider this!) for extra income. Or, if you have lesser funds to begin with, perhaps investing in equities could be another option.

In my case, I'll be the one investing in equities, whereas my boyfriend will be in charge of property investments perhaps 10 years down the road when we've built up enough capital.

5. How do we ensure we will grow older together comfortably?

I've written previously about how we can get more money from the government if we're smart about using our CPF accounts to benefit ourselves. On top of contributing to your Special Account, there are a few other moves you can make to maximize the system's benefits.

Get tax relief while building your nest egg

The SRS is a national voluntary scheme set up in 2001 to complement the Central Provident Fund by giving individuals an incentive to save consistently for retirement, while also enjoying tax benefits.

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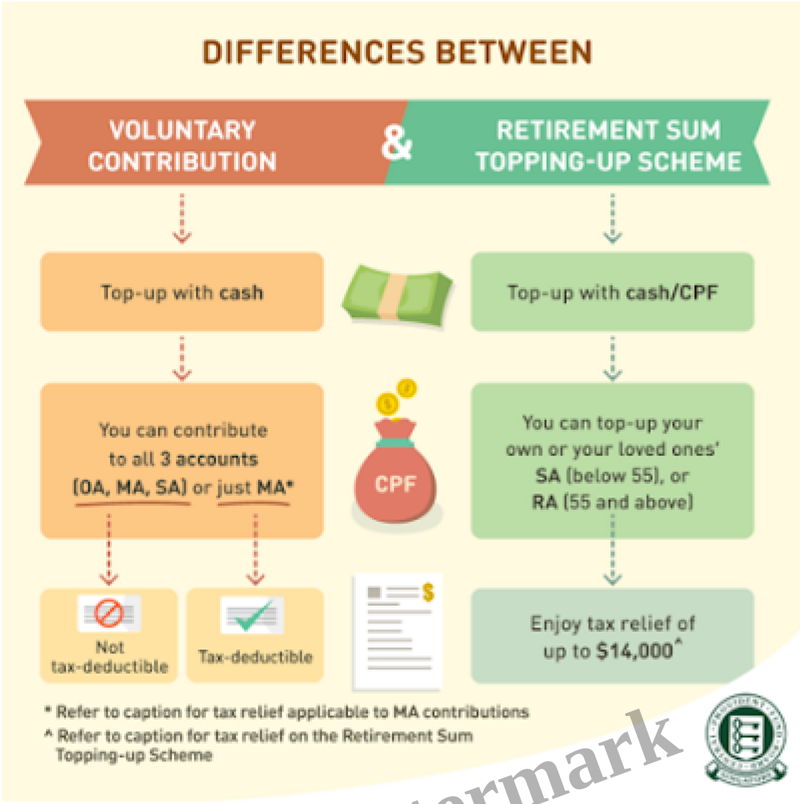
An important thing to consider is when your partner is self-employed. The downside of being self-employed is that you miss out on the 17% employer contribution, which can work out to quite a significant sum over time (as much as over $7,000 for a fresh graduate earning $3,500 monthly). Currently, self-employed folks are only required to contribute to their MediSave, and not everyone contributes regularly to the rest of their CPF accounts (including my partner and my own sister, both of whom are self-employed).

Not contributing to one's CPF when one partner is self-employed can cause a number of problems later on. It is often harder for self-employed folks to apply for loans and credit cards because your income is perceived to be unstable and not well-documented. My friends who recently got married had issues applying for a BTO because both of them are self-employed, and even got rejected by the banks when they applied for a housing loan, as they did not have stable CPF statements to show that their income were actually relatively stable.



I personally view CPF funds as a fantastic tool to support one's retirement savings as well. The system has been built to ensure that we will have sufficient funds for our golden years – you technically can't squander the funds away and end up having nothing in your old age! The interest rates are quite attractive as well, as CPF funds have almost zero risk and earns between 2.5% to 5% of interest annually. When you compound this, the returns can be quite significant over time. You can take a look at another blogger's CPF statement here – he received over $7,000 in CPF interest alone within a year on his SA.

These questions may not make for the most romantic of conversations, but you'll be glad you discussed them sooner rather than later after you've signed the marriage certificate. In fact, research shows that couples who argue a lot about money are at a greater risk of divorce.

> *"Arguments about money [are] by far the top predictor of divorce. It's not children, sex, in-laws or anything else. It's money – for both men and women."*

Start off your future on the right note. If you are in a relationship for the long-run, you should definitely start making meaningful financial decisions that will benefit both of you in the future.

Of course, other than financial considerations, do also speak with your partner about issues regarding open communication, commitment and other responsibilities. When you discuss and come up with a plan for all these pertinent issues before both of you get married, that's when you know your partner is a keeper ?

For those who are married, what other money-related questions did you ask your spouse back then before saying “I do”?

With love,
Budget Babe

Category

1. Family