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Financial planning for newly weds: *Matrimonial bliss or nuptial anguish?*

Much of a couple's discussion before marriage centres around how many kids they want, where they are going to live, and how often they are going to visit their in-laws. But the dreadful topic that is often avoided is money. It is evaded altogether as the couple does not want their romance to be "tainted" with money issues.

Most Singaporean couples rush down the aisle without pre-wedding communication on personal finances. Their reason: love will overcome any disagreements about saving and spending. Actually, talking about money does not mean distrust but to *prevent* fights, frustrations, or even power struggles later in the marriage years.

Financial considerations before tying the knot

Financial planning for the wedding should start at least one to two years before the actual wedding. Probably, if a couple were considering getting married, they would already have some basic understanding of the spending patterns and financial position of the other party. However, I would suggest some dedicated communication sessions just to make sure the couple understands each other's needs and priorities. Differences in financial views have to a large extent to do with the couple's family backgrounds and upbringing. These differences, if not addressed adequately before the wedding may cause a great deal of stress after. Sad to say, I have seen many whose marriages crumbled under overwhelming financial distress.

Wedding related expenses are generally modest compared to the cost of buying and setting up a matrimonial home. It would be realistic for a newly-wed couple to consider a HDB flat first instead of jumping into a private property. The housing decision is a lifestyle decision which involves a great deal of financial resources. There is, however, no hard and fast rule as a lot rests on the priority of the couple. While some people splurge on their cars and many on long luxurious holidays, other may feel that spending on their home renovations is a wiser use of their financial resources. As the resources of a young couple are usually limited, there is a need to set some priorities. For example, if you desire a bigger property, it may be worthwhile to consider some sacrifices in the form of a cheaper car or shorter holidays.

From a solely financial standpoint, however, it is usually wise to live in a less affluent neighbourhood than what you can afford. This may sound counter-intuitive, as a typical Singaporean's dream is to live in the biggest and most luxurious house that they can afford. Imagine this, if you are moving into a luxurious condo, you would not only have to service a bigger mortgage, but your whole lifestyle would have to be upgraded just to keep pace with your neighbours.

How to start?

Do your budgeting. It is wise to draw up a monthly cash flow budget, individually and together, so that you know where your money is going. It is perhaps the first step to finding those extra dollars for saving and investment. This is a good avenue to work through the differences as the couple tries to allocate their monthly cash flow.

Argument at this stage is good as the couple could work things out rationally instead of sorting out their disparities in a shopping mall or before a sales person.

Part of the exercise is also to determine how much they would like the other party to contribute to the joint account and decide which is family and personal. For example, if the husband has a business, it is important to draw the line so that his business risk would not affect the family's financial security.

The couple should start investing as early as possible, preferably in smaller bites initially and gradually stepping up as confidence build. A recurring investment in some low-to-moderate risk professionally managed funds is perhaps optimum for first timers. Start with a general mix of a global equity and bond funds. Avoid sector funds or country specific funds which are inherently more volatile and may potentially cause some heartache if the couple invests at the wrong time. On the other hand, banks and other fund distributors would continue to recommend "hot" funds as they are relatively easy to sell, but the risk rests solely on you.

The general rule is, if in doubt, stick with a well diversified, professionally managed portfolio of global bond and equity. A good investment is what makes you the money you expect at a reasonable risk. As long as you have a well-coordinated and informed game plan, whether you choose unit trusts, insurance linked funds, direct stock investment or a combination of them, all would work equally well for you over the long term.

Keeping track of your progress

To determine the financial health of a couple, we can do a simple test. First calculate the combined annual expenditure. Next multiply it by the average working lifespan of the couple. If your liquid/investment assets (exclude home equity; if downgrading is an option, a portion of it may be used) are higher than that figure, it means you are doing fine. If it is not, probably more work needs to be done. I expect only about 10-20% of married couples would meet this lofty target. There are various qualifiers to this test and the criteria for including or excluding certain items in the expenditure estimates vary depending on the objective of the analysis.

How much should you save?

The general advice is to save/invest as much as the couple can, in whatever forms they are comfortable with. It is always good to start a race in the lead rather than play catch-up later. Whether it is in a joint bank account, personal account, insurance policies or investment program, the most important thing is simply to get started. Many Singaporeans love to procrastinate. How are you going to finish the race if you don't even get started?

From my experience, I find that many Singaporeans cannot save cash, or they may save to spend it later. Many couples I know faithfully save every month, only to wipe most of it off on a holiday. While some prefer to splurge on furniture and electronic gadgets, others spend on cars and renovations. The savings vaporise nevertheless. The key: Save to save; not save to spend. If the couple has difficulties saving, they should use a structured system or program to help them. For example, insurance policies and save-as-you-earn schemes are a good way to get started.

Some newlyweds believe that they don't have to start saving now because they want to enjoy the pleasures of life first. Every financial decision has its consequences. As long as the couple realises what they are sacrificing in terms of their longer term financial security and is collectively agreeable, I believe it is perfectly fine. For this group, I would recommend that they buy enough insurance, as their cushion for rainy days may be more limited.

Potential Pitfalls

Many couples are susceptible to punting and silly investment mistakes that could set them back on their retirement plans by several years. When the economic climate is good, it is common for banks and fund managers to launch higher risk investments like emerging market funds and country or industrial specific funds which have done exceptionally well over the past few years. A couple recalled how a \$100,000 unit trusts investment in 2000 was reduced to \$50,000 within two years. And worse still, crippled by fear of further losses, they sold off their investment right at the bottom of the market cycle. They told me that it would take them at least three years to save the \$50,000 they had lost. We may laugh at their stupidity, but history has an uncanny ability to repeat itself, as long as fear and greed exists in humans. Many people who make painful investment mistakes are among the smartest people I know.

A couple may also make costly asset allocation mistakes after doing a risk profiling test. An interesting observation about risk profiling tests is that the result for the same person may differ with changing market conditions. In a bearish market for example, most respondents would indicate their choice of risk aversion. In an environment where investors have been enjoying strong returns over the past years, the results would usually indicate a willingness to take more risk to achieve higher returns. The strategy may severely backfire if the markets pull back significantly.

If in doubt, seek the advice of a good financial planner who should be able to smoothen the retirement planning process for a couple by helping them to avoid some costly investment mistakes and educating them on the right assumptions to use for their financial planning.

A checklist of questions to ask in THE pre-marital discussion

- 1) **What are your financial goals?** This is a good starting point where both of you can discuss candidly about your individual as well as combined "dreams" – the house you want to live in; the kind of holidays you want to take; the car you want to drive; when you hope to retire and to start your own business eventually. You may not be able to attain all of them but the objective is to help set your priorities together and establish some common ground. The goals should be reviewed annually as priorities and expectations change as both of you progress in your career.
- 2) **What are your career expectations?** Do you expect you and your spouse will both work full time throughout your marriage or do you expect to live off one income after a child is born? Both of you need to know what the other expects. Or else you may see the day when one of you says, "I thought we were both going to

work”, and the other insists, “But I thought you knew I was going to stay home with the kids.”

- 3) **What is your money history?** Your upbringing would usually influence how you deal with your finances. Some were bought up in a permissive household where they were given money quite freely without having to earn it. Others come from more modest background where family cash flow was tight. In the classic example, a saver marries a spender, and the couple crashes when the saver complains about how the spender splurges on “unnecessary things”. The spender, in the meanwhile, balks at the “miserliness” of the saver. Some of this angst can be avoided ahead of time if partners can recognise the value the other party places on money. An easy way to discuss this is to ask: What does money means to you? Does it represent security? Choices? Bigger family home? Luxurious vacations? And how will money be used to fulfil these values?
- 4) **What are your assets and liabilities?** This is one of the most difficult questions to answer. Revealing your assets and liabilities is like a taboo as most people are reluctant to share how much they’ve saved, how much they earn or how much debt they have accumulated. Being discreet Asians, many may feel uncomfortable when they ask their partner to divulge those details; yet it is important to know. Money in the bank represents financial security, a source of income and a resource to afford things in life. Debt, by contrast, can be a source of angst and an expense that drains the family’s monthly income. Furthermore, it can prevent a couple from pursuing what they really want. Knowing the assets and liabilities each person brings into the relationship is a pivotal point of the money discussion. Rest assured that these numbers won’t stay hidden forever, especially debt. Just imagine the impact on the marriage when you discover that your partner has hidden a mountain load of debt from you.
- 5) **Do we need a prenuptial agreement in Singapore?** This is the most explosive question, potentially sending either partner into a fury, since the mention of it implies distrust or lack of faith of the marriage’s survival. However, there could be a situation where in a second marriage, you want to shelter certain assets for your kids from your previous marriage or provide for a sibling with special needs. Or if you come from a wealthy family, your parents may “dictate” that you have an agreement.
- 6) **How do we share financial duties?** It might be useful to first discuss about your individual strengths. One partner who is good in investment may wants to take a bigger responsibility in assessing the investment options for the family. The other who is efficient at administration can take charge of managing bills and bank accounts. It is also not uncommon in many marriages that, agreeable to both parties, one partner may take the reins and handle all the financial decisions. The discussion may also cover the level of trust accorded to your partner, as this would to a very large extent determine how the financial duties are divided. One husband I know, who has a family history of gambling, decided to let his wife handle all the joint account finances. This arrangement is not so much about not trusting himself, but more out of the love to provide his wife with more security.