How to combine finances with your partner.

THE ULTIMATE GUIDE

coastcapital

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Getting Started

So, you're taking your relationship to the next level. Congratulations! This is an exciting time for you, full of hope for the future and opportunities for growth and change. You may be wondering how and when to combine your finances. Let us help. In this guide, we'll explain how to manage the money part of joining households in a common-law, marriage or re-marriage scenario.

We want you to get really good at talking about money with your partner. You would be shocked to know how much of people's financial wellbeing comes down to them being able to communicate about money. But don't worry – this is all incredibly do-able.

We also want to be clear that we're not tax or legal professionals and professional advice should be acquired in those areas if needed. We just want you to be aware of the key considerations that come up when looking at the financial side of this topic, including:

- Combining Finances
- Managing Shared Costs
- Saving For Shared Goals
- Planning for a Home
- Future Proofing

Combining finances can be a lot for you to handle. It's important to make sure you're doing it in a way that makes sense for both of you. We encourage you to speak with a Coast Capital advisor when you're ready, so we can all work together to better understand your joint goals and build a plan that's tailored to your unique situation, together.

Lesson 1: Combining Finances

No matter how you and your partner decide to combine your finances, you will need to focus on budgeting for shared costs and filing joint taxes.

Budgeting for Shared Costs

Shared costs of living are the things you both use and pay for, like rent or mortgage, utilities, insurance, and groceries. If you already budget for those costs on your own, then adjusting to a shared budget is a great next step. And yet, the CRA's recent Canadian Financial Capability Survey revealed that more than half of all Canadians DO NOT budget because they are time crunched or feel overwhelmed.

Many people have a resistance against carving out time to fill out a budget template. All the apps and templates in the world can't get them over that mental block. And yet those who push through it are statistically better at managing their money: they're less likely to spend more than their income or borrow for day-to-day expenses. Proper budgeting can literally save you money, as long as you put it into practice.

Filing Joint Taxes

In Canada, couples who have lived together for one year or more can "couple" their individual returns. This means that on your individual tax return you can report the net income of your partner and the combine income is used to determine whether or not you're entitled to certain benefits, deductions and credits. That means you could potentially lower the amount of tax you owe. To find out more, speak with a tax professional, call the CRA helpline or browse the CRA website.

Lesson 2: Managing Shared Costs

Once your household budget it built, you may decide to keep your finances separate and split fixed expenses, or combine finances to address the reality of shared costs and "coupled" taxes. If so, there are typically three approaches you can take to set that up.

These are Proportional, Raw, and Complete combinations.

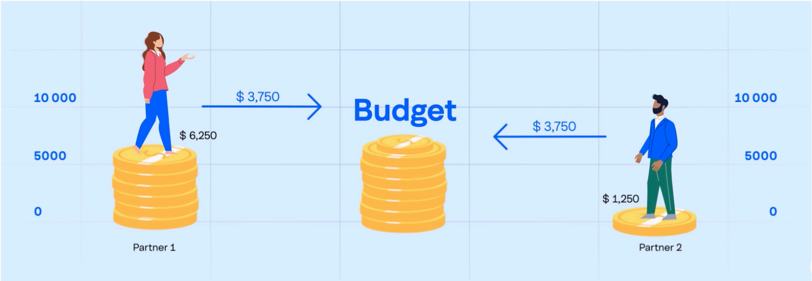
Proportional Combination

Couples who use this method to combine their finances each contribute into the household bills at a rate that's relative to their income. Let's say Partner 1 earns $10,000 per month and partner 2 earns $5,000 per month. Both partners contribute 50% of their monthly income into the joint account to cover shared costs. So Partner 1 would end up putting in $5,000 and Partner 2 would put in $2,500.

Raw Combination

With this method, couples each chip in the same amount, regardless of how much they make. Whatever each of them has left over goes into their own separate accounts.

So let's say again that Partner 1 makes $10,000 a month and Partner 2 makes $5,000 a month. Both of them could put $3,750 into their joint account and use their remaining income for personal expenses or savings and investments solely in their name.



Complete Combination

This is for couples who completely combine their bank accounts. They pay all their bills from the same joint account, only have joint credit or debit cards, and contribute to a retirement savings plan.

Once you choose the approach that works for you both, you can manage your share costs with the single most useful financial tool around – your budget.

Lesson 3: Saving for Shared Goals

Savings is really about the twin ideas of Debt and Savings Strategies. Debt comes into play if you decide to open a joint account and then use that account to apply for a loan, line of credit, or mortgage. You are effectively saying you trust your partner's financial acuity, because you are both legally responsible if any of these lending opportunities default.

Defaults happen when borrowers stop making their minimum required payments towards their mortgage, credit line, credit card, loan, or any other debts. There are serious consequences to defaulting on unsecured debt:

- Your credit score could be significantly lowered;
- You may not be able to receive loans in the future;
- If you do receive a loan, it will likely come with a much higher interest rate;
- To repay past or future loans, your lender may rely on severe measure, including garnishing your wages, a legal process in which payments are taken from your paycheque or bank account by a third-party repayment company.

This is why it's so important to talk to your partner about money. While it can be awkward at first, it's better in the long run to discuss each other's credit situation and how much debt you each have. Share your credit scores, too. If you don't know yours, there are online services like Equifax or TransUnion that can help.

Regardless of where you are with your finances, saving is always important; money kept in a chequing account never earns interest, and therefore never grows on its own. Moreover, with inflation rising faster than the interest on your savings, you should consider moving a savings account balance into a Registered Account that aligns with your financial goals. For example, if your goal is to save for an emergency fund, you may consider moving your savings to a GIC or mutual fund with a higher rate of return than your chequing or savings account so that you can earn more interest.

Registered Accounts

Registered Accounts are effective tools for saving and investing. As their name suggests, these accounts are 'registered' with the government, ensuring that whatever is earned in them is tax-sheltered – in other words, that you cannot be taxed for what you make off your investments in these accounts.

Tax-Free Savings Accounts (TFSAs) and Guaranteed Investment Certificates (GICs)

There are many different types of registered accounts meeting all kinds of needs. You've likely heard of them. For example, the TFSA (Tax-Free Savings Account) is one of the most popular, and helps Canadians save money with a set amount that can be put into – or 'contributed' – to the account each year. Another popular tool for saving and investing is the GIC (Guaranteed Investment Certificates)--it's called this because you're always guaranteed your principal investment back. You can invest in GICs via Registered Accounts like RRSPs or TFSAs, or you can invest in GICs via non Registered Accounts like mutual funds.

Registered Retirement Savings Plans (RRSPs)

But the account you might be most interested in, as you combine your finances, is the RRSP (Registered Retirement Savings Plan), which does a lot more than its name suggests. Not only does contributing to the plan lower your taxable income for the year, but you can also use the account to help you save for your first home purchase under the First Time Home Buyers Plan.

When you aren't saving towards your retirement or your first home together, you can also use a Spousal RRSP to help your partner save for those goals, too. Speak with a Coast Capital advisor to find out if a Spousal RRSP is right for your shared financial plan.

Registered Disability Savings Plans (RDSPs)

Alternately, if you have a disability, you can put savings into a "Registered Disability Savings Plan" or RDSP. The government matches every contribution you make – another way to stay ahead. An RDPS is only a long-term savings vehicle for Canadians who qualify for the Disability Tax Credit. It's also important to note that if you were to make any withdrawals from this account before you turn 59 you could face taxation penalties and loss of government grants.

Lesson 4: Planning for a Home

It's important to get a very realistic sense of what your ideal housing situation would cost AND what the steps toward that journey look like. Though certain things can make it harder for you to get a mortgage, having a plan helps you anticipate these obstacles and strategize your way around them.

One such obstacle to qualifying for a mortgage is having bad credit. Not only does credit take time to rebuild, but it affects how creditworthy you are deemed by financial institutions. You may need to provide at least 2 years of financial records if you're self-employed, or a letter of employment from your employer confirming your salary and how long you have been employed. Similarly consumer and personal debt can also have a negative impact on your ability to qualify for a mortgage.

A mortgage is a significant amount of money and it's important to ask yourself if you're ready to take on that amount of personal debt. In addition to the mortgage payment you'll be making, there are ongoing property taxes, condo and maintenance fees as well as fire, life and other insurance costs to consider.

This is where an emergency fund makes a big difference. If you have one in place to cover all the things for which your landlord is responsible, then you're in a better position to be house hunting. Getting a clear idea about the kind of life you and your partner want to live – and the role financial health plays in that planning – can give you a significant head start.

Lesson 5: Future Proofing

As you and your partner set yourselves up for financial success, be sure to review prenuptial agreements, wills, and life insurance.

Prenuptial Agreements

Though prenuptial agreements carry the stigma of distrust, the opposite is true. These agreements are designed to protect both of you from the potential financial fallout that follows separation and divorce.

To have this conversation, you and your partner need to trust each other and want what's best, whether or not you remain in each other's lives. Advisors can help you identify what you may want to include in a co-habitation or prenuptial agreement before taking the document to a legal professional. Once you have an idea of what to include, connect with your lawyer to create a legal version of the document to ensure it aligns with the Family Law Acts of your province or territory.

The process of creating such an agreement is straightforward. Each partner should make a list of everything they own and owe: savings, assets like vehicles or property, Tax Free Savings Accounts (TFSA), Registered Retirement Savings Plans (RRSP), and any debt. Next, talk about what you think is a fair way to divide these things should you part ways. It sounds simple, but it requires a lot of trust.

Breakups are hard and you may not have the clarity of mind to make good choices for yourself if it happens to you, but these choices can really impact your life moving forward. Planning for them now is important; you can even think of it as financial self-care.

Considering how small an effort it is and how much headache and heartache it can alleviate for the person left behind, its just the kind thing to do when deciding to build a life together.

Wills

These are pretty straightforward, but you must have a legal professional advise you when drafting and writing your Will. It's important to note that if you're a British Columbian resident, hand-written (holographic) versions are not considered valid, so be sure to connect with your lawyer when creating your Will.You may also want to speak to a financial advisor beforehand so you are prepared, that way you spend less time and money in the lawyer's office.

Life Insurance

Life Insurance is one of those things you hope to never need but if you find yourself needing is really important. Having it in place may help ease the stress of a difficult time for the one left behind.

Your financial advisor can guide you in the right direction and can even set you up with one of their Insurance Partners if appropriate.

Conclusion

You and your partner's financial situation is unique. In fact, no two couples are exactly alike. That's why it matters that you get personalized advice and service. Our financial advisors will take the time to listen to you and get to know your needs, goals, and dreams – so you can get the advice you deserve. Speak with a Coast Capital advisor today when you visit one of our branches, give us a call at **1.888.517.7000,** or book an appointment online.