By Deborah Knuckey

Six Steps to Financial Bliss

Smart partners take on debt for good reasons only, such as to buy a house.

all couples want to work together to reach their financial goals. Differing money values can hinder that process. Partners always bring their own financial styles into marriage, and these never match exactly. Here are six rules that help reduce money conflicts. The more you follow them, the fewer fights you'll have and the greater your chances are of making your money dreams come true.

Rule 1: If You Don't Have It, Don't Spend It!

You can't eat food you don't have or spend 25 hours in a day. Yet thanks to this thing called credit, you can spend money you don't have. Unfortunately, you can't repay debt with money you haven't earned, so overspending means committing future earnings to today's spending decisions and depriving yourself of the chance to grow the sort of wealth that will bring you ease later in life.

There's a difference between good debt and bad debt. Mortgages are good debt. Student loans are good debt because they boost earning power. A loan to buy a car to get to work makes sense if you don't go overboard. Debt incurred from living beyond your means, however, is bad debt. Credit shouldn't be used to support a lifestyle you can't afford.

The common response to this is, "But I'll earn more tomorrow." Perhaps. But you will want more tomorrow, too. Staying debt free requires putting off purchases until you can afford them. There are advantages to this. One is that by the time you have the money, the price of the item may have come down. Another is that you may discover you don't want it as much anymore. By not overspending, you will also actually have more to spend because you won't be spending money to service debt.

You and your partner may differ on what constitutes good and bad debt. Discuss your views on when it's acceptable to borrow and how much debt you're comfortable with. Next, make a list of all your liabilities, specifying the type of debt, amount owed, minimum payment and interest rate. Mark each debt "good" (mortgage, crucial home improvements), "O.K." (car loan) or "bad" (department store charges) and total each category. What is the total amount of bad debt? What is the total in minimum monthly payments? How much are you spending on interest each month?

Try to lower these payments by getting a debt-consolidation loan or transferring balances to a lower-interest card. See if you can put more money each month to paying down this debt. Making only minimum payments will keep you in debt longer and cost you more. If you can't consolidate your debts, pay off those with the highest interest rates first. Limit your ability to charge by closing unnecessary credit cards and leaving active ones at home. Stay away from places that tempt you to spend such as the mall or home improvement store. If you slip up and charge, try to recover quickly. Your financial resolve should not collapse with the first unplanned indulgence.

Rule 2: Save a Part of Every Dollar You Earn

For every $100 you take home, spend $80 and save $20. You need to put at least 10 percent of your income into savings for a comfortable retirement, and you need an additional 10 percent for other financial goals: buying a home, having children, sending them to college—the list is endless. Saving 20 percent also gives you greater flexibility to handle challenges such as being laid off.

If you are currently spending every penny you earn, living by this 80:20 rule will take a lifestyle adjustment. Look at where your money is going and where you may be able to save. Examine your biggest expenses first. Most couples spend about half of their income on their house, car and related costs. Trim those costs by 10 percent and you free up more of your income. Perhaps you can refinance your mortgage or lower your thermostat or keep your old car a few extra years. Many cost-cutting measures are relatively

Deborah Knuckey is the author of "Conscious Spending for Couples" (Wiley).

> **“** Make going on vacation a shared goal and decide what you need to save monthly to do it. **”**

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painless. If you are living beyond your means, however, you may have to face some tough decisions such as whether to move to a more modest home.

The second place to look to cut spending is at everyday expenditures. It's easy to blow hundreds of dollars a month on little nothings. If you buy lunch every day, for example, you are probably spending $25 a week. Assess your spending habits and decide where you are willing to cut back. You may decide to buy plain coffee instead of expensive lattes or to borrow books from the library instead of buying them.

You can also cut costs by holding major expenses steady. If you stay in your present home when you could afford to buy a bigger one, you can save a lot in the long run. Trend-spending can also cost dearly. Right now flat-screen TVs are the new thing, and their price reflects this. Wait a couple of years and they will probably be more affordable.

A smart way for two-income couples to save is to keep fixed costs below the lower income. Say one spouse takes home $2,500 a month and the other takes home $2,000, for a total of $4,500. Under the 80:20 rule, they could spend 80 percent of $4,500, or $3,600. If they hold monthly spending to $2,000 or less, however, they maximize savings while insuring that they could survive without accruing debt even if the higher-income earner is laid off.

Rule 3: Picture Your Future—and Plan for It

The process of developing a financial plan is almost as important as the plan itself. In creating it, you and your partner are creating a shared vision of your financial future and deciding how you will work together to make it real. You are prioritizing your dreams, clarifying your goals and creating a time line for reaching them. The following questions can help you get started. Answer them separately, then compare and discuss your answers:

- What kind of house do you want?
- Where do you want to live?
- How many children do you want?
- Do you want to take time off work at some point?
- Would you like to go back to school?
- Are there expensive hobbies you would like to pursue?
- When do you want to retire?
- Do you want to leave money to your children?
- Are there other expenses you should prepare for, such as caring for an aging parent?

Use what you've learned about each other's dreams and goals as the basis for creating a list of shared goals. Prioritize these goals, plot them on a time line and include a price tag for each one to get a sense of current and future demands on your income. Now estimate how much you need to save monthly to reach each goal by its target date and add up these estimates. If the total exceeds 20 percent of your income (10 percent for retirement and 10 percent for other goals), you may have to rethink your plan and consider delaying or eliminating some goals or finding ways to increase your income or decrease your expenses.

Now it's time to create a spending plan. Sort expenses into seven categories: financial security (life insurance, retirement savings, emergency savings), shelter (all costs of maintaining a home), physical well-being (food, doctor visits, gym memberships), household expenses (clothes, haircuts, transportation), entertaining and socializing, charity, and personal enrichment (vacations, books, hobbies). I also like to include $500 to $2,000 a year for expenses I can't predict.

Write down how much you now spend in each category and how much you would prefer to spend. Keep revising this plan until you have one you both find acceptable that doesn't exceed your income. It may look quite different from your current spending patterns. Hammering out this plan often helps couples see where they need to make changes. Review and revise your plan every time your financial situation changes: when you pay off credit-card debt, for example, or change jobs.

Rule 4: Organize and Simplify Your Operating Procedures

Have you and your spouse argued because someone forgot to pay a bill? Have you bounced checks because one of you wrote one without recording it? Does one of you spend hours balancing the books while the other just spends? If so, you may want to review how you manage your finances.

Couples tend to manage money in one of two ways. Either they combine their finances completely, or they keep separate accounts and open a joint checking and credit card account for shared expenses. The first method minimizes fees and makes it easier to keep track of finances. But many couples feel it is too much togetherness. Couples who choose this method also need to make sure that both partners handle money responsibly because any misdeeds against joint accounts will be recorded in both credit files. Keeping separate accounts and establishing joint ones permits a level of financial autonomy that many partners prefer. This method is more complex, however, and usually entails more fees.

Whichever method you use, consolidating accounts and keeping them at one financial institution can simplify your financial life. Make a list of every checking, savings or investment account and every loan and credit card you receive statements on. Decide which cards and accounts are core to your financial plan and which are clutter. Call the institutions where unneeded ones are held and close them by phone. Having too many active cards makes it too easy to overspend. Ideally, you and your partner should have only

Photo, Getty Images.

“Being clear about who handles which money tasks reduces marital stress and prevents financial slip-ups.”

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three: one joint and two individual cards. Resist the temptation to keep numerous department store cards.

If your core accounts are not all at the same institution and your primary bank doesn't offer this range of services, consider shopping around for one that does. Spouses can't combine retirement accounts, but you or your partner may be able to consolidate separate accounts from past employers into one IRA. At the very least, it makes sense to transfer them to one bank—a simple matter of filling out a few forms.

The goal is to reduce stress and demands on your time. If you pay a lot of fees or frequently bounce checks, simplifying your finances may also save you money. Keeping things simple takes vigilance. Review your accounts regularly to make sure you're not slipping back into complexity.

You and your mate can also make your financial lives easier by sharing responsibilities. There's no one right way to do this. Whatever division of labor you choose, though, make sure each partner's roles are clear to avoid arguments and prevent slip-ups. Remember also that relinquishing a task doesn't mean surrendering financial responsibility. Whoever does the bookkeeping, you are both responsible for keeping to your spending plan, and you must both stay informed on financial matters. After all, if one of you makes a bad decision, you both suffer.

Rule 5: Chart Your Progress

Good financial habits move you toward your goals. Bad habits move you away from them. Even little bad habits can add up. Say you use another bank's ATM once a week because it's convenient and pay a $2 fee each time you do. That's $104 a year. If you invested that same $104 each year for 30 years at an eight percent annual return, you would have about $12,000. Is a little convenience worth that much?

Sit down with your partner and make an honest inventory of your respective bad financial habits. These may include using plastic too freely, losing credit card receipts, bouncing checks, spending more than you earn and failing to save. Review your lists and decide what your three worst habits are. Then discuss ways to combat them such as carrying less cash, leaving credit cards at home and paying for purchases by debit card or check to make spending more tangible.

If you have a home computer, use a financial software program to keep tabs on your spending and to compare it to your spending plan. You can also do this tracking and comparing on paper. Don't feel you must keep tabs on every penny you spend, however. Instead, decide what you and your spouse think is a reasonable amount for incidentals and set that money aside once a month. Don't carry it all with you, though. You're less likely to make spontaneous purchases if you have only $20 in your wallet.

It's also important to keep track of your net worth. On your computer or on paper, list all your individual and joint assets and what each would be worth if you sold it today. If you're not sure, underestimate. Don't include items such as clothes and furniture. They usually have little worth. Focus on big-ticket items such as your house, car, savings, investments and other financial assets. Total their value.

Now list your liabilities, or debts. These include your mortgage, any student loans and home-equity or car loans, and all credit-card debt and other debts. Subtract your total debts from your total assets. This is your net worth. Repeat this exercise yearly to chart your progress toward your big financial goals.

Rule 6: Budget for Fun!

Grown-ups need to have fun too, and even the closest partners can have different interests. Your financial life needs to allow for that. The best way to do this is to grant yourselves a certain amount of individual fun money that needn't be accounted for. Decide on an amount and put it aside each pay period before expenses eat it up.

For this rule to work, you must genuinely respect each other's need for separateness and freedom and accept each other's pursuits as a valid means of self-expression. Arguing about how this money is spent isn't allowed, unless one of you wants to do something questionable such as go bungee jumping. Otherwise, the choice is yours. So enjoy yourself. You've earned the right. **FC**

Take the Money-Talent Quiz

Answer "true" or "false" to these statements and ask your partner to do the same to get a clearer sense of individual strengths and weaknesses.

I enjoy keeping my personal files neat and organized.	**True**	**False**
I am accurate and detail oriented.	**True**	**False**
I am not intimidated by numbers or simple math.	**True**	**False**
I like playing around on the computer and Internet.	**True**	**False**
I like to plan my future.	**True**	**False**
I find business interesting and like to read about companies.	**True**	**False**
I tune in when the financial report is on the news.	**True**	**False**
I enjoy keeping an eye on the big financial picture.	**True**	**False**
I understand how to choose investments.	**True**	**False**
I have some specific financial knowledge and skills.	**True**	**False**

If one of you answered "true" and the other "false" to a statement, you've found an area where your skills balance each other. In general, whoever is more detail oriented should manage daily finances, and the person with more interest in the market should manage investments. If you both answered "true" to a statement, you can share the task, flip for it or assign it to the person with more time and interest. If you both answered "false," you can do the same, or one of you can volunteer to manage the task you both find unpleasant or develop the skills you both currently lack. Remember, though, that you are both always equal partners in working toward your financial goals.

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