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Financial Considerations for Newlyweds

Getting married touches all aspects of your life and nowhere is that more apparent than financially. It's important that you and your partner lay the foundation early for a successful financial partnership. This means being completely open about everything involving money and making decisions together about how you want to handle things going forward.

There are many items to evaluate when you get married for the first time, so let's go through what you need to consider.

ESTATE PLANNING DOCUMENTS

It is important to update your will and healthcare power of attorney when you get married. Having a will in place prevents you from dying "intestate" which, depending on where you live, can result in the state determining how your assets are passed along. A healthcare power of attorney designates someone to make healthcare decisions on your behalf should you be incapacitated to the point that you cannot make such decisions yourself. There may be additional documents to update if trusts or children are involved, but consult your estate planning attorney or financial professional if you have questions.

BENEFICIARY DESIGNATIONS

Proactively naming your spouse as the primary beneficiary of your 401(k) and other retirement accounts is a must, even if you already have a will that directs your assets. Unless payable to an estate, IRAs and 401(k)s pass outside of a will. This means that if you leave your parents or siblings as the primary beneficiaries, they will receive the assets after you die.

LIFE INSURANCE

You may need to consider additional life insurance if one spouse would be unable to cover the bills on his or her income alone. If you rely on both incomes to cover expenses such as the mortgage, then you'll need to consult with your financial professional to determine the appropriate amount to buy. If you have existing policies through your employer or separately, make sure the beneficiary designations are updated.

HEALTH INSURANCE AND EMPLOYER BENEFITS

Marriage counts as one of the special qualifying events that allows you to make changes to your insurance plan outside of the regular enrollment period. Plans generally allow 30 to 60 days to make changes after the qualifying event. Evaluate the coverage and out-of-pocket expenses and compare the premiums to determine whether to maintain separate plans or add a spouse to a plan. You may consider waiting until the following enrollment period to make a change if one of you has already met your deductible for the year. Make sure to evaluate the other benefits available such as dental and vision insurance. If your health insurance qualifies as a high-deductible plan, then depending on how you elect coverage, you can contribute $3,650 each to HSAs or $7,300 into one as a family.

PROPERTY AND CASUALTY INSURANCE

Review your auto and home/renters' insurance. At a minimum, you will need to add each other to your auto insurance policies, but it will likely be advantageous to combine coverage with a single company to get a discounted rate. If you both own homes and plan to convert one to a rental after marriage, you will need different coverage. Consider whether you need to add coverage for high-value items, such as your engagement ring.

INCOME TAXES

Once you and your spouse are married, the government sees your marriage as the combination of two individuals into one entity. This change in status allows taxpayers to file as "married filing jointly," a change in tax status that provides advantages. Most notably, lower tax brackets result in lower taxes. While in some instances "married filing separately" may make sense, it is generally more beneficial to file jointly. Use the worksheet that accompanies the form W-4 to determine if you need to adjust the tax withholding from your paycheck.

CONSOLIDATE SUBSCRIPTION SERVICES

It's likely that each of you subscribes to at least a few streaming services or access to online content. Compare the services each of you subscribes to and see if there are any duplicates. Shop around for a family cell phone plan that fits your needs. It may be time to separate from your parents' family plan, and starting a new one with your spouse will likely be cheaper than maintaining separate plans.

ROTH IRAS

If you have been making Roth IRA contributions annually, you will want to determine whether you still qualify. If your combined modified adjusted gross income (AGI) is more than $214,000 in 2022, then you are no longer able to make contributions. If you continue making contributions erroneously, you will pay a 6% penalty on the excess amount for each year you do not correct the issue. You may be able to contribute through a backdoor Roth IRA so speak with your financial professional.

JOINT FINANCES AND GOAL PLANNING

Determine your joint financial goals and create a combined financial plan. It is important to periodically complete an overall consolidated investment review to make sure your investment allocation aligns with your short-term and long-term goals. If you have upcoming large purchases such as a home or need to pay off debt, make sure you are both aligned on the budget and cash flow plan to achieve this. If children are in your future, make sure you consider the implications of increased expenses for childcare versus a reduction of income for one person to become the primary caregiver.

Discuss the best way to set up your bank accounts. Some couples maintain separate accounts, some combine everything, and others have a mixture of the two. There is no one-size-fits-all approach, but having an open discussion about it can prevent unwanted surprises such as missed auto-draft payments.

Also, determine whether it's better to add your spouse to your credit card accounts or keep separate cards. If you have a much higher credit score than your spouse, having combined credit accounts can drag down your score.

Getting married is a joyful occasion, and while tackling the above topics may seem onerous, it is important to methodically work through the list. Engaging a financial advisor can help you prioritize the to-dos and prevent mistakes that may cost you in the long run.

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