



Avoid the Two-Income Trap

Asking questions and planning will give you both peace of mind

Combining love, lives and laundry is one thing. Combining your money is another. Newly married couples who both work do well to think about what to do with two incomes. Here are some pointers.

New couples usually wonder how to improve their finances. Easy: Start talking about “your money” as “our money” and plan as a couple. Once you marry and support one household with two incomes, shift your thinking.

You don’t bring in two incomes now – you bring in one bigger income that opens financial planning doors.

Different Life Events Require Planning

Early marriage before kids – and their expenses – is the perfect time to use combined income to ramp up retirement contributions, slash debt and build an emergency fund.

Thinking about starting a family in a few years? Children bring expenses would-be parents can’t imagine before they actually become moms and dads. Set up your budget so one spouse’s income between now and then goes for bills and monthly living expenses and allocate the other income toward such financial priorities as paying down debt, building savings and investing for retirement.

The formulas and planning change after kids arrive. One parent might stay home, for example, take

extended parental leave or return to work only part time.

Day care swallows a lot of household income – with both parents working full time and paying day care’s rising costs, the couple often just break even. Recent reports cite that day care consumes almost a third of one income in a two-income home – and in some places a year of day care costs more than a year of public college.

Remember that spending all of both incomes before kids makes any or all of these options impossible.

Ask Each Other Questions

If having a family stands to change how much time you spend at (paying) work, talk about this with your spouse before children and start planning as a couple. Ask each other:

- How will things change once we have a baby?
- What is our ideal scenario?
- How can we move one step closer to our ideal scenario?

For example, if student loans weigh on you emotionally, figure out how much more you can allocate toward your debt each month. Investigate whether you qualify for student-loan forgiveness programs, too. Several exist now for certain types of workers.

Don't Ignore Retirement Completely

If having a parent stay at home matters most, focus on saving for retirement now so your retirement assets grow while one parent isn't working.

Don't forget spousal individual retirement accounts, which allow a working spouse to contribute to a nonworking spouse's IRA or Roth IRA. To qualify for spousal IRA contributions, you two must file a joint tax return. Spousal IRAs are also subject to the same annual contribution limits, income limits and catch-up contribution provisions as traditional and Roth IRAs.

Couples able to live off one income endure less stress and enjoy more flexibility with their budget. They create options and opportunities for their family situation and taking the time to plan gives them peace of mind.