The Business of Relationships

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The Business of Relationships

Introduction
Navigating finances with the ones you love takes dedication and deliberate effort. Financial matters are one of the main reasons cited for divorce and are a regular source of contention in family matters.

Having an open line of communication, creating realistic goals for your financial future, and understanding and discussing the benefits and disadvantages of mutual financial decisions are essential to preventing financial issues from becoming a burden in your life. This memo outlines considerations for three financial milestones that may come up in a household, including:

1. The pros and cons of opening a joint bank account.
2. How to create a family budget.
3. The pros and cons of starting a business with a spouse.

Creating a Joint Bank Account
Committed relationships require people to share many aspects of their lives with each other. Each relationship is different, and so it is up to the individuals in the relationship to communicate and decide together how much is shared. This is **especially** true for financial matters, including bank accounts.

Each person in a relationship must understand the main pros and cons of having a joint bank account before making the decision to create one:

Pros
- Convenience & Transparency – Everything is in one place, so it is easier to monitor what is coming in and going out of the account.

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Creating a Joint Bank Account cont'd

- Equality – Couples in which one spouse may stay at home with the children may feel a joint account is a fair way of sharing funds, even if income is unequal.
- Teamwork – Joint accounts can be a productive way to combine and grow money towards common goals and can help couples keep each other's spending habits in check.

Cons

- Potential money disagreements and lack of control – You cannot control how your partner spends money. Speak to each other about how you want to handle purchases – you may feel the need to discuss each item bought with your partner.
- No privacy – It may be difficult to purchase anything for your partner without their knowledge or make private purchases for yourself.

Family Budgeting

Creating a budget for your household is a great first step towards long-term financial wellness and harmony. Having a mutually approved plan for finances money will go a long way in keeping communication lines clear and preventing financial matters from becoming a burden.

The simple eight (8) steps on the following pages provide an easy-to-follow guide to creating a budget for your household.

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Family Budgeting cont'd

These simple seven (7) steps provide an easy-to-follow guide to creating a budget for your household:

1. <u>Set SMART Goals</u>
   Goals should be **S**pecific, **M**easurable, **A**chievable, **R**ealistic, and **T**ime-based – SMART.
   Divide financial goals into short-, medium-, and long-term categories. Short-term goals should include things like creating an emergency fund and paying off credit card debt (one to two years). Medium-term goals should include saving for a down payment for a house or saving for a new car (up to 10 years). Long-term goals must include saving for retirement and will be realized over the term of your working life.
2. <u>Determine Your Net Income</u>
   Take account of your net monthly income – exactly how much money is brought in per month after all taxes and deductions.
3. <u>Determine Your Necessary Expenses</u>
   These are mandatory expenses that occur every month – mortgage payments, rent, car payments, food, utilities, etc.. Such expenses should be subtracted from your net income to understand what is possible after you've met all your necessary obligations.
4. <u>Account for "One-Off" Expenses</u>
   Include in your expenses those "One-Off" costs that usually come around once a year: car insurance, school fee payments, etc.. This will help to give your budget a more fulsome and prepared approach to these "unexpected" costs and you will be able to save towards them over the course of the year.
5. <u>Calculate Your Savings</u>
   Use your financial goals from step 1 to determine how much you need to save each month to reach them in a reasonable amount of time.

Family Budgeting cont'd

6. <u>Calculate your Discretionary Spending</u>
   This is money that can be spent on things that the household wants but does not need. Open dialogue is necessary to determine how this money is divided amongst the wants of the household: whether on vacations, clothes, cable/tv/internet, etc..
   List all potential discretionary items, and identify them as joint or individual spending, and identify how much to dedicate to each expense. Discretionary spending is likely to change month to month, so continuous communication here is necessary.
7. <u>Select Your Budgeting Tool</u>
   There are many budgeting applications that make creating and maintaining a budget easy. Select one that appeals to your household and ensure that the necessary people have access to it.
8. <u>Schedule a Regular Money Discussion</u>
   Keeping communication open and ongoing is crucial to a happy household. Ensure that time is set aside on a regular basis for discussions about money, budgeting, financial goals, etc..

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Starting a Business Together

Running a Business with your life partner can sound like the perfect situation, but this situation is often a double-edged sword. Here are some Pros and Cons that need to be considered before you decide to begin a business with your spouse.

Pros

- <u>Trusted Partner</u> – Anything and everything can be discussed with your partner without worry of divulging business secrets or getting bad advice.
- <u>Common goals</u> – Both partners in the business will be focused on making the business successful as this will benefit them equally in personal lives too. This ensures that both partners will stand together in tough times
- <u>Good Understanding</u> – As business partners and life partners, each person has a very good understanding of the other's strengths and weaknesses.
- <u>Easier Scheduling</u> – Since both partners work together, it can become easier to manage and understand personal lives.

Cons

- <u>Significant Relationship Stressor</u> - Operating a business with your spouse can weigh heavily on a relationship and if the stress becomes too much, it can lead to *divorce* - which will affect the business as well.
- <u>High Risk</u> – Running a business together puts all the household's eggs in one basket. If the business fails, both persons will be hit significantly.
- <u>No Home/Work Separation</u> – Conversations about business will be ever-present and business issues can be brought home. Additionally, personal issues may affect business!

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Starting a Business Together cont'd

- Employee Awkwardness – Employees may feel awkward having both spouses around and may feel as if they are "choosing sides" when agreeing with one and disagreeing with the other.
- **Ownership – Division of Equity-** Determining who will own what or whether sweat equity will be considered contribution to the business.
- **Division of Property –** The shares in a company are not considered family assets and so the rules of dissolution under trust law could likely be applied.

Conclusion

The most important part of The Business of Relationships is **communication**. Having an open and constructive dialogue about plans and disagreements in any aspect of the relationship leads to higher chances of success in your business, budgeting, and relationship overall.

Communication includes setting up the necessary paperwork regarding corporate equity and even having an agreement regarding compensation/sweat equity in the business.

An objective third party can help to mediate any disagreements, and so having signed agreements that govern areas of responsibility for each person, witnessed by a lawyer would be very helpful in maintaining a smooth course to your financial goals.

RESOURCES

Sources:

The Pros & Cons of a Joint Bank Account

https://www.centralbank.net/learning-center/the-pros-and-cons-of-a-joint-bank-account/

The Pros and Cons of Running a Small Business with Your Spouse

https://succeedasyourownboss.com/pros-and-cons-of-running-a-small-business-with-your-spouse/