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Sane Finances For Couples

Money issues are often reported as the single greatest source of tension in a relationship. With this in mind, giving specific attention to planning your financial lives is a crucial part of a healthy and happy relationship. This article is intended for married and committed relationships.

Three Common Approaches For Two Income Families

There are three common approaches to finances you might consider: separate, joint, and separate & joint accounts. As in all things, there are positive and negative components to each approach.

Combined banking means one account to keep track of, to reconcile and to turn to for expenses and savings. For many, combined banking means "we are a family" and see separate finances as a symbol that there is not much faith in the longevity of the relationship or that there is insufficient trust. Combined banking also means tracking two people's ATM transactions, checks and shared control. Some prefer a combined checking account for "household" expenses and separate accounts for personal expenses and luxuries. This has many of the advantages of the first but also has the benefits of separate accounts.

This article focuses on the benefits of some form of separate banking. Whether there is a joint account or reconciliation for shared expenses at the end of the month from separate accounts, there are many reasons for separate banking

Separate accounting can mean less frustration for both people. If you choose to buy the latest plasma double-wide screen tv or the thirtieth pair of shoes for the month, only your savings are affected. This is true as long as each of you meet your agreed share of monthly household expenses. If the money is not coming out of your pocket, then it isn't as upsetting to find the new fishing gear or shoes in the closet.

Split Those Expenses

You can approach shared expenses in any number of ways: proportional to income, the 50/50 approach, and one-income. The key ingredients to make these approaches successful are 1) the plan is fair (as defined by both of you), 2) the plan is agreed to by both people, and 3) the plan is not carved in stone.

Percentage of Total Household Income Approach

Some couples approach this by having the expenses shared based on their individual percentage of the total household income - those who earn more, pay more and vice versa. This approach can be helpful if one partner is a librarian and the other is an investment banker. In this example,

if the total household income is \$200,000 and the librarian makes \$30k/year, the librarian would pay 15% of the shared expenses (30,000 divided by 200,000), or \$0.15 for every dollar.

The disadvantage to this approach is that such an arrangement introduces pressure into the relationship about career choices made by the other partner. In this instance, the librarian may feel resentment if the investment banker gives up his or her job, which can serve as a financial security cushion for the relationship. Also, with the proportional approach, the librarian's expenses would go up if the investment banker gets a lower paid job. The reverse is also true, perhaps the investment banker gets mad that the other person is "only a librarian," and "should have done the salary research ahead of time..."

When you and your partner are clear on the implications and intentions of this approach, it can be quite helpful for the two of you to have more balance and discretion over use of your finances. This balanced way of sharing expenses may have additional benefits such as more time with the children (in this example, one person has a more predictable work schedule), or the nature of the work for the lower paid person has greater meaning and significance for the couple such as nonprofit or volunteer work or for the simple happiness of the lower paid partner.

50-50 Approach

You may have already started this line thinking of when you were first dating. If each person is responsible for 50% of all household expenses, then as long as the person has the 50%, the rest of your income is left to your own discretionary use without affecting the financial functioning of the household. This can free you up to take that dream job that brings in less income or buy those luxury goods that have zero appeal to you partner. Making donations to your favorite charity, which may not be your partner's choice, is yet another example of taking independent financial steps that do not necessarily affect your partner.. This reduces much of the stress that can be had in other financial arrangements. The one disadvantage to this approach is common to any shared model, which is ensuring that household purchases are agreed to in advance.

One Income Families

There are sane approaches for one income families as well. Some form of separate accounts can also work when there is one earner. Both of you can set up individual accounts in addition to a household account (whether jointly or separately administrated). Each person can receive an equal "allowance" which goes into their personal accounts. This is the person's spending money for recreation, luxury items, and other personal expenses. The household account pays for the shared expenses. This has the same benefits as the 50-50 approach by eliminating, or at least lessening, the resentment from personal purchases that may seem frivolous to your partner.