NebGuide

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Budgeting When There are Two Earners in the Household

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Various ways of managing the income of two earners, including the advantages and disadvantages of each, are described in this NebGuide.

Couples may marry for love, but the subject of money usually enters the marriage very quickly. Learning to combine resources including paychecks and how to make finances run smoothly can cause conflicts. Should each person have some money that is not accountable to the other — money of one's own? How are the bills to be paid? Will one person be responsible for the mortgage, the other person for the car payment? Or will one person pay the basics and the other the frills? Should the person who makes the greater income have power to veto or have tie-breaker power in money decisions? Who will decide how money not spent for basic needs is used?

These are serious questions. Couples need to think about and discuss them openly. Because individual needs, values, skills, attitudes, personalities and life experiences differ, no one system will fit every couple. For any plan to work, it is important to find one that both people involved feel good about. Whatever plan is accepted, decide on it together. If the first plan doesn't work, adjust it until it does. Unless both earners feel like the plan is right for them, there may be hard feelings about the other person.

Joint vs. Separate Accounts

There are two basic ways to hold checking and savings accounts: *jointly*, where both people have access to the money, or *separately*, in which only one person is the owner of the account. Both have advantages and disadvantages.

Some couples feel a greater sense of sharing with a *joint* account since it feels more like *our* money. But there can be problems when one person dies, leaves the other or is irresponsible with the funds. Record-keeping can be a challenge with a joint account and may result in extra costs.

Separate accounts help establish a personal credit rating, especially for a woman. Record-keeping tends to be easier. Since money in the account is clearly owned by one partner, at death of either person, the survivor has money available to cover out-of-pocket expenses until the estate is settled. Should the marriage end, neither spouse would have to worry that the other would withdraw all funds from the account. A disadvantage with separate accounts is that the more accounts, the more paperwork, time and service charges may be involved. And if one person is not paying the bills, the other person may not know it.

Equal, Proportional or Shared

Although there are only two basic types of accounts, they can be put together many ways. Caroline Bird's classic book, *The Two Paycheck Marriage,* describes three different methods dual-income families can use to split their earnings.

Equal-share couples put an equal amount of their respective paychecks into a joint checking and/or savings accounts for basic household expenses. The remaining money for each can be saved or spent as the person sees fit.

The advantages of the equal-share method is that each partner contributes to daily expenses and each has some money to call their own. Raises and salary increases give more individual spending to the person receiving the raise.

Problems arise when one person earns much more than the other. This may lead to resentment of the person with the greater individual income since she or he will have more money to spend or save.

Proportional-share couples contribute the same percentage of their paychecks to cover household expenses. Each person keeps what remains individually. Again, a possible problem is that a significant difference in the amount of money earned may cause resentment.

Pooler couples combine all their income to use for both household and personal expenses. The money is held in either joint or separate accounts.

An advantage of pooling is that the work of each person is valued equally, regardless of how much money is earned. A part-time worker who earns much less than the partner is not penalized in the ability to spend beyond the basics.

A common disadvantage of pooling paychecks is that the partner with the lesser income may not feel he or she has as much say in how joint account is spent. Both people also may feel obligated to discuss all purchases with each other (an advantage or disadvantage depending on the situation).

Many financial advisers suggest that pooling couples retain an independent "allowance" or "mad money" of a set amount. This helps them retain the feeling that while all income is shared, each person has money to make some purchases that are unaccountable to the other.

Regardless of the system used, both income and expenses change over time. It is important to revisit any agreement to reaffirm that both partners continue to be comfortable with their arrangement.

Paying Bills in Two-Earner Households

A milestone study of two-earner households by a former University of Nebraska–Lincoln graduate student, Wanda Mowry, identified five ways two-earner households use to pay bills:

- The *cash box system* is where cash is kept in jars, a money box or in envelopes. Amounts are designated for various bills and paid in cash.
- In the *combination system*, each earner contributes to the "our" fund, and also keeps money for personal spending. The "our" fund is for general living expenses.
- In the *paycheck system*, one person handles all income and pays all bills. The other person has money to use for personal spending and, possibly, for certain household expenses such as groceries.
- With the *pool system*, incomes are pooled into one account. Bills are paid in an informal partnership arrangement with both people spending and paying bills as they happen.
- The *separate system* means that each person has his or her own money. Each also is responsible for paying certain bills according to a more formal agreement between the partners.

Variations of these systems are possible. For example, a couple may basically use the pool system with only one account, but each person also carries a debit card tied to that account.

Another couple may use the combination system but has two checking accounts. Each month $500 is deposited from the main account into the second account. One person spends money from the main account, and the other uses the second account. If more money needs to be transferred to the second account before the end of the month, the main account is checked and money is transferred if available.

Final Tips for Two-Earner Households

If the first system you try does not work, analyze why and change your system. Then keep trying variations of a system until you "fine-tune" a system that works for you.

Be sure to involve everyone who needs to be involved in the development of any system. Involving everyone will increase individual commitment and increase the likelihood that the system will succeed.

Rotate financial jobs occasionally. If one person always pays the bills every month, the other person should take a turn occasionally so they know what's going on with the family finances. Some couples use a six-months "on" and six-months "off" system. Even older children can be rotated into the system. The more household members know and understand about the family finances, the more likely they will be to cooperate, and the greater the chances for success of any financial plan.

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