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HEG83-177 Budgeting Systems When There Are Two Earners in the Household

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Budgeting Systems When There Are Two Earners in the Household

This publication describes various ways of managing the income of two earners in the same household, including the advantages and disadvantages of each.

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Two earners in the household pose additional problems for the money management system. Should each person have money that is not accountable to the other -- money that is one's own? How are the bills to be paid? Should they be divided down the middle with each spouse taking responsibility for separate items (one gets the mortgage, the other the car payment), or is one partner responsible for all the basics and the other for the frills? Should the partner who makes the greater income have veto or tiebreaker power in money decisions? Will you live on one income and save the second for a special purpose, such as a down payment of a house or for a retirement fund? There are serious questions that need to be discussed by both partners. No one system will fit everyone, because individual needs, values, skills, interests, attitudes and personalities differ. Work out a plan that feels right for you. Whatever you choose -- decide on it together. And, if the first plan you draw up doesn't work, change it until it fits your situation.

Joint Vs. Separate Accounts

There are two basic ways to hold checking and savings accounts: *jointly*, where both husband and wife have access to the money, or *separately*, which lists only one spouse as signer. Both have advantages and disadvantages.

With joint accounts, there is a greater feeling of sharing, of it being "our" money. On the minus side, there can be problems when one signer dies or leaves the other.

Separate accounts can have general advantages. Having your own checking account (especially for a woman) can help in establishing your own credit rating. Another advantage is that the money is clearly in the name of one partner. Upon the death of either, the surviving spouse would have money to cover out-of-pocket expenses until the estate is settled. Should the marriage end, neither spouse would have to worry that the other might withdraw the money. A disadvantage with separate accounts is that the more accounts you have, the more paper-work, time and service charges are involved.

Although there are only two basic types of accounts, there are many ways to put them together. Three models developed by Caroline Bird in her book, *The Two-Paycheck Marriage,* depict the different ways dual-income families split their earnings. Which of the following models describes you?

Equal-share couples

Equal-share couples put an equal amount of their respective salaries into joint checking and savings accounts to cover the basic household expenses. The remainder can be saved or spent as each sees fit.

The advantages of this system are that each spouse contributes to daily expenses and each has some money to call his/her own. Raises and salary increases give more individual spending to the spouse who received it.

Problems can arise, however, when one spouse earns appreciably more than the other. This can lead to resentment of the spouse who has greater individual income.

Proportional share couples

Proportional share couples each contribute a percentage of their salaries to cover household expenses and joint savings. The remainder is theirs to do with as each pleases.

On the plus side, both spouses are contributing to household expenses, while retaining some independence of funds. Again, a possible problem with this method is that a difference in the amount of income each person earns could cause resentment.

Pooler couples

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

An advantage of this method is that the work of each spouse is valued equally, regardless of the salary earned. A part-time worker or a spouse who earns much less than the other is not penalized in their discretionary purchasing power when there is a difference in earnings.

A common disadvantage of pooling paychecks is that the spouse with the lesser income may not feel he or she has as much to say in how the joint income is spent. Also, both spouses may feel obligated to discuss all purchases with each other, which could be an advantage or disadvantage, depending on the situation.

Sylvia Porter and other financial advisers suggest that pooler couples retain an independent "allowance" of a set amount. This helps them retain the feeling that all income is shared, while letting each make some purchases which are not accountable to the other.

Systems for Two-earner Households

As identified by Wanda S. Mowry*, two-earner households generally have one of five money management systems.

The *cash box system* is the system where cash is kept in a jar, money box, or envelope(s); amounts are designated for various bills and paid in cash.

In the *combination system*, each earner contributes to "our" fund, but each maintains his or her money for personal spending. "Our" fund is for general living expenses.

The *paycheck system* has one spouse handling the income and paying all the bills; the other receives money which may be used for personal spending or for groceries, etc.

Under the *pool system*, incomes are pooled and bills are paid in an informal partnership arrangement.

The *separate system* means each spouse has his or her money and each is responsible for certain bills.

Of course, variations of these systems are possible. For example, one couple basically uses the pool system with only one checkbook, but each person carries a "wild check" for emergencies. Another couple uses the combination system, but has two checking accounts. At the beginning of the month $500 is deposited from the main account to the second account. Then, if that account needs more money before the end of the month, the main account is checked and the money is transferred.

If the first system you try doesn't work, analyze why and change it. Then try again. Everyone concerned needs to be involved in developing a system--if they aren't, the system probably won't work since not everyone has a commitment to make it work.

A Final Tip for Two-Earner Households

Rotate financial jobs occasionally. If one person always writes the checks for the bills each month, the second person should take a turn so they also know what's going on with the finances. Some couples use a six months "on" and six months "off" system when it comes to doing the tasks associated with the household's finances. Even older children can be rotated into the system. The more household members know and understand about the finances, the more likely they will cooperate and the greater the chance of success for any financial plan.

*From "Money Flow Systems of 0ne- and Two-Earner Families," unpublished thesis by Wanda S. Mowry, University of Nebraska, May 1982.

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