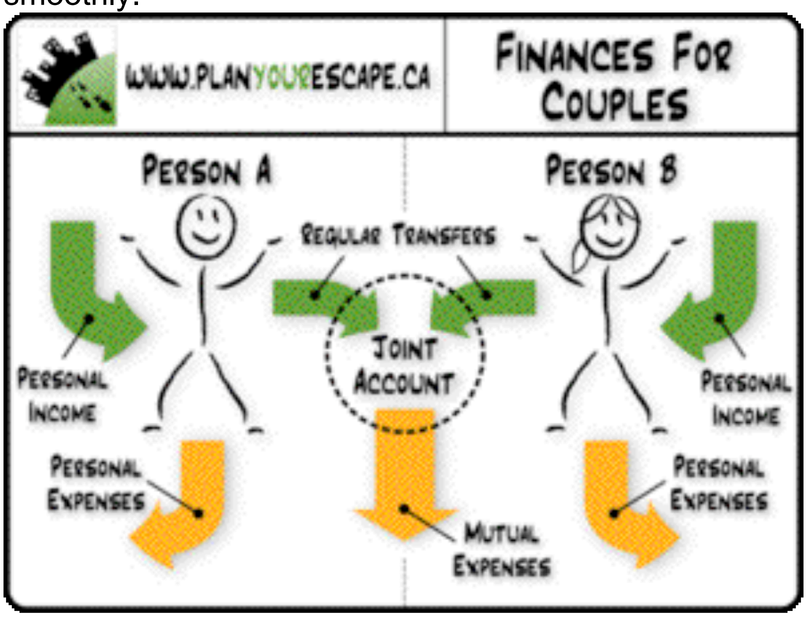
How to Manage Finances As a Couple

Whether you're married or not, if you share expenses, then it's a good idea to develop a system for managing finances that works for both of you. How you crunch the numbers will depend on your differences (or similarities) in income, spending styles, financial goals, and personal values. If you're on the same page financially, you're less likely to argue over money and more likely to feel like you're approaching life as a team.

Steps

1. Choose an arrangement that works best for the both of you. It may take some trial, error and tweaking before you get it right. Keep in mind that no one arrangement is in any way "better" than the other. The best arrangement is the one that creates the most harmony in your relationship.

    - Use the communal approach if you have very similar spending styles and saving goals. All of the income received by the couple goes into a single account, and all expenses come out of that single account. If you're not on the same page about spending, like if one person tends to make money decisions that the other person tends to disagree with, this approach can lead to frequent arguments. Communication, trust, and discipline are essential for this arrangement to work smoothly.
    

    - Use the individual approach if you have different spending styles. Keep separate accounts to which your individual incomes are deposited. Put money into a joint account only for shared expenses. Decide what those shared expenses are going to be (usually rent or mortgage, utilities, etc.) and what proportion each partner will pay. You can each put in half of the expenses, or you may decide to contribute a percentage that's relative to your individual income (e.g. one person makes twice as much per year as the other, so one person puts twice as much towards the shared expenses as the other).[1] The remainder of the money in each person's account is theirs to keep and spend or save however they wish.

  - Use the allowance approach if it fits. This is a hybrid of the previous two arrangements. Put everything into a joint account, but then give each person an allowance to spend as they wish. The allowance can be in cash, or it can be transferred to individual accounts. Decide as a couple how much of an allowance each person should get. This works best for people who tend to spend money on different things, but who still want to pool their income.
2. Discuss how you will handle assets and debts that were accumulated before the relationship began. If you are married in the U.S., your spouse's creditors can hold you legally responsible and pursue your assets if you don't keep your finances completely separated, or if you ever get divorced. Plus, your spouse's credit score will affect your ability to get joint credit, which is often necessary for large purchases (such as a home). So if you're married, the best route is to work together to pay off debt as quickly as possible, avoiding late payments. If you're planning on getting married soon, a pre-nuptual agreement can help protect one person's assets from the other person's creditors.[2] If you're not married, you may choose to treat individual debt as a shared expense, or you may not--the choice is yours as a couple.
3. Decide who will be handling the "administrative" aspects of your finances. Who will actually pay the bills? Shift money around, if applicable? Make deposits or withdrawals at the bank? Balance the checkbook(s)? Usually there's one person who's more inclined to do the bookkeeping, and sometimes he or she doesn't mind carrying this responsibility. Otherwise, you'll need to define and assign responsibility. For example: "You make sure the electric and car bills get paid on time, and I'll make sure the rent and health insurance premiums get paid on time."

   - If one person will be handling the finances more than the other, what is his or her responsibility in consulting with the other before, say, moving money into the savings account or IRA?
   - If the person who normally handles these tasks can't do it (e.g. medical issue, away on a trip, etc.) does the other person know enough about the process to step in?
4. Review and adapt. You may need to adjust the allowances or proportions if a big expense arises, like one person loses a job, or suffers from a major illness or injury, or even takes up a new (and expensive) interest or hobby. For instance, let's say a couple uses the communal approach, and then one partner decides to take up golfing again. The couple may decide that the best way to accomodate this is to designate a "golfing allowance" so that one partner knows exactly how much the other partner is going to be spending on this hobby, and there are no surprises ("You spent *how much* on that golf club?!?"). Many couples modify their arrangement significantly as their circumstances change. A couple may, for example, start off with the individual approach, then transition into the communal approach when they start a family or make a large investment together.[3]

Tips

- No matter how you choose to handle your finances as a couple, you should talk about and dedicate money to an emergency fund of three to six months' worth of living expenses.

- Just because you have individual accounts doesn't mean you don't trust one another. Sometimes it's not convenient to discuss every single purchase in real time, and this can occasionally lead to misunderstandings and even overdraft fees at the bank. It's possible to make individual accounts into joint accounts so that you can see each other's financial activities, but agree not to use money from the other person's designated account without discussing it first, or unless it's an emergency.

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