

## The Six Financial Mistakes Couples Make

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**IF YOU AND YOUR** partner are like most couples, chances are, you fight about money. Numerous studies have shown that money is the No. 1 reason why couples argue — and many of the recently divorced say those battles were the main reason why they untied the knot.

While anyone will tell you that talking about money is the first step in resolving problems, talk alone won't do the trick.

In fact, a 2004 study<sup>1</sup> commissioned by SmartMoney magazine and Redbook, another Hearst publication (SmartMoney magazine and SmartMoney.com are jointly published by Dow Jones and Hearst), found that more than 70% of couples talk about money on a weekly basis. So what's the problem? "Most of us don't know *how* to talk about money," says Mary Claire Allvine, a certified financial planner (CFP) and co-author of "The Family CFO: The Couple's Business Plan for Love and Money<sup>2</sup>."

"People tend to be emotional and reactive about money, not strategic," she says.

When emotions run high, people tend to make fiscal mistakes. Allvine's solution: Approach family finances as if you were running a business. "If you put a business metaphor into the picture, you'd be surprised how much more methodical people are."

And so, to help make your next state-of-the-financial-union meeting run smoothly, we've assembled a collection of the six most common mistakes couples make when handling money issues, along with some advice on how to correct them. Do yourself a favor: Make sure all board members review this before you talk.

### 1. Merging the Finances

**The Wrong Approach:** United we stand, divided we bank.

**The Right Approach:** It's yours, mine and ours.

One of the first issues newlyweds face is how to handle their finances. "Couples struggle about this one," says Ruth Hayden, author of "For Richer, Not Poorer: The Money Book for Couples." Should you merge everything you have and earn into one joint account, or should you maintain individual accounts and open a joint one for household expenses?

SmartMoney magazine's survey found that the majority of couples (64%) put all of their money in joint accounts, while 14% kept everything in separate accounts, and 18% had both. "Married couples should try different ways of handling the money to see what works for them," says Ginita Wall, CFP and co-founder of the Women's Institute for Financial Education<sup>3</sup>.

For many newlyweds, the right choice may be somewhere in the middle. "You should have some autonomy money, I should have some autonomy money, and we need to learn how to practice being a couple together with our money," says Hayden.

The advice is different when one spouse enters the marriage with a high debt load. (See our next point below.) But assuming you both have a clean bill of fiscal health, finding a way to blend finances comfortably without feeling like big brother is watching every financial move you make can dramatically cut down on fights. Over time — once kids and mortgages come into play — many couples find that merging all their finances is simply easier. But unless you're both comfortable with the idea, there's no need to rush things.

## 2. Dealing With Debt

**The Wrong Approach:** Your debt will ruin us; you must find a way to pay it off.

**The Right Approach:** It's our debt: Let's decide how to pay it off together.

Of all the issues that spark a fight, debt ranked No. 1 for most (37%) of SmartMoney's survey respondents. "That's one of the places where couples have most disagreement," says Hayden. Couples often don't see eye to eye on how much debt is too much and which kind of debt is bad.

Compounding the problem: in many cases, one spouse enters the marriage with a lot more debt than the other. "We saw that more frequently than we anticipated when we began interviewing couples [for our book]," says Allvine. "It's almost unavoidable. Even if you manage to get to your 20s or 30s without debt, you hook up with a partner who's in debt."

What to do in situations like that? Like it or not, once you're married, your spouse's debts can become your problem. Granted, you're not legally responsible for the credit-card balances ran up before you got married, or for any loans opened in your spouse's name alone — provided you keep your finances completely separate. (Unfortunately, all bets are off should you get divorced. For more on that, [click here](#)<sup>4</sup>). But even with separate finances, your spouse's credit score<sup>5</sup> will affect your ability to get joint credit. "It's a public [credit reporting] system, and what you do will absolutely affect the other," says Hayden.

For those couples not yet married, it may be worthwhile to think about a prenup<sup>6</sup>, just to make sure that assets that one spouse brings into a marriage will always be protected from the other spouse's creditors.

But those who've already tied the knot should find a way to pay down the debts as quickly as possible, and without any late payments. For help with this, visit our Debt Management<sup>7</sup> center.

### 3. Keeping Spending in Check

**The Wrong Approach:** I'm a saver and you're a spender. That's the problem.

**The Right Approach:** We both spend, but on different things. Let's budget.

Your husband keeps nagging at you that you spend too much — but then comes home one day with a huge smile and — surprise! — a 70-inch flat-screen plasma TV. He happily explains how he sealed the "terrific" deal. You're definitely not impressed.

Sound familiar? Spending is the second most common reason why couples fight, according to SmartMoney's survey. What usually happens, explains Hayden, is that one spouse gets labeled the "spender" and is blamed for skimming all the money out the checkbook. In most cases, however, that's not accurate. "Studies show that men and women spend the same, they just spend differently," she says. Women usually take care of most of the family's daily expenses: the groceries, the bills, clothes for the family — while men spend on large purchases like plasma TVs, cars or computers. "If you counted up your money, you would be spending about the same," Hayden says. "But because you spend so differently, the perception is different."

The solution here is to identify the real problem, Hayden says — namely, that you're both spending money on a tight budget. Then sit down and decide how much money you'll allocate to the "dailyness" of life, and how much to save for the big purchases. "What we're trying to do is get the 'Surprise!' out of it," she says.

For help with daily budgeting, see our worksheet<sup>8</sup>.

### 4. Investing Wisely

**The Wrong Approach:** You're a risk-taker, I'm risk-averse. Hands off our retirement savings.

**The Right Approach:** Let's think in time frames and take as much risk as our goals allow.

SmartMoney's survey showed that when it comes to investing, men are more willing to take financial risk than their wives (62% for men vs. 19% for women). But fighting about how much risk to take with your investments based on how you feel about risk doesn't do much good. Rather, sit down and talk about your investment goals and time frames, says Christine Larson, co-author of "The Family CFO". "You could be completely risk-averse with money you need for next year, but you can be a huge risk-taker with money you're saving for retirement," she says. If that doesn't work for you, seek the help of a broker or a financial planner<sup>9</sup>.

Whatever your investment choices, review your investments together at least once a year and make sure that, overall, your portfolios balance each other out, suggests Wall. "I have one couple — they're in their 70s. She likes to take risks and it scares him to death, so they do invest themselves separately," says Wall. "We let her take risk with part of the money, but not all of the money."

Use our asset-allocation<sup>10</sup> tool to help determine the best way to allocate your portfolio. Our retirement<sup>11</sup>, college-planning<sup>12</sup> and short-term-investing<sup>13</sup> departments can help you save for specific goals.

#### 5. Keeping Money Secrets

**The Wrong Approach:** What my spouse doesn't know will never hurt him/her.

**The Right Approach:** Big financial secrets can ruin a marriage.

Among Hayden's clients is a family that first came to see her when the wife found out that her husband had lost a lot of money trading commodities. The real problem? She didn't know his little secret. "It got them in horrible trouble!" Hayden says. "He's very steady, he's a fabulous doctor, he's a great dad...but he had this other part of him that's pure gambler, and it almost brought the marriage down."

Will you be shocked to hear that most couples do keep money secrets from each other? While secret trading or gambling may not be that common, our survey saw 36% of men and 40% of women confess that they had at one time or another lied to their spouse about the price of something they bought. "It's the most common secret," says Wall.

Is it a big problem? Depends on how you deal with it. "Most people also lie to themselves about what they're spending, just as they lie to themselves about how much they're eating," says "The Family CFO" author Allvine. And let's face it, if your wife saved up the extra \$100 for her "only \$30" Givenchy scarf from her monthly mad money, it's not that big a deal. But if your spouse has been squirreling away thousands of dollars, it may be time to seek the help of a family finance professional. "If this happened in a company," Allvine says, "they'd call it embezzlement."

#### 6. Emergency Planning

**The Wrong Approach:** We're fine. We don't need to worry about money.

**The Right Approach:** Anything could happen. Let's plan for emergencies.

Even if you have a great career, earn a comfortable living and don't have to worry about debt, you could find yourself woefully unprepared for an emergency. "Couples today are under so much stress that anything could tip them," says Hayden. An unexpected pink slip, an accident, illness — anything could throw you off track if you don't have an emergency savings account.

"With the couples we interviewed, we found a tendency to panic [in an unexpected emergency] that could lead to the wrong decisions," says Larson. Bottom line? All couples should have an emergency stash of three to six months' worth of living expenses held in a safe place, like a money-market fund. Simply knowing it's there can reduce stress, since you know you're not walking a fine line between comfort and catastrophe.