



FOUNDATIONS FOR STRONG FAMILIES 201: HEALTHY RELATIONSHIPS AND FINANCIAL STABILITY



Changes in the housing and credit markets during the past year have led to increased recognition that developing comprehensive family-based money and credit strategies is critical in the short-term to weather financial storms, but also for long-term financial health of the children. Financial stability strongly interacts with family relationships. Each area can strengthen or challenge the other. Shocks to the pocketbook can foster conflict and seriously impact the stability of a couple's relationship as well as their finances, especially when there are no rainy-day funds and little knowledge of where to turn for help. Relationships can become more vulnerable if bills pile up. On the other hand, strong relationships and familial support can act as a buffer during financial hardship.

Greater understanding of the similarities, differences, and interdependencies between relationships with a partner or spouse and one's finances can better equip us for the task of increasing the stability of American families. Research shows that people who marry build more wealth over their lifetime compared with those who remain single. However, credit problems remain a leading reason that relationships dissolve. When people marry, they combine their lives, their finances, and their credit history, whether it is good or bad. Debts brought into a marriage pose one of the biggest problems for young couples.¹ As debt increases, marital satisfaction decreases and results in less time spent together as a couple and more arguments over money.² More than 70 percent of divorcing couples report that money and credit abuse by a spouse are contributing factors to their parting.³ Relationship skills and financial educators can play a key role in helping couples manage their individual financial histories to create a more financially secure future together.

This is the second of two briefs that examine the interplay between education and skills-building programming for lower income individuals and families in the areas of marriage and relationships, financial literacy, and asset development. It explores how communication, marriage and divorce, money management, credit and debt, children and child support, and other issues affect and/or are affected by familial and financial well-being. Also, it offers tips for

ABOUT THIS ISSUE BRIEF

This brief was prepared by RTI International, under contract to ASPE as part of the "Marriage Education, Financial Literacy, and Asset Development" task order. As part of this task order, ASPE convened a Roundtable Meeting bringing together researchers and practitioners from the marriage education, financial literacy, and asset development fields to begin a dialogue on the relationship between healthy marriages and financial practices. A summary of the Roundtable, and a companion brief "Health Relationships and Financial Stability 101," are available online at: <http://aspe.hhs.gov/hsp/08/MEFLAD-Roundtable/index.shtml>

practitioners working with couples to build intimacy and stable relationships with each other and with their finances. These briefs are intended for practitioners working in any of these areas and interested in learning more about the other fields and potential collaboration or idea exchange.

The brief focuses on romantic couple relationships and marriage; however, sharing financial resources can also bring benefits and challenges for co-parents, within extended families, and even between parents and children.

The first brief, *Stable and Healthy Relationships and Finances*, provided an overview of marriage and relationship skills education, financial education, and asset building programs and highlighted opportunities for collaboration. That brief described these fields' common goals and complementary strategies for improving the stability of low-income families.

This brief builds on that foundation to focus on key areas where marital and financial stability overlap. While relationship education practitioners are generally aware of the importance of financial issues within relationships, the relevance of family and relationship issues may be less apparent to practitioners in financial education and/or asset building programs. These programs are more likely to focus on individuals and may ask an individual to develop goals for his or her family, but staff may not be comfortable delving into what are seen as "personal" issues, such as romantic and marital relationships. This brief explores concepts that impact both financial and familial stability, and describes how helping low-income participants in asset building and financial education programs build their relationship skills is relevant to building their financial literacy skills and fostering their overall well-being.

Talking about Money and Credit in Relationships

Many Americans frequently see or hear about how credit can increase family funds or solve money problems, whether by opening a new credit card through an application received in the mail or in advertisements about how people who have credit troubles can access new lines of credit. While talking about credit has become an everyday phenomenon in the media, understanding the intricacies and implications of various credit offers and possibilities is far less common.

When contemplating the future of a relationship, people frequently ask themselves, "Am I ready for a serious relationship?" However, people often do not ask, "Am I ready for a serious relationship with someone else's credit?" Both marriage and relationship skills educators and financial experts recommend that individuals in a relationship explore how they can make financially sound decisions together. These advisors may offer educational programs to help couples think through deep emotional relationship and communication issues, as well as the financial dos and don'ts that may surface when two lives merge. This "financial intimacy" is a core element of a solid relationship or marriage.

Bringing couples to a shared understanding of what they want to do financially as a team requires that they understand themselves and each other, as well as learn more about money and credit together. *Figure 1* presents a couples quiz suggested by the well-regarded American Institute of Certified Public Accountants' 360 Degrees of Financial Literacy effort. Although specific program approaches may differ, many of the underlying messages are the same in numerous curricula about marriage and financial planning. First, avoiding the topic of finances

altogether may be tempting, but it is not constructive. Second, there is no universal right answer, but the process of working out a financial plan tailored to the needs and goals of a couple is essential because honest communication is the core of both healthy relationships and healthy finances. Third, regardless of the financial plan, life circumstances change, and developing skills to revise and implement the plan together may build confidence and resilience. Overall, from the perspectives of both the financial educator and the marriage and relationship skills educator, differences in approaches to finances between life partners are inevitable and natural. How these differences are reconciled is what matters.

Typically, in the transition to becoming a couple, the task of retaining one's personal identity and creating a new joint identity can be tricky. Navigating this transition requires sensitivity and developing a shared understanding about what each person brings to the relationship and wants from it. One model of relationship attachment, summarized in *Figure 2*, highlights the importance of sequential development of knowledge, trust, reliance, and commitment to a partner based on increasing time with and understanding of each other. Many components of this sequential model can be applied to individual relationships with credit as well. It suggests that gradually demystifying the unknown in marital or financial relationships—instead of rushing forward—can be helpful in avoiding some of the downsides of relying on partners or financial institutions that one may not understand.

Building a Joint Relationship with Credit

This section discusses three financial and three relationship issues that are important to success in finances and in love. From a financial perspective, knowledge of the types of credit, joint vs. separate accounts, and credit scores will help couples build credit together. In turn, financial missteps can be avoided by understanding how to handle the common relationship themes of communication, children and child support, and extended family.

Once couples are ready to invest in their life together, obtaining mainstream credit is important and often necessary. Using credit to borrow funds may be imperative because it can serve as the bridge that allows couples to purchase desired assets. Although their resources are often limited, many low-income families are already saving money and using credit. However, about one fifth of low-income families are unbanked, that is they do not have a connection to a formal financial institution.⁴ Therefore, their savings may grow more slowly or lose value in the face of inflation and can result in more obstacles to using credit to become an owner or investor.⁵ Making use of mainstream financial institutions is important because there is some evidence that the having to withdraw money from the bank or not having money easily accessible in one's wallet can reduce obstacles to saving.⁶

There are several reasons for couples to use credit to help attain joint financial goals. Some constructive suggestions for using credit are explained below. In addition to understanding the ways that credit can be helpful, it is important to understand the drawbacks. Because of the variety of credit products available, this is not a simple matter.

Figure 1
Couples Quiz: What's Your Financial Compatibility?

Couples frequently avoid talking about money before marriage. That is unfortunate, because sharing perspectives about money can help couples resolve the financial issues that complicate many marriages. The following financial compatibility quiz can help couples planning to tie the knot discuss financial issues. Answer “true” or “false” to each of the following statements.

1. We are aware of and comfortable with each other's money personalities.

Some of us grew up in families where parents watched every dime; in other families money flowed easily. Some people measure self worth in terms of money and possessions. Some people are natural spenders; others are savers. Understanding your future spouse's background and values can help avoid problems down the road.

2. We have discussed our short- and long-term financial goals.

Setting financial goals helps you develop priorities and define the type of lifestyle you will lead. Break down your goals into manageable pieces. If you want to buy a house in five years, for example, determine how much you need to save monthly to meet the down payment and to meet that goal.

3. My spouse and I are well-versed in personal finance.

Parents and schools rarely provide training in personal finance. Work together to develop your financial knowledge and build confidence by taking a course, meeting with a financial planner, or purchasing a reputable book.

4. My spouse and I have discussed a plan to structure our finances.

Will you pool all your resources into joint accounts, maintain separate accounts, or devise some combination of the two? There is no right or wrong answer; the key is to come up with a plan that works for you both.

5. We have planned for the impact that marriage will have on our taxes.

The marriage “penalty” means that you and your spouse together are likely to pay more taxes than you each did as singles. Check with a CPA or tax professional to ensure that you are prepared to meet your tax responsibilities and aware of any tax law changes in this area.

6. We have decided how to divide the money management tasks.

Decide who will be responsible for balancing the checkbook, filing taxes, and tracking investments. Better yet, set up a plan for rotating these and other financial tasks

7. We understand the importance of establishing a realistic budget.

Couples without a budget tend to live and spend from day-to-day. A well thought out budget helps you save regularly, utilize income wisely, and avoid misunderstandings about how money is spent.

8. I know my future spouse's investment personality and risk tolerance.

Investing styles are different, ranging from conservative to risky. Take the time to arrive at a level of risk where you both feel comfortable.

9. I know how much debt my spouse is bringing into our relationship.

Couples must enter marriage knowing how much debt they each carry and how it will be paid.

10. We have made a commitment to discuss money regularly.

Differences are inevitable. How you handle them is important to your marriage.

SOURCE: <http://www.360financialliteracy.org/Life+Stages/Couples+and+Marriage/>
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Figure 2 Relationship Attachment Model

This model of relationships, developed by author John Van Epp, Ph.D., provides an overview of major stages individuals go through to get to know and bond with each other. At each stage of the relationship, people can gather information about their potential partners' relationships with money and credit as well as their own. Thinking about why and how partners use credit can help with making healthy choices for finances and relationships.

1. *Knowledge*: In this stage, people gather information about partner's family background, the choices they make, their goals, and their past relationships.
 - Think about partners' past financial choices, how finances were dealt with in past relationships, financial values, what are the financial implications of past behavior (debt, credit, and earnings).
2. *Trust*: In this stage, people evaluate the mental picture they have developed about this person and assess whether the picture is accurate. Is the potential partner an IRS hazard, that is, are they what the model calls Idealized, a Rescuer, or a Substitution for someone else?
 - Talk openly about financial habits and current financial situation, observe financial practices and decision-making about spending, saving and credit. Does partner have credit cards that s/he can't pay off?
3. *Reliance*: In this stage, people start to test the trust they have developed with the person they are getting to know and whether they are able to meet needs and are dependable. Does trust go up or down as reliance increases?
 - Check out whether the financial trust that has been established is accurate by openly checking out each other's credit scores and other financial documents.
4. *Commitment*: In this stage, people think about the positive and not so positive reasons to commit to a partner.
 - Have partners been open about what debt they have accrued, why they have debt, and how they will pay it off? What does it mean for you or your partner to take on each other's debt, financial spending and savings habits? Are we financially compatible?
5. *Sexual Touch*: In this stage, romantic partners consider the extent of physical and sexual touch based on the extent that they know the trustworthiness and reliability of a partner.
 - Imprudent sexual involvement can lead to emotional and financial dependency upon a partner who is unreliable. Is my partner a high financial risk? Does my partner mismanage finances?

For more information, visit <http://www.nojerks.com/>

Although obtaining credit can be helpful to reaching a couple's goals, it can be risky and requires taking on debt. It is important for couples to distinguish between good and bad debt to understand when taking out a loan will actually help increase their assets in the long run. Good debt is an investment, like student loans, retirement savings, or starting a business, and it creates value. Whereas bad debt has no potential to increase in value, except for the creditor. When faced with bad debt, it is vital to reduce and eventually alleviate it.

Types of Credit

There are different types of credit to meet different short-term and long-term needs, such as credit cards and loans. Credit cards allow cardholders to make purchases on credit and then they receive a monthly bill, which they can choose to pay in full each month or pay less, allowing a revolving credit to form. This means that credit card companies will allow individuals to carry balances, on which they charge interest. Accumulation of credit card debt is especially risky for economically vulnerable families.⁷

Loans include mortgages, home equity loans, and student loans that allow couples to make immediate investments in assets, such as a home or investments in education that can build earnings potential. Two of the most popular mortgage loans are fixed-rate and adjustable-rate mortgages (ARM). A fixed-rate mortgage, which has traditionally been the industry standard, is a loan for a fixed number of years at an unchangeable interest rate. ARMs change based on the fluctuations of the interest rate.⁸ There are three major categories of education loans: student loans, parent loans, and private student loans.

Joint versus Separate Accounts

The different forms of savings or credit account ownership are individual, authorized user, cosigner, and joint types. Spouses most often have joint accounts, allowing two named borrowers on an account. In this case, the credit history of both borrowers is used to determine eligibility and both are responsible for the debt accrued. *Figure 3* addresses some of the issues to consider when deciding whether couples join accounts and credit or keep them separate.

Credit Scores

Because credit history is important to obtaining credit, knowledge of each partners' credit scores is critical. A FICO score (named for the Fair Isaac Corporation that created it) is a mainstream credit score that determines the interest rate on credit cards, car loans, home mortgages, as well as one's ability to obtain a cell phone or get an application for a rental apartment accepted. Low credit scores translate into paying higher interest rates on credit cards and loans.

FICO scores are determined by five factors:

- record of paying bills on time,
- total balance on credit cards and other loans compared to total credit limit,
- length of credit history,
- new accounts and recent applications for credit; and
- and mix of credit cards and loans.

Figure 3

Joint versus Separate: Checking Accounts, Credit, and Mortgages—Things to Consider

Checking accounts: Many couples find that the best solution is to have a joint account in addition to each keeping an individual account. When two people have access to the same account, keeping track becomes more difficult and requires more communication between the parties involved. Therefore, it is very important to keep a master account register up to date, recording all deposits, checks, and withdrawals. Couples do not want to bounce checks because one partner wrote one or made a withdrawal and did not record it. Joint checking can not only give couples more of a sense of “being in this together” but also makes keeping a joint record of these expenses much simpler if partners communicate well.

However, each partner may still prefer to have access to some money to call his/her own, and for which partners are not accountable. In some cases, this may be simply a cash allowance for which you may not need a separate checking account. In other cases, particularly if both partners are working, one partner may continue to handle some of these expenses separately. If either partner wants to establish credit individually, s/he may decide to maintain separate checking accounts at least until credit has been established.

Checking and credit: Separate checking accounts can be used as a lever to help obtain credit. If either partner has poor credit, couples may wish to keep funds separate to circumvent attachment of joint funds to pay one partner’s bad debt. If money is pooled in a joint account, the entire amount is legally available to either partner. A creditor is then justified in attaching those funds to pay a debt that only one partner may have incurred. If a marriage is foundering or if there are severe disagreements about how to manage money, partners may want to maintain separate accounts. With joint accounts, either party can “clean out” the other simply by withdrawing all the funds in the account.

In terms of access to credit, if one partner has had credit problems, s/he can prevent a couple from getting credit after they are married. Finally, seriously consider keeping credit separate, at least until a spouse’s credit record improves. Credit does not have to be combined after marriage. For instance, one partner can apply for credit instead of applying for joint credit after marriage. Separate “associate” cards can be issued for a spouse to use. Even if one spouse has bad credit, the other spouse’s credit rating will remain unaffected but it is possible that the spouse with good credit will have a harder time qualifying for loans (e.g., a mortgage) alone than if a spouse's income could also be counted.

Liability for debt: While the general rule is that spouses are not responsible for each other's debts, there are exceptions. Many states will hold both spouses responsible for a debt incurred by one spouse if the debt constituted a family expense (e.g., child care or groceries). In addition, community property states will hold one spouse responsible for the other's debts because both spouses have equal rights to each other's income. Also, spouses are both responsible for any debt that is in both names (e.g., mortgage, home equity loan, credit card).

SOURCE: 360 Degrees of Financial Literacy, American Institute of Certified Public Accountants.

While some may believe not having a FICO score can help avoid being seen as a bad credit risk, it is actually necessary to have one. Without a score, it is difficult to get a loan because without a credit history a person is an unknown to companies and banks. To start building a credit history, companies will allow individuals to obtain cards based on income. It is important to note that interest rates may be higher for unknowns.

Building Credit Together

Because couples share their personal and financial lives, they must take steps toward building credit together. Before doing so, it is necessary to determine how much debt and the sources of debt that a couple has accumulated. Experts urge people to write down everything they owe, listing debts with the highest interest rates first. Then, a couple can look at their list and start saving money by switching to credit or charge cards with lower interest rates.

When a couple gets married, they share debt from credit cards and loans as well as each other's credit ratings. Marrying someone with good credit allows an individual to gain access to this good credit. Unfortunately, the opposite is true as well. Marrying someone with bad credit has negative implications, subjecting someone to higher interest rates or being denied credit because of the risk a partner may pose.⁹

To illustrate how different couples approach building their credit together, **Figure 4** presents the stories of two hypothetical couples that face similar challenges as they decide to take the next step in their relationships. Each couple handles their relationships and finances in diverse ways that lead to different outcomes. The first story illustrates how a couple's relationships with each other and with credit became more attached over time. This couple did not start off with the same approach to finances, but developed strategies to build healthy communication and spending habits. The second story illustrates a couple who remained stuck in a pattern of unhealthy communication and spending that augmented over time. Instead of becoming more attached, their relationship with each other and their credit histories both suffered.

Communication

As illustrated in Figure 4, healthy communication between two partners is essential to the success of a marriage. Avoidance of certain topics, like finances or credit history, may indicate hidden issues and concerns about acceptance. Money can be a difficult topic, especially talking about different cultural or socioeconomic backgrounds, the meaning of money and spending styles. Without addressing the topic of money, the relationship and finances may suffer.¹⁰ Conflict resolution, whether with a specific partner or a creditor or both, can be a key to improving financial and relationship situations.

Child Support

When parents are divorced or never married, child support is the obligation for a periodic payment made directly or indirectly by a non-custodial parent to a custodial parent, caregiver, or guardian. Non-custodial fathers who have never been married to the mother of their child are obligated to pay child support as long as paternity for that child is established. If child support payments are not made, non-custodial parents accrue arrears and can face penalties depending on their state of residence. Paying child support, and providing for children that are not shared with

Figure 4

Two Hypothetical Couples' Approaches to Financial and Relationship Decision-Making

“Andrew and Erica”

It was instantly clear that Erica and Andrew had different styles of spending and different views on the meaning of money. To Erica, money caused anxiety. Growing up, money was tight and her parents were compulsive savers. To her, money was security and never came easy. Andrew came from a family that was not as concerned with money, and never worried financially about their future. He viewed money as enjoyment and status and was thus inclined to spend more than his wife. As they recognized their differences, they decided that the best way to avoid misunderstandings was to learn about each other's histories and habits. The couple wanted to buy a car but Andrew's credit history wasn't perfect because he had a history of not paying his credit card bills on time. Once Andrew shared his history with Erica, they decided together to merge some of their finances but keep a checking account and one credit card in each of their names. So when they applied for a car loan, they decided to use her name to apply, avoiding high rates. They used their joint account for all living expenses so that they both contributed their fair share. In addition, Erica helped her husband start to improve his credit score by working together to handle finances and teaching him to get into a routine of paying all bills on time. Together, they checked both of their scores twice a year to monitor their progress. Once they had their finances on track, Andrew helped show Erica that spending money does not always have to be scary and making purchases can improve their quality of life.

When Erica and Andrew got married they were aware of the financial implications that follow, that they would now be sharing responsibilities in their relationship and in their finances. Erica made an effort to be involved in the financial decision-making and Andrew was happy to share the responsibility. They knew that by working together instead of allowing one person to be in control, they would be more satisfied in their decisions. By establishing trust, subsequent financial obstacles were easier to overcome successfully. Erica and Andrew agreed on how to spend and were not overly concerned with how their partner was handling their money.

“Kim and Gabe”

Andrew's sister, Kim, had also just decided to move in with her significant other, Gabe. Like Andrew, Kim shared her brother's spending style and poor credit history. She was embarrassed because of her debts so she didn't tell Gabe about them. Similarly, Gabe had a son from a previous marriage that he was too scared to tell Kim about. He assumed she wouldn't want to deal with the extra baggage he would bring to the relationship. So, he kept his child support payments secret and avoided any discussion of finances with Kim. The couple figured that by hiding their financial shortcomings, they could avoid fighting and embarrassment so they only brought up money when it was absolutely necessary. Like Erica and Andrew, Gabe and Kim were looking to buy a car. Unfortunately, since they did not talk about their financial histories, they did not take their credit scores into consideration and ended up obtaining a loan with a higher interest rate, paying \$75 more a month, or \$900 more a year, than Erica and Andrew. They were now making large monthly payments to a car loan; while Gabe was also secretly making his monthly child support payments. Erica didn't understand why they didn't have more money and why Gabe seemed to lie about his spending. Instead of facing their debt, the couple began to use their credit cards to buy almost everything because it was convenient and to them it seemed like they weren't paying out of pocket. Their credit histories suffered even more as they struggled to pay their bills on time and their money saved was dwindling. They knew that they were in trouble but were too embarrassed to be honest with each other. They had never established any trust or commitment to work together in dealing with their finances and became more secretive and separate. The damages to their finances and relationship were apparent with more arguments and criticism.

Kim and Gabe did not build knowledge, trust, reliance and commitment in their relationship as Andrew and Erica had. They made the decision to share their lives but not their finances. They thought by hiding their flaws, they could avoid problems, but instead they created deeper issues that are difficult to fix.

a current partner, can add a layer of complexity when parents are establishing new marital and financial relationships.

Extended Family

Lending money between family members can be tricky with consequences affecting the closest, most important relationships, as well as finances. It is easy to feel no pressure to pay back a family member; however, it is vital to treat a family loan just like a financial institution. Experts urge family members to be as specific as possible about the terms of the loan: how often payments will be made, what day they will be made, and the interest rate.¹¹ Conversely, it is easy to feel an obligation to support family members in times of trouble. Being able to set boundaries and assure that the couple relationship is respected in the context of competing requests from different family members and even families is not a simple matter.

Credit Changes as Life Changes

Plan for the Best and Prepare for the Worst

Life brings anticipated and unanticipated events that can affect a couple's financial decision-making and relationship. These events can enhance or disrupt the credit path, creating consequences for credit and solvency. Often, these major life events can be the catalyst for financial and credit damage. Financial consequences of negative life events include fines, negative credit rating, loss of home, and bankruptcy. While it is possible to plan for positive life events, negative ones are often unpredictable. The best strategy for couples to circumvent financial distress is to make plans together to prepare themselves for anything and everything. As illustrated by the two couples scenarios in Figure 4, couples such as Andrew and Erica who have strong communication skills and have thought about their finances start off in a better place to deal with life changes. Overall, couples should be encouraged to plan for the best and prepare for the worst.

Marriage

Getting married and starting a family are life events that many individuals strive for. Research has shown the positive financial benefits in terms of wages and accumulation of wealth for couples who are married and stay married.¹² If something serious happens such as unemployment or health problems, having a spouse can help one to get through the hard times. However, being married also can increase the risks of negative life events and it is vital for couples to be financially prepared.

Obtaining financial goals can demand an increase in expenses and requires strategic and informed planning. For instance, couples must think ahead about how to keep their finances afloat if one will leave the workforce to raise children. Questions that experts recommend couples ask themselves include, "Can your family survive only on one income?"; "Can you downshift the fixed expenses?"; and "What is your emergency backup plan?"¹³

Other negative life events—such as involuntary job loss, illness or disability of oneself or a family member, and divorce—may have negative financial consequences and can increase the immediate need for cash flow, which can threaten healthy finances if credit is not used wisely.

Studies have shown that the risk of these events has increased dramatically in the past 30 years.¹⁴ The table below provides a few examples of negative life events and the possible consequences.

<i>Life Event</i>	<i>Threats to Healthy Finances and Credit</i>
Involuntary job loss	Lack of sufficient savings to pay bills and credit payments
Wage earner misses work due to either his or her or a family member's illness or disability	Lack of insurance and/or paid leave to defray the costs of missing work
Divorce	Abuse of credit by partners, child support payments

If a disastrous life event strikes, financial ruin may start slowly, but it can quickly pick up speed. Not many families have enough money saved to cope with a devastating life event and they can run out of money within a short amount of time. Job loss, divorce, and medical emergencies all result in the loss of funds that are needed to keep up with minimum credit payments. Once this happens, credit scores can begin to fall.

Surviving Job Loss

Surviving financially after losing a job can be daunting, but there are strategies to help. Job loss often causes debt to accumulate fast, especially because it is difficult to pay off debt when out of work. Planning is a key step and experts recommend preparing a budget that reflects the money that will be needed while looking for a new job. Couples who have developed a family financial strategy and have experience communicating about financial issues are in a stronger position when they experience a job loss. For example, Andrew and Erica from the couples scenario have already come together to resolve their financial differences and are more likely than Kim and Gabe, the couple that has not developed healthy communication about finances, to successfully negotiate a new financial strategy under stress.

Insurance

Insurance can help couples protect their families. Health insurance and disability coverage are critical for couples because of rising health care costs and because they are more likely to experience disability than premature death. Although health insurance often does not cover all health care costs, it can provide enough assistance to make the difference between staying afloat and declaring bankruptcy. Experiencing a medical problem and lacking health insurance also is associated with increased credit card debt.¹⁵ If couples have joint credit cards, this means that that both partners will be assuming this debt for the health care crisis.

Divorce

Divorce can render relations hostile between partners, so protecting credit and assets can help people avoid financial consequences. Although divorce is emotionally charged for both partners, couples who have developed a financial plan and have strong knowledge of total family finances will likely be in better positions to negotiate with each about how to separate finances. For couples where one partner has all financial knowledge or where partners have been dishonest with each other (such as the hidden child support payments of Gabe from the couples scenario) can make a difficult situation even worse.

Some financial dos and don'ts when divorcing include the following:

- Do prepare a budget and financial plan to sustain you until the divorce is final.
- Do review monthly bank and financial statements.
- Don't make large purchases or create additional debt that might later cause financial hardship
- Don't transfer or give away assets that are owned jointly.

Where to Turn for Help

In addition to marriage and relationship skills educators and financial educators, there are other financial tools that provide couples with options for improving their relationship with their partner and their credit. These tools include electronic payroll transfers, alternative credit scores, envelope budgeting, credit counseling, bankruptcy as well as programs to use credit to build assets, such as Individual Development Accounts (IDAs) and Marriage Development Accounts (which were discussed in Brief 1). Resources that can help address financial consequences brought on by family issues include help with child support payments and divorce mediation.

Other practical steps can make good financial practices the “default option” for couples. For example, direct deposit of earnings has been shown to lead to higher rates of savings.¹⁶ However, this option may be less available for employees who have lower wages or work less than full time. Secured credit cards are another example that can provide a training experience with credit. Automating the process of ordering a free credit report annually, thereby making receiving the report the default option, might also be helpful to couples.

Electronic Direct Deposit or Electronic Payroll Cards

If employers offer direct deposit of paychecks into savings or checking accounts, most financial experts recommend doing this because, on average, people who use direct deposit services save more than if they received their paycheck in traditional hard-copy form. For couples who are attempting to stay on their family budget, this can be a simple yet effective solution to curbing spending.

Alternative Credit Scores

For low- and moderate-income couples with bad credit or a lack of credit, alternative credit scores can provide a solution. Many people with low incomes use cash, write checks, or use debit cards instead of using credit, and therefore do not develop credit histories. The Fair Isaac Corporation, creators of the FICO score, introduced the FICO Expansion score to aid individuals without established credit histories. This method of credit scoring involves using utility payments, such as water and electricity, as a way to measure an individual's ability to pay their debts. An Anthem score is another nontraditional credit score. Designed to assess the risk of potential borrowers with little or no traditional credit history, it incorporates additional indicators like rental history and utility payments into its model. Making use of alternative credit scores can give couples with low incomes improved access to credit based on their past success in making payments.

Envelope Method

Envelope budgeting is a method where cash is divided into different, categorized envelopes. These envelopes are labeled for categories of spending including required spending, like a mortgage, groceries, and medical bills, and discretionary spending, such as eating out, entertainment, and shopping. As cash is divided into envelopes, it is immediately visible to all family members what on-hand cash is available to pay bills, make purchases, and contribute to savings. This method is simple to set up and manage and allows each partner to be completely aware of their financial situation.

Credit Counseling

Families must carefully consider if it makes sense to work with such a credit counselor, as much of this work can be done by the individual. Selecting a reputable, responsible organization is critical since some disreputable organizations prey on struggling families. Check out credit counselors with the state Attorney General, local consumer protection agency, or the Better Business Bureau.

Managing debt and building good credit can be challenging and there are some very good, well-known nonprofit and community organizations that can help couples get back on track. One organization is the National Foundation for Credit Counseling (NFCC) (www.nfcc.org). Programs like NFCC ask borrowers to turn over all their credit cards and for a \$10 monthly fee and a check, NFCC will pay the debtor's bills. By doing this, the counselors are able to negotiate and secure a lower interest rate than the borrower; thereby reducing the total loan amount and time required for payback. However, if both members of a couple with joint accounts do not agree to be involved, there is little that credit counseling can do for joint debt. Another drawback to this service is that in most cases, for seven years a borrower's credit report will contain a line stating that he or she paid through NFCC. However, some credit companies view this as a positive move toward taking control of debt. Some credit counseling operations are financed by lenders and using them may have other consequences. And couples should be cautious that if it seems too good to be true, it probably is. **Figure 5** presents the basic steps in acquiring credit counseling assistance.

Bankruptcy

As a last resort, bankruptcy is sometimes the only answer to starting fresh and rebuilding credit and finances. Declaring bankruptcy has serious long term financial implications and therefore should not be undertaken lightly. When an individual files for bankruptcy, the court takes control over all assets and orders them to be liquidated and used to repay creditors. For 10 years, the declaration of bankruptcy will appear on credit reports, which will likely make insurance and payments more expensive. When considering bankruptcy, first look to see if it is possible to pay off debts within the next two years. If the answer is no, then filing for bankruptcy might be considered.

Figure 5 **Credit Counseling: What are the Steps?**

If couples in difficult financial positions contact a credit counseling service, valuable advice can be available on specific financial situations as well as referrals to money management and credit education services. While each credit counseling agency may have different procedures to connect families to counselors, there are general steps that each follows.

1. **Pick a Reputable Counseling Agency**—Financial educators recommend contacting an agency that is a member of the National Foundation for Credit Counseling (NFCC) or The Association of Independent Consumer Credit Counseling Agencies (AICCCA). Another option is to obtain a direct referral to a reputable counselor through a community service provider who may already be assisting or a local social services department. A reputable credit counseling agency will send free information about itself and its services without requiring the consumer to provide any personal financial details. The Better Business Bureau and the state Attorney General’s office should also be consulted. The FTC provides tips on choosing a credit counselor and avoiding untrustworthy organizations at: <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>
2. **Set up an Appointment**—Many credit agencies are part of national networks so the first step is to set up a user profile in their system. This can be done over the phone or on the internet. After this step, families are put in touch with a credit counselor if one is immediately available, a phone appointment is set up, or an appointment at a local agency who is a member of the network is made. During times when consumer spending is high such as the holidays, there may be a delay in getting an appointment.
3. **Talk to the *Certified* Credit Counselor**—In an hour-long appointment that is free of charge, credit counselors will talk to families about the details of their debts and living expenses. Contacting a credit counselor for a free appointment does not ruin clients’ credit report so it is best to encourage accurate disclosure of debt and living expenses. Sometimes counselors are available through internet chats and e-mails to address specific questions.
4. **Decide on Customized Plan**—At the end of a counseling session, the credit counselor will explore specific options that are available through their organization. Recommendations are made based on what debt couples face. Not all credit counseling agencies offer help with the full range of debt relief and credit repair options, some just specialize in particular debt relief options such as credit card consolidation. In this case, these agencies make referrals to other agencies that help deal with collection agencies or mortgage delinquency. It is likely that credit counselors will discuss education options to encourage healthy financial spending and credit options in the future.

SOURCE: Personal Communication, Consumer Credit Counseling Services.

Family breakup is one of the top three reasons that families with children cite as the cause of bankruptcy.¹⁷ Experts advise families to wait until the crisis that resulted in financial disaster passes before filing for bankruptcy, so the risk of increased debts after filing is minimized. If there is nowhere else to turn, bankruptcy offers the opportunity to have a fresh start, but at a cost that is better avoided if possible.

Help With Child Support Payments

Research shows that child support is an important source of income for single parents, yet many low-income single parents, who are often mothers, receive inconsistent payments from non-custodial parents.¹⁸ There are several reasons for the irregular payments that include: constraints on non-custodial parents' ability to pay such as spells of unemployment; non-custodial parent is incarcerated; tensions about the amount of the child support payment especially if they are several delinquent payments; non-custodial parents' concerns about how the income is spent by the custodial parent.

There are currently programs in different states designed to help non-custodial parents who make a good faith effort to make more consistent payments. These programs assist with the following:

1. Better align obligations with fathers' ability to pay and make it easier to modify order if needed.
2. Forgive arrears if non-custodial parents make good faith efforts to make payments.
3. Reduce the amount of child support that non-custodial parent reimburses the government so that more income goes to low-income children.
4. Through marriage and family strengthening programs, improve parents' communications skills to help deflate conflicts over child support payments could lead to more consistent payments over time.
5. Set up electronic payment systems that include direct deposits into savings account or debit cards.

Although child support payments are cash transfers that occur within families from one parent to another, they can also be used build by families to build future assets for children.

Divorce and Child Custody Mediation

Divorce has both emotional and financial consequences for parents and can be especially hard on children during child custody negotiations. Although divorce is difficult, encouraging a process to keep parents' communication levels open and honest about their children and their financial situations is important for children's well being during and after the divorce. Experts suggest that parents consider using collaborative forums for child custody negotiation such as mediation rather than litigation. Research has shown that for families who had been randomly assigned to mediate rather than litigate child custody disputes, nonresidential parents who were more involved in their children's lives, had lower conflicts with the residential parent and had greater influence in co-parenting 12 years after their child custody dispute was resolved.

Fostering Collaboration to Resolve Couples Financial Problems

Forgiveness is an important concept for couples who have financial problems. Couples need to talk over past mistakes, come to a level of forgiveness, and focus on going through every bill and financial statement to develop a viable financial strategy. This process takes time, trust, and commitment in relationships to move forward. The advice of marriage and relationship skills and financial educators working together can help couples to set realistic goals and work through problems.

Financial and relationship skills educators are often in the position of helping couples to address past mistakes. Some of these mistakes may have been individual mistakes and some may have occurred with other partners. Either way, the financial aspects are often linked with emotional issues. A few key preventive steps may save a great deal of trauma later. The financial checklist that is often part of premarital preparation is also a key part of financial literacy for couples. It highlights that avoiding the day-to-day issues of financial health can lead to day-to-day problems. *Figure 6* provides some tips from practitioners working with couples to help their financial planning and solving financial problems.

Another common theme from both fields is that there is no one solution that fits every couple, and part of creating a healthy relationship and healthy finances is that couples need to work through their own situation together. Building the communication and conflict resolution skills to be able to do this is hard work. Again, both financial and marriage skills educators agree that success comes from how problems are handled, as all couples face emotional and financial decisions and complexities.

Perhaps the most common theme for financial and relationship skills educators is finding an early point of entry into a couple's life. Help-seeking steps are often taken when problems have become large and overwhelming, yet resolution may be easier the earlier that the problems are detected. In looking for ways to change the default options to promote financial and family stability, it could be that premarital counseling is a natural point of entry. Other potential entry points where materials could be distributed, practitioners could refer to other programs, or staff could be cross-trained include:

- credit counseling specialists,
- bank loan officers,
- local pastors,
- wedding planners,
- pediatricians at well-baby visits,
- new parents' goodie bags,
- IDA participants, and
- marriage education participants.

Figure 6

Tips from the Field: Helping Couples to Plan Finances and Resolve Financial Issues

- Advise couples against “backward budgeting”—rather than spending and budgeting after the fact, consciously choose their lifestyle first and budget accordingly rather than the other way around.
- Think about whole family life—how do other family members or friends factor in to couples’ financial decision-making?
- Provide examples and questions that provide food for thought: is excessive spending or debt by one or both partners the sign of more deeply rooted issues? Be careful about commitments made in life, if you are not ready to make it a top priority, do not commit yourself to it.
- Draw analogies: successful financial planning for couples is similar to successful weight loss—setting a goal and developing a plan to curb eating and increasing exercise. Need the support of both partners.
- Encourage couples to always ask the question before any major financial decision, “Are my spouse (or partner) and I in complete agreement and unity over this decision?”
- Have couples identify their financial needs vs. financial wants and practice negotiating the joint allocation of resources. Take this practice a step further by adding in a life event such as job loss—how would couples cut back?
- For couples considering marriage or who have made the decision to get married: pre-marriage counseling, whether secular or non-secular, helps identify hidden money issues.

SOURCES: Personal Communication with staff at the Shriver National Center for Poverty Law and A.G. Edwards and Sons. *The ABCs of Money Management* by A.G. Edwards and Sons.

In addition, marriage and relationship skills education providers who are helping noncustodial parents improve communication with their partners can also help them develop financial strategies by working with the local child support agency to help develop realistic payment plans to address accumulated arrears, make immediate referrals to reputable credit counselors, and make referrals to employment and job training programs. Several community-based marriage education programs serving couples have forged strong links with financial literacy and home ownership programs to help couples continue to address immediate financial issues, plan for the future, and develop assets. At the same time, IDA programs are encouraged to build linkages with local marriage education and family strengthening programs to address the sometimes thorny conversations about money and credit.

Conclusion

Family-focused services that build both relationship and financial skills have much promise. In this tumultuous economy, recognizing that couples with stable relationships accumulate greater levels of wealth over time and have the potential to better ride out the ebbs and flows of market changes, more and more service providers are keen to work with couples, especially parents, to enhance financial stability for families and children rather than let unexpected events undermine it.

¹ Jenkins, N., Stanley, S.M., Bailey, W.C., & Markman, H.J. (2002). *You Paid How Much for That?: How to Win at Money Without Losing at Love*. San Francisco, CA: Jossey-Bass.

² Dew, J. (2008). Debt change and marital satisfaction in recently married couples. *Family Relations* 57(1), 60-71.

³ Jenkins, N., Stanley, S.M., Bailey, W.C., & Markman, H.J. (2002). *You Paid How Much for That?: How to Win at Money Without Losing at Love*. San Francisco, CA: Jossey-Bass.

⁴ Caskey, J.P. (1997). *Beyond cash-and-carry: Financial savings, financial services, and low income households in two communities* (Report written for the Consumer Federation of American and the Ford Foundation). Swarthmore, PA: Swarthmore College.

⁵ Seidman, E., & Tescher, J. (2005). Unbanked to homeowner: Improving financial services for low-income, low-asset customers. *The Brookings Institution Press*, 316-347.

⁶ Mann, R. Credit Cards for the Poor. Paper presented at the National Poverty Center Conference “Access, Assets and Poverty” in October 2007.
http://www.npc.umich.edu/news/events/access_assets_agenda/mann.pdf.

⁷ Mann, R. Credit Cards for the Poor. Paper presented at the National Poverty Center Conference “Access, Assets and Poverty” in October 2007.
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⁸ Jenkins, N., Stanley, S.M., Bailey, W.C., & Markman, H.J. (2002). *You Paid How Much for That?: How to Win at Money Without Losing at Love*. San Francisco, CA: Jossey-Bass.

⁹ *Building Assets Building Strong Families: A Guide for Combining Asset Building with Family Strengthening and Healthy Marriage Services, Model 8: Credit and Debt*. U.S. Department of Health and Human Services, Office of Community Services, Administration for Children and Families.

¹⁰ Jenkins, N., Stanley, S.M., Bailey, W.C., & Markman, H.J. (2002). *You Paid How Much for That?: How to Win at Money Without Losing at Love*. San Francisco, CA: Jossey-Bass.

¹¹ Orman, S. (2007). *The Money Book for the Young, Fabulous & Broke*. New York: Riverhead Books.

¹² Conley, D., & Ryvicker, M. (2005). The price of female headship: Gender, inheritance, and wealth accumulation in the United States. *Journal of Income Distribution*, 41-56. Also see, Lerman, R. (2002). Impacts of marital status and parental presence on the material hardship of families and children. *Demography*, 44 (3).

¹³ Warren, E., & Tyagi Warren, A. (2003). *The Two-Income Trap: Why Middle-Class Mothers & Fathers are Going Broke*. New York: Basic Books.

¹⁴ Warren, E., & Tyagi Warren, A. (2003). *The Two-Income Trap: Why Middle-Class Mothers & Fathers are Going Broke*. New York: Basic Books.

¹⁵ Rukavina, M., & Zeldin, C. (2007). Borrowing to stay healthy: How credit card is related to medical expenses. *Demos: A Network for Ideas and Action*.

¹⁶ Seidman, E., & Tescher, J. (2005). Unbanked to homeowner: Improving financial services for low-income, low-asset customers. *The Brookings Institution Press*, 316-347.

¹⁷ Orman, S. (2007). *The Money Book for the Young, Fabulous & Broke*. New York: Riverhead Books.

¹⁸ Sorenson, E. & Zibman, C. (2000) "Child Support Offers Some Protection Against Poverty" The Urban Institute, Number B-10 in Series, "New Federalism: National Survey of America's Families."