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The financial practices and perceptions behind separate systems of household financial management

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ABSTRACT

Qualitative research in the UK has revealed a diversity of financial arrangements underlying separate systems of household financial management. One factor, identified in previous work, is perceived ownership of money, with financial practices differing according to whether couples have distinct, blurred or shared ownership perceptions. The present work aims to build on and extend this research, using data from an online survey study with 190 cohabitants in the UK. The findings reveal that ownership perceptions transcend separate money management categories, and can be a significant predictor of the type of contribution cohabitants make towards joint household expenses.

1. Introduction

'Some things are hidden if you just look at the way that money is arranged and you do not know what lies behind it' (Interview participant Harry, p.478, Ashby and Burgoyne, 2008).

In studies of household financial management, it is often assumed that couples using separate systems of money management, such as Independent money management (IM) and Partial pooling (PP) are behaving as two separate financial entities (Blumstein and Schwartz, 1983; Elizabeth, 2001; Heimdal and Houseknecht, 2003; Oropesa et al., 2003; Singh and Lindsay, 1996; Waite and Gallagher, 2000; Vogler, 2005). However, a narrow focus on the money management system and the bank accounts used by couples can conceal some important differences in the way that money is both handled and perceived (Ashby and Burgoyne, 2008, also see Burgoyne et al., 2007; Nyman, 1999; Nyman and Reinikalinen, 2007). One key factor that emerged from earlier research concerns the psychological-or perceived-ownership of money (Burgoyne et al., 2007). These authors identified a spectrum of ownership from *distinct* (where couples made a clear distinction between joint and individually-owned money), through *blurred*, where perceptions differed between partners or were in transition, to *shared,* where all money was regarded as being collectively owned, regardless of its source. In qualitative research by Ashby and Burgoyne (2008) the concept of ownership seemed to be an important determinant for the way that the money management systems of IM and PP operated in practice. Especially when there was a disparity in incomes between partners, there were different implications for individual well-being, depending on whether the couple had distinct, blurred or shared ownership perceptions. Ashby and Burgoyne (2008) concluded that asking questions about ownership perceptions in future research might help to provide a more fine-grained and accurate picture of how couples deal with financial issues (cf. Burgoyne et al., 2006). The present study builds on and extends this qualitative work, using data from a survey with 190 unmarried cohabitants in the UK to explore the financial practices and meanings behind IM and PP. In particular, the research aims to examine if ownership perceptions cut across the separate money management categories.

In a similar vein to Ashby and Burgoyne (2008), Nyman and Reinikalinen (2007) advocate examining the meanings of money. In the latter's qualitative study with married couples they found that the definition of money's ownership, as 'mine, yours or ours' (p.65) conferred different meanings upon money, which in turn had implications for how money was used (Nyman and Reinikalinen, 2007). For women in particular, they found that having money that was defined as 'mine' versus 'ours' was an important source of economic independence. This research also has points of contact with Thaler's (1999) influential work on mental accounting, which challenges the economic assumption of fungibility of money. Mental accounting is 'the set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities' (Thaler, 1999, p.183). According to this theory individuals can hold a number of separate mental accounts for different expenditures (including for example, household bills, social expenses, personal spending), and the spending from each 'account' is constrained in different ways (see Burgoyne, 1995). For example, someone may not want to tap into resources from their household bills account to buy

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clothing for themselves (see Shefrin and Thaler, 1988). Ashby and Burgoyne's (2008) research indicates that partners with distinct and also blurred ownership perceptions can hold different mental accounts for shared/joint money on the one hand and personal money on the other. Zelizer's (1997) work from the field of economic sociology on the interpretations and the social meanings of money is also relevant here. In common with Thaler, Zelizer highlights the non-fungibility of money and in particular discusses how people differentiate between the kinds of money that come into their families. Zelizer (1997) points out that money earned by the wife is often treated and used differently from money earned by the husband or money earned by the child—and people care deeply about these distinctions.

1.1. Separate systems of money management

Pahl's (1983) typology was initially developed on the basis of a substantial interview study with married couples to describe the different ways that partners could arrange their household finances. Pahl's typology identifies IM as a system where both partners keep their money in separate accounts, have their incomes paid into these accounts and typically do not have access to any joint sources of money (Pahl, 1995). PP has recently been identified for couples who keep a significant proportion of their money independently, but also have a joint account for household expenses (Burgoyne et al., 2007; Pahl, 2005). Couples usually have their incomes paid into their separate accounts and then transfer an agreed sum into their joint account for collective expenses (Burgoyne et al., 2007).

Until recently little research attention has been paid to these separate systems of money management (Elizabeth, 2001). This is in part because the research focus has been on married couples who typically have had such low levels of IM (2% or less), that analysis of this system has often been excluded (Pahl, 1995). However, research with remarried, same-sex, and heterosexual cohabiting couples, has often found much higher levels of separate money management (Ashby and Burgoyne, 2008; Burns et al., 2008; Burgoyne and Morrison, 1997; Vogler et al., 2006, 2008). Recent studies with newly married couples have also found an increasing use of IM and PP (Burgoyne et al., 2007; Pahl, 2005).

The rising use of separate systems of money management has highlighted and heightened the need to explore the financial practices and meanings behind IM and PP (see Elizabeth, 2001). From her qualitative research in New Zealand, Elizabeth (2001) found that IM was adopted by couples in order to avoid financial dependency, and to feel autonomous and independent in the relationship by: (i) maintaining individual control over money and (ii) contributing equally towards expenses. However, defining equality in terms of equal contributions without taking account of income can lead to traditional inequalities in access to money, with the higher earning partner (predominantly male) having greater access to and control over their own separate money (Elizabeth, 2001). Vogler et al. (2006, 2008) draw comparable conclusions in their UK survey study with married and cohabiting couples. They found that IM and PP were most likely to be used by cohabiting respondents when one partner earned more than the other, whereas those who earned similar amounts were most likely to use the joint pool. In a context where men earn more than women, they also argue this can leave the male partner with greater access to discretionary spending money, and allow gender inequalities in the labour market to feed into the household (Vogler et al., 2006, 2008). In addition, they found cohabitants had a comparable level of income pooling to married couples, when they had children.

However, in an in-depth qualitative study, Ashby and Burgoyne (2008) found that it was not always possible to read off financial practices based on the category labels of IM and PP alone. Some couples treated money in a much more collective way than the category labels implied. Indeed just as pooled money could be seen as separately owned (Burgoyne et al., 2007), money held in separate accounts could be seen as belonging to both partners in the couple. Furthermore, it was this sense of ownership that appeared to determine the degree of autonomy for each partner over the use of money (see Burgoyne et al., 2007). It was specifically those with distinct ownership perceptions who were found to define equality in terms of equal contributions and who were more likely to split the cost of these expenses equally, regardless of each partner's level of income. In contrast, when there was a disparity in earnings, those with blurred ownership were more likely to contribute proportionally to their earnings, which resulted in the lower earning partner having greater access to spending money than would have been the case if they contributed equally. Finally, for those using IM and PP with shared ownership perceptions, each partner felt they had access to all money, regardless of who earned it. In this way IM and PP resembled the joint pool (see Ashby and Burgoyne, 2008). The present study investigates these nuances in definitions of equality, and explores whether contributions towards joint expenses differ between those with distinct, blurred and shared ownership perceptions.

1.2. The psychology of ownership

Etzioni (1991) pointed out that ownership is a 'dual creation, part attitude, part object, part in the mind, part 'real'' (p.466). The psychology of ownership has been studied in a variety of contexts and across a range of disciplines, including psychology, sociology, anthropology, consumer behaviour, biology and philosophy (see Pierce et al., 2003, for a review). However, this research primarily focuses on the ownership of objects (both material and immaterial), rather than the ownership of money. Pierce et al. (2003) conceptually define psychological ownership as 'the state in which individuals feel as though the target of ownership or a piece of that target is 'theirs' . . .. The sense of ownership manifests itself in the meaning and emotion commonly associated with *my* or *mine* or *our*' (p.86). Etzioni (1991) and others have highlighted the distinction between psychological and legal ownership and the fact that the former can exist in absence of the latter (and vice versa). This was certainly true for cohabitants in Ashby and Burgoyne's (2008) study with shared ownership perceptions who arranged their money in separate accounts. Although these cohabitants may have viewed the money as belonging jointly to both partners, the fact they did not legally have rights to money or property registered solely in their partner's name could be problematic in the event of separation, or the death of one partner. This was highlighted in recent case law in the UK, where in an appeal case involving an unmarried cohabiting couple who had separated, the absence of a joint account and the use of separate accounts was taken as evidence of the couple's financial independence (see House of Lords, 2007, reporting the case of Stack versus Dowden).

1.3. Expectations and hypotheses

In light of the earlier findings, discussed above, the following hypotheses were developed:

(1) Cohabitants will be more likely to use separate systems of money management (including IM or PP), than the pooling, whole wage or housekeeping systems.
(2) Ownership perceptions will be independent of the category labels of IM and PP.
(3) Perceiving money as shared will be associated with contributing different amounts towards joint household expenses rather than equal contributions.