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Chapter 20
Marriage and Finance

Jeffrey Dew

Abstract This chapter reviews interdisciplinary research concerning the association between marriage and personal finances. The first section of the chapter discusses financial practices within marriage and the financial differences between married couples and other family types. The second section reviews the research on the ability of financial factors to predict marital formation, satisfaction/conflict, and dissolution. The chapter also suggests future research avenues.

Scholars have repeatedly noted the lack of information on how families handle money. In her seminal work on meanings of money, Zelizer (1994, p. 43) wrote, "In terms of evidence, to study money in the family is to enter largely uncharted territory. . . . we know less about money matters than about family violence or even marital sex." A decade later, scholars are still calling for more research on how families utilize their money (Daly, 2003; Israelsen & Hatch, 2005). The relationship between finances and marriage is actually reciprocal. That is, financial issues predict marital processes and outcomes just as marriage predicts financial behavior. Considering the many legal stipulations and social norms surrounding both marriage and financial matters, it is not surprising that this relationship is bidirectional.

Understanding the reciprocal relationship between marriage and finances benefits practitioners as well as theorists. Financial planners may benefit from understanding how married couples' financial needs differ from single individuals' needs. The relationship between finances and marriage is also important for premarital educators and marital therapists (Poduska & Allred, 1990) because couples seeking marital therapy often have elevated levels of financial problems and conflicts over finances (Aniol & Snyder, 1997). Finally, the relationship between marriage and finances is relevant to policy. Welfare reform, passed in 1996 and reauthorized in 2006, allows states to use federal money to encourage and strengthen marriage among low-income individuals as an antipoverty strategy.

This chapter reviews recent, and some classic, research on the relationship between marriage and finances from multiple disciplines. First, the meaning of

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marriage for financial behaviors is reviewed. Second, the ability of different financial issues to predict marital formation, quality, and dissolution is evaluated. Suggestions for future research are made throughout the review.

Marriage and Financial Practices

Financial Management in Marriage

Scholars know little about how marriage shapes financial practices. For the most part, research has analyzed differences between married couples' and single individuals' financial behavior. For example, married couples are more likely than cohabiting couples to pool their income (Heimdal & Houseknecht, 2003), and married couples also pool their savings (Fletschner & Klawitter, 2005). Further, married couples accumulate more assets and utilize consumer debt more than single individuals do (Fan, 2000; Hao, 1996; Lupton & Smith, 2003). Interestingly, marriage has no bearing on financial risk tolerance, although having children does negatively predict financial risk tolerance (Chaulk, Johnson, & Bulcroft, 2003). Beyond these simple descriptive differences, little is known about the meaning of marriage for financial behaviors.

Many research questions regarding marriage and financial behaviors remain unanswered. For example, scholars have only recently described income and asset pooling among married couples. The reasons for pooling have yet to be investigated. Scholars also do not know whether individuals consolidate their debt when they marry, and the patterns of married couples' joint debt assumption are unknown.

Research has also generally overlooked issues in family consumption—an activity that consumes much of family's time (Daly, 2003). For example, cohabiting parents spend more than married parents on alcohol and tobacco (DeLeire & Kalil, 2005), but other consumption differences are unknown. For example, what financial instruments (e.g., cash, credit cards, etc.) do different family types tend to use to make large purchases? How much information do married couples gather before they make purchases? Additionally, few descriptions of marital status differences in the uses of various investment instruments exist.

Beyond describing the differences in financial behavior between married couples and other families, the mechanisms that lead to these differences also need uncovering. That is, research needs to investigate why married couples and single individuals enact differing financial behaviors. Selection, the tendency for individuals with different characteristics to make different union choices, is likely to be one explanation since individuals that are financially stable are more likely to marry (Clarkberg, 1999; Oppenheimer, 2003; Xie, Raymo, Goyette, & Thornton, 2003). Financially stable individuals may use their money differently from individuals who financially struggle. Thus, differences in financial behaviors may already be in place before individuals marry and may have nothing to do with the marriage itself.

Scholars have identified other reasons than selection for behavioral differences between married and single individuals. Following marriage, both men and women

reduce the frequency and intensity of risky behaviors (e.g., drinking) (Waite & Gallagher, 2000). Thus, on average, the norms of marriage seem to elicit safe and conventional behaviors in married individuals. Likewise, marriage may encourage couples to utilizing their money more responsibly. Additionally, following marriage, individuals have to balance using money to maximize their own well-being with the well-being of the family. This may lead to different financial behaviors than the individual would have engaged in before they were married. These mechanisms (selection, conventionalization, etc.) need to be tested, though.

Income and Wealth Accumulation Differences

One area that has received a fair amount of attention is the income and wealth differences between married couples and others. Even though marriage is no longer necessary to economically advance, married individuals are economically better off than their single counterparts, on average (Waite & Gallagher, 2000). The mechanisms behind the financial advantage of marriage are only beginning to be examined.

Married couples generally have higher incomes than single individuals. Married couples have the highest median income of all family forms and, with the exception of single male households, have the highest per adult capita incomes (DeNavas-Walt, Proctor, & Lee, 2006). Further, the likelihood that an individual will ever attain an "affluent" income in their lifetime (e.g., 10 times the poverty level) is strongly enhanced by marriage (Hirschl, Altobelli, & Rank, 2003). Additionally, only 5 % of married couples live below the poverty line when compared with 28 % of single women and 13 % of single men (DeNavas-Walt et al., 2006). Beyond income-based definitions of poverty, marriage also decreases other types of economic hardships, even among low-income individuals (Lerman, 2002).

Scholars have put forth many explanations for the income advantage of marriage. Married couples often have access to two incomes, whereas noncohabiting singles have only one income (Greenwood, Guner, & Knowles, 2003). Married couples also benefit from economies of scale where two individuals can live with fewer expenses if they live together instead of apart. Individuals with better earnings/earnings potential also marry more than individuals with poorer economic prospects (Clarkberg, 1999; Oppenheimer, 2003; Xie et al., 2003). Very little research has analyzed whether these factors account for the income differences between married couples and single individuals, though.

Marriage and wealth also relate. In cross-sectional estimates, married couples have more assets than single, divorced, or cohabiting individuals (Waite & Gallagher, 2000). Further, married couples accumulate more assets over time, on average (Hao, 1996; Zagorsky, 2003a). Divorce devastates adults' financial net-worth, but remarriage often makes up the lost wealth (Wilmoth & Koso, 2002; Zagorsky, 2003b).

The same mechanisms that explain the income advantage for married couples (two-earners, economies of scale, specialization) are also frequently cited in bringing about the asset advantage. Interestingly, although cohabiting couples have many

of the same advantages as married couples have, union duration does not predict asset accumulation for cohabiting couples, whereas union duration and assets are positively related for married couples (Hao, 1996). Further, longitudinal data shows that per person, married individuals accumulate 77 % more assets annually than single individuals (Zagorsky, 2003b). Consequently, marriage likely enables couples to accumulate assets for reasons other than simply having two earners and benefiting from economies of scale.

Selection is one explanation for married couples' wealth advantages. Due to social norms (Smock, Manning, & Porter, 2005), the type of union that couples choose is often related to the economic characteristics of the partners. Individuals with stable economic characteristics tend to marry each other, whereas economically disadvantaged individuals will cohabit and delay marriage until they have attained a measure of economic stability (Oppenheimer, 2003; Smock et al., 2005). Although selection may produce wealth differences, married couples still have considerably more assets (and save at higher rates) than other families even after statistically controlling for economic factors and for the number of earners in the home (Lupton & Smith, 2003; Schmidt & Sevak, 2006).

Other explanations may account for the wealth differences that exist between family types. Marriage entails social norms of permanence and public expressions of commitment that may increase trust and allow married couples to feel more comfortable investing in their marriage (Cherlin, 2004; Pollak, 1985). Support for this notion of marriage conferring a higher level of trust than cohabitation is the fact that married couples are far more likely than cohabiting couples to pool their incomes (Heimdal & Houseknecht, 2003). Income pooling allows couples to live less expensive because of economies of scale. By pooling financial assets, married couples will also have access to more interest income than they would if they held their assets separately. Further, if marriage allows individuals to trust their partner more than other types of unions, it would allow spouses to acquire investment properties (homes, real estate) with less risk. Relatedly, trust allows couples to hold volatile (yet profitable) investments for a long time period thus mitigating some market risk. Interestingly, young married individuals do not have more wealth than unmarried individuals, perhaps indicating that the marital advantage of wealth takes many years to materialize (Schmidt & Sevak, 2006).

Social norms surrounding marriage may also encourage wealth accumulation. As noted above, marriage may "conventionalize" individuals so that they may feel obligated to save and invest some of their income instead of using it all. Further, the "marital script" also explicitly includes financial investments such as home buying, saving for children's college funds, and retirement (Townsend, 2002; Waite & Gallagher, 2000). All of these investments require decades of regular financial inputs. Consequently, marriage—with its norms of lifelong commitment—is ideally suited to achieving these financial goals.

Another explanation for wealth differences is that married couples receive greater social (e.g., economic) support than cohabiting couples or other types of families. By definition, a married individual has access to the resources of more kin than singles have. Further, married couples with children receive more economic transfers

from their families than cohabiting couples and single mothers, and these transfers positively predict wealth levels (Hao, 1996). Interestingly, when the analysis is restricted to young adults, married couples and cohabiting couples do not differ on likelihood of receiving financial transfers from family (Eggebeen, 2005). It may be that marital childbearing may elicit more financial support from families than simply just marrying. At any rate, these higher levels of transfers to married couples with children may partially account for the wealth advantage of married couples.

Prospective longitudinal studies would provide better tests of the mechanisms that link income, wealth, and marriage. Prospective studies would assess individuals' wealth and income before and after marital unions. Thus, for example, evidence of economic differences between individuals that precede union formation might help settle questions of whether marriage influences financial behavior or whether financial differences exist prior to marriage.

Marriage, Gender, and Control of Money

Marriage often changes an individual's relationship with money. Whereas before marriage an individual is in full control of his or her money, following marriage income has to be allocated among various family members (Lundberg & Pollak, 1996). Neoclassical economic models assume that marriages are single economic units with all members acting to maximize the utility of the unit (Blau, Ferber, & Winkler, 2001). Neoclassical economic theory further assumes that this maximization occurs without any problems "either because there is a consensus on preferences within the family or because decisions are made by an altruistic family head and accepted by all other members." (Blau et al., 2001, p. 49). Although most married couples pool their finances, in line with the unitary view of neoclassical economic theory, recent research has questioned the other basic neoclassical economic assumptions.

First, recent studies have challenged the ideas of common preferences in marriage. If wives and husbands shared preferences regarding consumption and savings behaviors, marital arguments regarding money would not arise. However, finances continue to be problematic for some couples (Amato & Rogers, 1997; Aniol & Snyder, 1997; Schramm, Marshall, Harris, & Lee, 2005; Zagorsky, 2003a). Further, when wives control the finances, expenditures on women's and children's goods increases and child well-being increases (Lundberg & Pollak, 1996; Thomas, 1990). These differences should not occur under the common preference model.

Historical analyses have also thrown much doubt on the idea of husbands serving as an altruistic family head. Primary historical sources show that even as recently as the 1930s, husbands certainly were not altruistic heads nor were many wives happy with the husbands' distribution of their husbands wage. In the early twentieth century, wives had to beg their husbands to share his wages so that she could have adequate funds to run the home (Zelizer, 1994). Some wives had to resort to "sexual blackmail" or "stealing from their husbands" when he gave her less than was needed to run the home.

Finally, women and men may not even view finances the same way. In nationally representative longitudinal samples, husbands and wives differed on their estimates of family income, assets, and debt (Zagorsky, 2003a). Husbands reported more income and assets than wives did, whereas wives reported more debts. These differences were significant. For example, 50 % of the spouses reported a 35 % or greater difference in their assets. If husbands and wives do not even have a shared understanding of their current finances, it is unlikely that they will be able to have common preferences on the allocation of their income and wealth.

Despite the proliferation of theoretical models that allow husbands and wives to have their own preferences and to negotiate over the intrahousehold allocations of resources (see Lundberg & Pollak, 1996, for a review), few recent studies have analyzed how husbands and wives actually distribute and manage money within the home. The topic of marital financial management and decision making enjoyed a vogue during the 1970s and 1980s among financial planners and gender scholars (e.g., Blumstein & Schwartz, 1984; Davis, 1976; Spiro, 1983). Recent research on the how couples communicate about, and manage financial issues and decisions is rarer, though exceptions do exist. In an investigation of marital power, for example, one study showed that the higher the share of the total family income that wives' contributed, the more involved they were in managing the families' finances (Bernasek & Bajtelsmit, 2002). Another recent study investigated interaction behavior between wives and husbands as they tried to persuade each other in different purchasing situations (Su, Fern, & Ye, 2003).

The intersection between gender, marriage, and finances merits more scholarly attention. Research could consider how social norms of gender and marriage influence husbands' and wives' financial behaviors and feelings of power within the marriage. An interesting example is an analysis of the conditions that lead to different portfolio profiles in wives' defined contribution plans. Wives whose husbands are less educated, older, or earn less than they do tend to have less risky (and hence less profitable) portfolios, whereas wives' characteristics do not predict husbands' investment strategies (Lyons & Yilmazer, 2004). Considerable work also remains to be done by communication researchers and financial planners, on the ways that husbands and wives work together (or separately) to manage financial issues. Particularly needed to advance this area of research is income, savings, and consumption data that is measured on the spouse level and that is combined with marital data such as gender role identities and couples' feelings of fairness in handling the finances.

Financial Considerations in Marital Processes and Outcomes

Not only does marriage predict individuals' financial practices but recent research also affirms that individuals' financial practices predict various aspects of marriage including marital formation, marital satisfaction and quality, marital distress, and divorce. Though these relationships are widely believed to exist, some scholars have asserted that they are untested (Andersen, 2005; Kerkmann, Lee, Lown, & Allgood, 2000). Examining the literature across disciplines, however, shows that empirical

studies have tested the associations between finances and marital outcomes, and that finances do indeed predict marriage outcomes.

Finances and Union Formation

Interestingly, a paradox emerges when finances and the likelihood of marriage are considered. On the one hand, marriage is no longer economically necessary, whereas in the not-to-distant past marriage increased the likelihood of economic survival for both men and women. This change has especially influenced women; increasing job opportunities for women have made remaining single economically feasible. The ability for women to support themselves following a divorce has also increased over the past 30 years (McKeever & Wolfinger, 2001). Based on this shift, one would suspect a decline in the relationship between economic stability and the likelihood of marriage. With only one exception (Sassler & Goldscheider, 2004), though, recent research shows that financial considerations are still quite relevant to the decision to marry.

Economic factors are certainly not the only consideration the decision to marry but they are important and seem to govern the timing of marriage. Marriage, because of its increasing decline, has become a symbol of "status that one builds up to", the "capstone of adult personal life" rather than the "foundation" (Cherlin, 2004, p. 855). The social norms surrounding marriage thus specify that individuals and couples should be economically stable before marriage (Cherlin, 2004; Smock et al., 2005). The economic stability/potential of a prospective partner is difficult for young adults to assess, however, and individuals will postpone marriage when they are uncertain about the economic viability of their union (Oppenheimer, 1988).

Recent studies have linked economic uncertainty and marital timing. Men's earnings, employment status, occupational potential, and education are positively associated with marital formation and negatively associated with age at marriage (Clarkberg, 1999; Oppenheimer, 2003; Smock & Manning, 1997; Xie et al., 2003). Further, individuals with less financial stability use cohabitation as a union strategy until they achieve desired levels of financial stability so they can marry (Oppenheimer, 2003; Smock & Manning, 1997). Interestingly, even though men have begun to value prospective wives' earning capabilities more (Buss, Shackelford, Kirkpatrick, & Larsen, 2001), women's earning capabilities have not been shown to make a difference in the transition to marriage. Thus, marriage formation is still strongly associated with men's economic well-being. Male economic stability seems to signal that a marriage will be economically secure and afford a measure of prosperity (Edin, 2001; Oppenheimer, 2003).

Despite the extensive literature that links economic stability to union formation, many questions remain unanswered. For example, research has not really gone beyond education, employment, and earnings to determine whether other financial issues serve as signals of economic stability and influence marital timing. For example, assets, consumer debt, and student debt during early adulthood may influence marital timing and union formation (Dew, 2007b).

Further, research has not examined whether individuals evaluate potential spouses' ability to manage the money that they earn. Although the ability to procure money is important, the ability to manage that money is equally important for financial and marital stability. For example, marital arguments over finances and/or divorce often results when one spouse perceives that the other spouse is mishandling money (Amato & Rogers, 1997; Aniol & Snyder, 1997). Studies have not shown whether individuals evaluate a potential spouse's ability to manage money, however.

Finances and Marital Quality

Scholars have also analyzed how different financial aspects of marriage relate to couples' marital experiences. For example, scholars have long recognized that economic pressure may add to couples' marital distress. The family stress model of economic pressure and marital distress shows that negative economic events, such as not being able to pay bills, losing a job, or cutting back in consumption are associated with increases in spouses' negative affective states (Conger, Ge, & Lorenz, 1994). Increases in depression and hostility are then linked to negative marital behaviors such as arguments, withdrawal of spousal support, and discussions of divorce (Conger, Rueter, & Elder, 1999; Vinokur, Price, & Caplan, 1996). Researchers have tested the family stress model using longitudinal data and multiple methods, across cultures, and in nationally representative samples (U.S.) and have shown that it is a good model of the links between nonnormative economic stressors and marital distress (Conger et al., 1990; Dew, 2007a; Kinnunen & Pulkkinen, 1998; Kwon, Rueter, Lee, Koh, & Ok, 2003).

Moving away from nonnormative economic stressors, researchers have begun to analyze how "mundane" financial issues such as savings behaviors, the use of consumer debt, and money management behaviors relate to reports of marital quality. These studies have found that the mechanisms that allow financial issues to predict marital quality extend beyond feelings of economic pressure. For example, married couples' consumer debt predicts changes in marital conflict even after controlling for the elements of the family stress model (Dew, 2007a). Additionally, married couples that share financial decision-making power are more satisfied than couples who do not share the decision-making power, and married couples are more likely to be dissatisfied when they do not pool their finances (Kurdek, 1991; Schaninger & Buss, 1986). Much work remains to be done in studying the relationship between "everyday" financial behaviors and couples marital quality.

Because financial needs change over time (Baek & Hong, 2004; Xiao, 1996), research has also examined how financial issues might relate to marriage at different points in the life course. Not surprisingly, financial need and anxiety has been found to be greatest in early adulthood (Drentea, 2000; Mirowsky & Ross, 1999). Further, recently married couples report that consumer debt and changes in consumer debt are associated with problems such as declines in marital satisfaction (Dew, 2008; Schramm et al., 2005). Also, when recently married couples perceive that they

manage money effectively, they are more satisfied with their marriage (Kerkmann et al., 2000).

Interestingly, by the time that couples retire, few financial issues are related to marital distress. In a qualitative analysis, only 11 % of retirement-aged couples indicated that financial issues were problematic (Henry, Miller, & Giarrusso, 2005). Further, although financial issues such as mortgage debt, consumer debt, and income-to-needs ratios indirectly predict couples' marital distress, they do not seem to matter for couples that have been retired for many years (Dew, 2006). Given the impending retirement of the large "baby boom" cohort, further studies of how financial issues relate to marriage are relevant. Such studies would be especially pertinent since some researchers have claimed that much of the baby boom cohort has not saved enough for retirement and has more mortgage debt than any previous cohort (Kutza, 2005; Masnick, Di, & Belsky, 2005).

Future research into the relationship between finances and marital quality might profitably examine the links between individual spouse's characteristics, marital dynamics, and broader contextual issues (e.g., local economies). Couples' finances and their marital quality are subject to the influence of forces from these three areas. An example of research that blends two of these three areas is a study that showed that individual spouses' materialism predicts perceptions of economic difficulties which are associated with decreased marital satisfaction (Dean, Carroll, & Yang, 2007). Interestingly, spouses' materialism predicts perceptions of economic difficulties more than household income. Studies that blend variables from multiple areas have the potential to increase understanding of the relationship between finances and marital quality.

Finances and Divorce

Since financial issues predict both marital formation and quality, it is not surprising that they also been linked to marital dissolution. Two major topics within this area are the association between assets and divorce and the relationship between financial disagreements and divorce.

Scholars have known about the negative association between financial assets and divorce for decades (Levinger, 1965; Locke, 1951). Assets are such a strong predictor of future divorce that they reduce the relationship between income and divorce to nonsignificance (Dew, 2005; Galligan & Bahr, 1978). Only one study has failed to find a relationship between financial assets and future divorce. This study simultaneously considered assets and various relationship dynamics as predictors of divorce. Assets did not predict divorce with relationship dynamics in the model (Sanchez & Gager, 2000). This study provides interesting clues to the mechanisms that may explain the relationship between assets and divorce. In an interesting twist, one recent study found that assets negatively predict divorce except for husbands and wives who earn the same amount and have poor marital quality (Finke & Pierce, 2006). These scholars asserted that these couples who know they are about to divorce start to accumulate assets so that they will have a higher standard of living following the divorce.

Scholars have offered many theories to explain this relationship. In social exchange theory, assets may be an attraction to the marriage. That is, assets may enhance individuals' experience of marriage, may increase marital satisfaction, and may make divorce less likely (Levinger, 1976). Commitment theorists assert that assets are barriers to divorce rather than attraction to the marriage. These theorists argue that assets can keep spouses together who would otherwise divorce because they do not want to split their assets and live at a lower standard of living (Booth, Johnson, White, & Edwards, 1986; Johnson, 1991; Johnson, Caughlin, & Huston, 1999). In other words, assets raise the cost of divorce. Scholars are just beginning to test these explanatory mechanisms against each other, and to extend the literature by testing whether the association between assets and divorce differs by gender, and whether the relationship is spurious (Dew, 2005).

Another way that financial issues purportedly relate to divorce is through spouses' disagreements about family finances. Studies that examine married couples prospectively (e.g., prior to the divorce) find that disagreements over finances strongly predict of divorce. Prospective longitudinal data from both convenience samples and nationally representative samples show that variables such as arguing over finances, or feeling that one's spouse handles money foolishly, predicts future divorce—sometimes even predicting divorce 15 years later (Amato & Rogers, 1997; Terling-Watt, 2001). In these studies, financial disagreements more than doubled the likelihood that a couple would divorce (Amato & Rogers, 1997). Only extramarital affairs and drug/alcohol abuse more strongly predicted divorce than financial disagreements do, and financial disagreements are one of the few predictors of divorce that applied to both husbands and wives (Amato & Rogers, 1997; Terling-Watt, 2001). Further, when spouses feel that financial decision-making power is shared equally, and when they have a similar view of their finances, the likelihood of divorce declines (Schaninger & Buss, 1986; Zagorsky, 2003a).

Both marriage and consumer finance practitioners might benefit from continued research in this area. Aniol and Snyder's (1997) study showed that couples who seek financial counseling often have elevated levels of marital problems and vice versa. It might be interesting to design treatment studies and evaluate whether financial counseling has a side-benefit of improving marriage. Research has shown that financially troubled couples who implemented their financial counselors' advice report improvements in their health (O'Neill, Sorhaindo, Xiao, & Garman, 2005), and filing bankruptcy helped some couples avoid divorce in a qualitative study (Thorne, 2001). These findings suggest that couples who receive financial counseling may experience improvements in their marriage and avoid divorce.

Conclusion

Although Zelizer's (1994) assertion—that scholars have very little evidence of a relationship between marriage and finances—is less true now, this reciprocal relationship still merits considerable research. This review has shown that the vantage points of many disciplines help contribute to this undertaking. Practitioners that deal

with the relationship between financial behavior and marital issues are underrepresented in this area of research. Including their unique perspectives would benefit scholars' understanding. Further, a more detailed understanding of married couples' financial practices is needed. For example, married couples' consumption, pooling, and current details of their decision-making processes are warranted. Another research area that needs strengthening is investigating the mechanisms behind family structure differences and financial well-being. Finally, understanding the relationship between individual spouses' attitudes and histories, couples' marriages, and the contexts in which their marriages are situated would greatly add to the literature. To accomplish these goals, new types of data are needed that blend detailed financial behavior and attitude questions with items on spouses' marital history and quality. As researchers more thoroughly test how marriages and finances relate, practitioners and scholars will be better equipped to understand an issue central to married couples' daily lives.

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