CHAPTER 6
Domestic Well-Being

6.1 Introduction

In this chapter I am going to introduce domestic well-being. From our experience with controlled environments we know that we need a primary goal. After much thought and evaluation, I decided that for my domestic accounting system, a realistic and appropriate goal for a domestic setting is to maximise what I now call, domestic well-being.

Responsibility regarding domestic, financial affairs is an important topic since without it, there is no need for you to pursue this book. For those who might not have given responsibility too much thought I think it is useful to look at some figures, just to get a feel for what is at stake.

Running a household over a lifetime is a very expensive undertaking with very large figures involved. I think that you might be somewhat surprised.

I want to tell you about domestic well-being from a number of perspectives, including the changing economy, domestic responsibility and the current patterns or way of life with the tensions and stress that it all seems to bring. Just before describing the characteristics of domestic well-being, I will introduce what I call, the Stages of Domestic Life.

6.2 The Domestic Economy

For a growing economy with a steady rate of inflation as the norm, at least as a target, change is also the norm.

The implication of this is that for things financial which is what this book is all about, we should expect change as a matter of routine.

The rate of change in the UK is such that in the course of an adult lifetime, financial factors such as salaries, property, utilities, labour, transport and the everyday cost of food, drink, clothing and holidays, will see very significant change. This is true now just as it always has been. The only extra observation worth noting is that with a steady rate of change over years and years, the actual amount of change represents actual values that over a similar period, such as an adult lifetime, increase generation by generation.

The implication of this is that Domestic Worth, the total value of a domestic household that we discussed earlier is on average, also steadily increasing year by year.

However, we need to recognise that as well as increasing numerically because of constant growth, our domestic worth is increasing in value. With time, we are all on average, getting richer. Our standard of living is increasing; we eat more but questionably, better; we travel more often and further afield and we possess more sophisticated appliances and luxuries than our parents and grandparents ever used to have.

This is not just because of inflation, however. As has been obvious from the press for many years now, there are changes in our way or direction of life. We are now apparently, much more of a consumer society. By this, we seem to have an innate desire to have and to possess all that our neighbours appear to have. The demands of children to have the latest gadgets or comply with the latest trends and fashion, impose higher demands on their parents' resources than was the typical situation, previously.

The price to pay or the cost of this change of direction is a new social characteristic, that of an increasingly, debt ridden society.

If our debt is increasing as well as our standard of living, then perhaps our Domestic Wealth is not increasing, or not by as much as it should be.

6.3 Domestic Responsibility

What is a domestic situation and how does it relate to responsibility? I raised this question in the introduction in Chapter 1 and the response to this question is so important for this book, that we should look at it again, here. So for me, a domestic situation is a family situation – a husband and wife and perhaps children, who have or may eventually fly the nest. This should not be confused with *a domestic*, which is someone who provides paid help in a domestic situation. It should also not be confused with *a domestic*, to which partners to a domestic arrangement sometimes engage in when there is some sort of disagreement about something.

A domestic, financial situation does not have to involve children, nor indeed, a husband and wife. The simplest domestic situation would perhaps be a single person, most likely with a job, but not a pre-requisite, who lives somewhere and has some sort of financial responsibility. Of course dealing with finances in a domestic situation will range from the utterly simple – do it in your head – to vast financial empires where cohorts of legal beagles and accountants will be essential if all is not to be lost.

Although I have come to realise that business accounting is not appropriate for domestic finances, I think a domestic situation is much closer to a business environment than is commonly recognised.

If we look at some figures for a moment, in a modern household there will typically be two wage earners for perhaps the first ten years until children start to appear on the scene. That drops to one wage earner for a while, say 10 years for the sake of argument and then back to two for another, perhaps thirty years.

There are large variations possible on salary but they could range from a low-end of £15,000 for one wage earner, to £25,000 for two, combined wage earners. This would approximate to income, over 45 years, of (£25,000 × 10) + (£15,000 × 10) + (£25,000 × 25) without considering pay increases – that is £1,025,000. For middle-rank salaries, we might use £25,000 and £60,000 as the starting figures for one and two combined, income producers. Then, the total comes to nearly £2,500,000. With growth, these figures could treble, to the order of £3,000,000 to £7,500,000; and for some individuals, the figures will be very much higher again.

That seems quite big business, although agreed, it is spread over an extended period. There are also major transactions to consider, such as quite a few homes over a lifetime, with purchase prices going up at a never-ending rate in the UK. Most likely there will be numerous cars to buy and sell over a lifetime and possibly for some again, large investments on private education. A large proportion of the annual income is disposed of each year so the turnover figures will approach those same, very large figures I have just quoted.

With these sorts of statistics, a businessman would probably accept on the figures alone, that this would represent quite an impressive undertaking to manage.

As we shall see once we look at the nature of these two different enterprises, a trading business and a home environment, the similarities soon disappear, but we are still talking about huge amounts.

Yet how many householders think about these figures and the financial responsibility involved, in a lifetime of domesticity.

Probably, the vast majority just run with the flow. They react when they have to and seek advice on how much they can borrow when one of those big outlays rears its ugly head. For the remainder of the time they follow the pack and mostly, buy much more than they can probably, really afford.

Back to that family, I am looking at the middle-of-the-road situation where more than likely, a couple have come together, perhaps with children already and the everyday, main priorities are all about somewhere to live, food, clothes, the taxman, transport, perhaps education, hobbies, holidays and providing for the future

Any sense of responsibility has to come from a personal, inner feeling of responsibility for trying to do the best for those who fall under the umbrella of domestic responsibility. It might be a lone individual with only himself or herself to look after. More than likely as already mentioned it will involve some form of partnership where one or other of the partners or perhaps jointly together, will feel the need to take on some degree of responsibility for financial matters. Such responsibility itself could vary in scope from just making ends meet, keeping the wolf from the door, to actively working out how to improve family well-being. This might extend to trying to ensure an improving standard of living and eventual security, for the sunset days of retirement and hopefully, provision for the eventual, sole-survivor.

Any domestic arrangement of co-habitants or family grouping I believe, hopes or strives for financial integrity. By this, I mean that the majority of family groupings want to be able to pay their own way in life. Maybe this is an incorrect assumption!

Further, I think most family groupings would like to improve their financial situation over time. This is because they all know that commitments will increase, costs will continue to escalate and human nature has that in-built drive to improve its situation.

Responsibility engenders thought and questioning which leads to a greater awareness of a situation and the need for planning, in order to influence that situation.

In our domestic world, thinking about financial integrity – what it is and how to achieve it – will result in recognition of the fact that, like so many things, breaking it down into its fundamental components will be the easiest way to have any chance of controlling it.

So that is another feature of this book – Divide and Conquer. We need to isolate the pieces in order to control the whole.

Personal and family problems, particularly involving the health of a partner or children can have an important impact on family well-being. These concerns can also have additional financial impacts.

Activities leading to a more pleasurable life, as well as coping with health problems or other constraints, are all tied up with affordability. What is possible within the resources available?

Domestic accounting is all about affordability and balance. It is about knowing where the money is coming from and where it is going and how it is being used. Knowing the answers to these questions provides a better basis for changing things, if this is deemed to be appropriate.

The bottom line is responsibility. It is only for those that feel a sense of responsibility to their domestic situation and to the members within it, who are likely to be concerned with finding out about domestic well-being and how it can be improved.

Traditionally, years ago, it was always the wage earner and usually the male who took any responsibility for managing the finances of the household. In contrast, it was most often the lady of the house who actually knew most about household accounting as she had the responsibility for buying the food, the clothes and everything else contributing to daily life. We all remember the old cartoon, of the woman behind the door, snatching the wages of the returning husband on Friday night after payday, handing him back his pub money and pocketing the rest in order to finance the following week's expenses!

Today, we live in a more enlightened society where the sharing of responsibility is the norm. Having said that, there was an article in a newspaper, very recently with the headline 'Women seize control of family purse strings'.

Regardless of whether or not this is true, there is nothing to dictate who should or should not be responsible for domestic financial accounting. In fact, the bookkeeping and preparation of financial statements in itself could be considered as a somewhat mundane, overhead activity required before real analysis and decision-making can be contemplated.

Although perhaps boring, bookkeeping provides an opportunity for frequent monitoring and vigilance on the financial, state of affairs. Having started up the computer, got into the accounts program and entered in the latest batch of transactions, it is just so easy to run one or more reports and see the latest state of affairs based on the most recent and up-to-date figures.

Ideally, domestic accounting should be a shared task with both partners sharing both the burden and the responsibilities. In this way, everyone remains up-to-date, remembers the current decisions and sub-goals that may be in effect, understands the discipline that might be needed to achieve the current, on-going financial plan, and can take care of affairs if one or other partner is ill or incapacitated for some reason.

6.4 Growing Income and Expenditure

The drivers for increasing domestic wealth are increasing income and expenditure. Obviously, if both change by equal amounts then wealth should remain the same. However, not everything is as simple as this.

I have stated that average income is increasing due to inflation, which is probably true. However, it is also likely that, as ever, the rich become richer and the poor become poorer.

Alluding to the new debt ridden society, there must be increasing expenditure that is increasing above the increase due to inflation. This means that we are buying more as a nation than we used to do.

What we are not doing apparently, is funding the increase in expenditure, solely from income. We are on average, deliberately increasing the amount of debt which in our accounting equations, translates to an increase in our liabilities – the amounts owed to repay our increased debt.

6.5 Domestic Assets

So it looks as if on average, our family liabilities are increasing. What about our assets?

We are all generally aware that the housing and property markets go through cyclic highs and lows. In general, housing in particular has continued to rise in value in recent years, notwithstanding a slowing down in the UK, in 2005.

Does this affect us? Probably not too much as we do not tend to realise or receive the appreciation or growth in property values, in terms of hard cash. Most people always need a house and like to go up-market as and when they can, to provide more space for growing families. The increase in value of the property disposed of is almost always needed to fund the more expensive property being acquired. Nothing changes.

Inheritance Tax, by which a percentage of the value of an estate above a periodically changing threshold must be paid to the Chancellor on someone's death, is a net into which more and more house owners are likely to become trapped. This is purely because the value of domestic wealth due to the rise in house values is exceeding the amount at which the tax becomes liable, faster than the amount by which this value is raised by the Chancellor each year, in his annual budget.

6.6 The Pace and Stress of Life

I think it is fair to say that the pace and stress of day-to-day life generally, is increasing. It is not supposed to be tied to inflation or any other factor for that matter. However, this pace and stress is on the up.

In families today, it is increasingly common for both partners to be working. Even so, many still struggle and it would seem that this is the only way in which the financial demands of modern families have any chance of being met. Maybe it is associated with the so-called consumer society. However, even with two wage earners in the family, debt is apparently still rising. It appears therefore that two salaries are still insufficient to meet modern needs. Of course, two workers also often imply extra overhead costs, for transport, nursery-care or nannies.

Pace also increases with two wage earners if there are children around. Getting parents and children ready for work and school and tying-in school deliveries and collections, all add to the daily list of responsibilities and hence, increased pace of life.

Why the high pace? Longer working hours and weekend-working; improved communications, mobile phones, laptops and PDAs, wi-fi, text-messaging and emails, ensure that very few are off-duty at the end of the day. Work has to be done, whenever and wherever possible – even to and from work, as well.

Job security is far less than it used to be. There are very few jobs-for-life. Often, promotion can only be obtained by changing jobs. This adds stress through having to go through more frequent interview and selection procedures than might have been typical in the past.

Other forms of insecurity leading to more worries are the reduced, corporate responsibility for the longer-term future, with many doubts about future benefits and pensions.

This modern pace and stress demands assistance from some form of financial management and control. Domestic accounting can help to provide that assistance.

6.7 Financial Stages of Life

There are stages defined for everything these days – religious life, childhood, grief, illness – and thinking about it, the pattern or stages of domestic life are likely to have corresponding stages of activity and hence, financial involvement and responsibility.

For those who may not have thought about it, I think it might be useful to run through some of the characteristics of domestic life that I came up with, which could be thought of in terms of identifiable, financial stages.

The purpose of this is to help engender a feeling for the domestic issues about which, financial information, if it were available, might be seen to have potential value.

Quite obviously, the individual events and activities we will look at will not necessarily occur in the exact sequence we discuss them. There will be omissions, repeats, extras and all the exceptions, which prove the proverbial rule.

I think ***Early Adulthood*** is the first candidate for an identifiable Financial Stage. It is a time when first financial independence is sought and hopefully, achieved. It typically involves many *Firsts*; first job, first car, first home and perhaps, first independent holiday. Worst of all, there may be a first loan – a student loan, a loan for a car and credit card ‘loans’.

Financially, it will be very much a one-way street of trying to make ends meet, with minimal income. It will also be a time of accepting and learning to live with the financial responsibility that goes with growing independence.

For example, that first car has financial responsibilities including possibly, the finance for purchase, road tax and insurance, running costs of fuel and oil, as well as periodic maintenance and repair bills.

Similarly that first home, probably rented, introduces obligations such as rent, council tax, utilities – gas, electricity and perhaps water, telephone and a computer connection. Then there will be the need for personal furnishings such as a bed, chairs and a table, bed linen and towels, before we even consider basic living costs. Early thoughts on future provision would be wise and might address both insurance of home and belongings and assurance policies for the future.

Even without a car or own accommodation, food, drink and clothing remain fundamental necessities.

The next stage I call ***Early Maturity***, which I think, has to come after a few years of learning to cope with ***Early Adulthood***. Some of the activities I include here may well be introduced during ***Early Adulthood***, in which case, ***Early Maturity*** would be forced to start and happen earlier than would otherwise be likely.

In this stage, we would expect to see living together, first children and perhaps marriage, where the individual order of these events is sometimes unpredictable these days. The new financial responsibilities associated with ***Early Maturity*** are all about evolution from individual financial responsibility, to joint or shared responsibility.

Apart from larger expenditure on all the basics of food, drink, clothing and utilities, there will be the first thoughts of joint responsibility. Provision for the future ought to be considered, particularly for the children, in the unfortunate event of the early death of one or both parents. With increasing ownership of household items and appliances, a family should seriously consider home and contents insurance. As a side issue, a Will is vital for both partners.

Knowing that annual outlay on holidays, car replacement and so on will be a growing commitment, savings planning would be worthy of consideration. Most of these items of expense will not be affordable directly out of monthly income and will necessitate the regular putting aside of a proportion of income, in order to build up sufficient funds.

The provision for future education will be another consideration, particularly if any form of private education is contemplated.

Job changes of both partners will probably be an on-going occurrence and financially, the main reason, hopefully, for an increase in income. Such increases will provide the stimulus and opportunity for re-examining financial planning and increasing the amounts, proportionately, put aside for future provision.

As time moves on, increasing wealth should see the transition to the ***Middle-Life*** stage and full financial maturity. By now, perhaps in a larger home, the family might be seeing expenditure on education and university, made possible from provision achieved through earlier, financial planning.

The first extravagancies might be affordable and in-place; that caravan, time-share or second home, perhaps. The pattern will soon start to repeat as the children move into their own, first stage of ***Early Adulthood***. Wedding bells will ring for financial help from the parents. Responsibilities for taking care of their own parents might also be looming.

With the never-ending cycle of life and death, the loss of parents, inheritance windfalls and the associated downsizing as children fly the nest, the penultimate stage of ***Retirement*** will be reached. Financially, there will be major changes as income falls away dramatically and travel and visiting grandchildren become the priority. Investments should be maturing and life should be manageable. Moving to a smaller and more manageable house and garden will often occur at this stage.

The final stage for some of us, becoming too frail, is the sale of the final home and perhaps eventually, a move into care, either with relatives or in a residence. More than likely, during this final, financial stage of ***Declining Years***, our children or grandchildren will be taking over the finances and any accounting system will have moved into their hands. At least, if the accounts have been done conscientiously on the lines of this new suggested system, due thanks and credit should be received for a job well done!

To recap, the stages of domestic, financial life that are relevant to domestic accounting are shown in Figure 6.1.

Early Adulthood

Early Maturity

Middle-Life

Full Maturity

Retirement

Declining Years

Figure 6.1 The Stages of Domestic Financial Life

6.8 Finance and Pleasure

Life has many facets. The plain old day-to-day chore of living can be tedious but hopefully, it can be fun and pleasurable as well. It can be greater fun and more pleasurable if there are a variety of hobbies, interests and activities to enjoy.

Many responsible organisations take the trouble to ensure that their employees actually take the holidays and leave to which they are entitled. These organisations know that the benefits to individuals in having a break, being in new surroundings and being away from the toil of the work environment, are very significant.

The same goes for the family environment; the family unit needs to benefit from a change of scene. Just as the working members need a break from the office routine, the family members need a break from the domestic scene and the associated, home responsibilities. The children similarly, are likely to benefit from a change from the term-time routine – lessons, homework and the general regime relating to getting-to and from school and to after-school activities, always on time.

All of these sorts of issues are related to finance. Obviously, initiative and a sense of responsibility are needed to make the effort to find out about and both pursue hobbies and to take holidays. Many hobbies and holidays can be costly but likewise, if things are difficult, there will always be ways to find the cheaper options and to do what is affordable. That is why it can only be helpful to know what is affordable and this again, relates to knowing about the financial situation.

6.9 Isolate the Business

I have briefly mentioned that from an accounting perspective, business and home issues must not be mixed. Any form of business undertaken by a family member or homeowner, has to be kept separate from home and domestic accounting. Particularly if my accounting proposals are used, be aware that all the business-oriented focus on profit and loss has been removed.

Although it might seem possible to combine very simple business concerns with domestic accounts, there may be legal considerations which dictate against this. For example, a business may grow over time from what started as a simple operation, to something more substantial. In this situation, the transition from a simple, sole-trading undertaking to a legally binding situation may not be obvious or noticed.

Apart from that, the worries of a business undertaking should be kept separate if possible, from domestic concerns. By keeping the finances separate, it should be much easier to keep the worries separate. From a financial perspective, there is no problem in correctly transferring funds from one to another, as may be called for in daily life.

6.10 Domestic Well-Being – The Bottom Line

Aside from the things we have just talked about, responsibility, pace and stress, the financial stages of life and the importance of leisure and pleasure, what can we say about domestic well-being?

For a start, we probably think of it as rather subjective and as far as we know, there is no well-known standard by which domestic well-being can be measured. We need to change that!

The sort of characteristics with which domestic well-being might be associated could include;

Financial security, independence, solvency and increasing wealth, to achieve:

Balanced, affordable existence

Comfort

Mobility

Location independence

Enjoyment of entertainment, hobbies, leisure and self-improvement

Enjoyment of holidays and travel

Satisfying aspirations for increasing standard of living

Provision of own future well-being

Provision of children's future well-being

Meeting social responsibilities

Professional ambitions

Good, inter-personal relationships, without which, successful achievement of all of the above, might prove in vain.

Financial security is all about accumulating the necessary reserves so that unexpected financial commitments can be absorbed, without undue effect on day-to-day financial operations and activities.

Financial independence, hand in hand with security is the freedom from liabilities, which reduces the constraints on achieving domestic well-being.

Solvency is a part of financial security and it related to both actual wealth and the financial discipline required to keep within the prevailing financial constraints and therefore, realising affordability.

Financial security is central to domestic well-being since it provides the qualitative backbone, in order to facilitate as many as possible of the following of its characteristics:

A balanced and affordable existence for a family unit is all about trying to ensure that the available income is used sensibly, to try and meet a little of each of the major categories of comfort, mobility, lifestyle, future provisions, professional ambitions and increasing standard of living. Here, I use lifestyle to include the mix of entertainment, hobbies, leisure, self-improvement, holidays and travel, from the list above.

Mobility is virtually essential for every aspect of modern living, be it getting to work, school, shopping, lifestyle and for satisfying and meeting social responsibilities.

Location independence, related to satisfying professional ambitions, schooling or just choice of living environment, is a characteristic that probably can only be met later, as a family moves along those stages of domestic life.

The enjoyment of entertainment, hobbies, leisure and self-improvement, together with holidays and travel is self-explanatory. What is important is that the quality and amount of each of them can usually, always be matched to fund availability, even if individual targets and aspirations have sometimes, to be reigned in somewhat.

The provision of future well-being for later life and during retirement is increasingly important as the responsibility for major contributions from employers is sadly, reducing and even disappearing.

This area must be closely tied to a balanced existence. By this, limited funds, however difficult it may seem at the time, should wherever possible be utilised with at least, a little being apportioned for each of the major divisions of current living, future living and overall increase in wealth. The two divisions of current and future living, where income will be reduced for the latter, must remain the two top priorities if increase in wealth is deemed unaffordable.

It is not appropriate to offer advice on the investment a family should make in its offspring. This subject is very controversial and subjective. Most families would wish to see their children have a better start to life than they, as parents, might have done. With any hint of financial difficulty, one camp would say that the children should take their own chances to make the best of their lives and that the parents should ensure that at least, the basic essentials of home, food and clothes are provided, without other sacrifices. The opposite view would see parents living in unnecessary conditions of hardship and sacrifice in order to give the offspring the best possible start in life. This has to remain a personal decision.

Social responsibilities are somewhat of a catch-all, but could include services, involvement and assistance to local associations or organisations such as guilds, youth support schemes, help for the aged, the arts, environmental and protection groups and countless other charitable concerns. It might just be limited to charitable donations. As before, this again has to be a matter for personal choice.

Last, but by no means least for completing the list of characteristics contributing to domestic well-being, professional ambition is probably most closely related to location independence.

From the list above, the single item *comfort,* is perhaps the vaguest but potentially, quite significant. For a start, comfort in a domestic sense relates to a nice home and garden, accommodation, in terms of rooms and their potential usage, surroundings, furnishings, fittings and good food and drink.

Comfortably well off implies the ability to afford nice things, a few luxuries and a good life-style.

This is the point where it is appropriate to establish a mark or check-point so that we can make a link between some of the *things* contributing to domestic well-being, and the transactions making up a domestic, accounting system. In the next chapter we will look back to this check-point as the source of the information we will need, as a basis for categorising domestic financial transactions.

For a family unit that is not comfortably well off, those items above relating to comfort are still very important. Every family needs a home, maybe not a garden but it needs food and drink, furnishings, especially water, heat, light, cooking facilities and so on and so on. There are responsibilities to be met like obligatory taxes, licenses and registration fees. Additionally, self imposed responsibilities for maintaining the home and cars to minimise depreciation and hopefully, achieving limited appreciation for any property owned.

Any surplus funds would need to be stored as investments of one form or another, as a basis for the more long-term characteristics of future preparation for retirement; medium term investment, if desired, in children's well-being; and for the overall increase in wealth and standard of living that most of us seek.

Now, having an insight into what constitutes domestic well-being and the connection that it most certainly has with things that we will need to take account of, in any accounting system that might support domestic life, we are now ready to start examining in more detail, the characteristics of potential, domestic accounting systems.

Domestic bookkeeping and accounting provides the means to attempting to maximise domestic well-being.