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Family Finances: Getting By on Less

Losing a job or having your income reduced can come as a shock for many, especially if it a new experience for you.

Job Readiness publications:

- Adjusting to Unemployment
- Grooming for Employment
- Problem Solving
- Job Search Issues
- Ability to Follow Directions

Publications available in these topic areas:

- Resumes and Applications
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- Job Search

Getting by on less requires you to start taking action immediately. The steps are simple, the plan you develop probably will not be in place forever, but lack of planning and action will make things difficult in your family.

Establishing your net income, looking carefully at living expenses, strategies for reducing expenses, wise use of assets like emergency funds, and getting the family involved to get through this period are the steps you can follow to take control of your family financial situation. Let's take this one step at a time.

Step 1: How long will I be out of work?

Before you proceed with financial adjustments, consider how long you might be out of work. It is possible that six months to one year will pass before you are back full time in the workforce. You must carefully anticipate the kinds of financial problems you might encounter.

Step 2: What will our income be?

Many families are two income families. Several sources of income can help blunt the impact of unemployment in the family. However, one income only means that much of the discretionary income your family uses will be limited or nonexistent in the near future.

Family income can be figured in two phases. Phase I includes unemployment compensation. Work out your net income (income after taxes) on a monthly base. Phase II occurs when unemployment has elapsed and the family begins to use more reserves and assets as income.

TIPS:

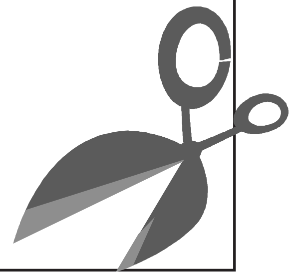
- Review pay stubs. Net income can be maximized by looking at tax deductions (especially if you have large refunds), switching medical plans to reduce insurance costs, and looking carefully at amounts placed into direct deposit savings plans.
- Be conservative in figuring your income. Don't include overtime or income that is not constant from month-to-month.
- It may be a good idea to review your credit report at this time. Credit reports should be reviewed on a regular basis, but knowing that you are up-to-date on all payments and all information is accurate can prevent mistakes from compounding later in your unemployment period.

Step 3: Where does our money go?

There are two ways to work out how much you are spending. One way is the RECALL. In a recall, you put together all the costs for the past month reconstructing your expenses using the check book register and bill stubs. This type of expense method

Net Income Worksheet

Wages, Salaries	Phase I	Phase II
Weekly pay (x 4.33)	______________	______________
Bi-weekly pay (x 2.17)	______________	______________
Twice per month (x 2.0)	______________	______________
Monthly	______________	______________
Child support	______________	______________
Unemployment (x 4.33)	______________	______________
Investment/Interest Income	______________	______________
Total net income	$ ______________	$______________



works best if all purchases are run through a single checking account, and discretionary spending including the use of "pocket money", is limited.

The second way is to TRACK expenses for a month or two by writing down all purchases and payments every day. This includes tracking all bills by paying through a checking account or, if cash is used, keeping receipts and recording amounts every day.

Expenses, too, should be recorded on a monthly basis. Use the multiplication factors found in the Net Income Worksheet (above) for adjusting expenses to a monthly base.

TIP:

- **Tracking expenses is not an endless task.** Track for a month to discover the gaps in your spending so you can adjust your spending plan.

Step 4: How does our income compare with our expenses?

This is the reality step. It is essential that you compare the "bottom line" against your expenses.

Comparing Income and Expenses (+ or -)

Monthly Income	-	Monthly Expenses	=	bottom line
____________	-	______________	=	_________

There are three possibilities after you compare income and expenses.

A. **Your income matches your expenses.** There is little room for error here, especially if you have used the recall method of determining your expenses. Track expenses carefully for the next month, make adjustments and evaluate your spending again. Remember that if you go into Phase II, your income will not meet expenses and will need to be cut in the future.

B. **Your income exceeds your expenses.** You are able to manage on the reduced income coming into your family.

- Try to continue some kind of savings plan to build up your reserves.
- Continue to watch expenses carefully since further adjustments might have to be made if you enter Phase II of unemployment.

C. **Your income fails to meet your expenses.** There are three things you can do if this possibility occurs:

1. **Reduce expenses**. Look at flexible expense areas, those where you have choices. Cutbacks to minimum phone service, minimum cable service, packing lunches, and dropping collision insurance on a fully-depreciated and paid-off automobile can be temporary or permanent depending on the situation. It can help loosen-up additional monies to meet mortgage or car payments.

TIPS:

- **Try putting your children on allowances** ... if they aren't receiving them already. Weekly allowances to cover specific expenses make it easier for you track what is given "out of pocket" and increase responsibility for their own spending.
- **Decide what you want to spend** on clothing (and so on) for the children. If they want more than you can afford, "match" money with them for large purchases or special clothing choices.

2. **Increase income.** You may begin to draw on emergency monies or investments to supplement your income up to expense levels, or have a working spouse work more time at a family-owned or out-of-home business. Your spouse might also return to work and/or increase work hours.

TIP:

- **Be cautious about dipping into assets** prior to Phase II of unemployment. That will be the time when income will be reduced most. Be cautious about trying to start a home-based business when income is reduced. Start-up costs can increase expenses and reduce income.

Monthly Family Expense Worksheet

			Subtotal	Total
HOUSING				
	Rent/Mortgage		$ ______	
	Maintenance		______	
	Utilities	*Electric* ______		
		Gas ______		
		Water ______		
		Phone ______	______	
	Equipment/Furniture		______	
	Insurance and Taxes		______	$ ______
FOOD				
	Food at Home		______	
	Food Away from Home		______ $	______
TRANSPORTATION				
	Car Payment(s)		______	
	Gas, Oil, Repairs	*Gas* ______		
		Oil ______		
		Repairs ______	______	
	Insurance		______	
	Public Transportation		______	$ ______
MEDICAL/DENTAL			______	$ ______
CREDIT CARD PAYMENTS				
	1. ______			
	2. ______			
	3. ______			
	4. ______			
	5. ______		______	$ ______
CLOTHING/PERSONAL CARE			______	$ ______
RECREATION			______	$ ______
CONTRIBUTIONS/GIFTS			______	$ ______
OTHER				
	Education	______		
	Life Insurance	______		
	Child Care	______		
	Cigarettes	______		
	Cable television	______	______	$ ______
SAVINGS			______	$ ______
			Total monthly expenses	$ ______

3. **Restructure debt.** If one reason that income doesn't match expenses is heavy credit card or unsecured debt, restructuring or reducing payments might be an alternative.

TIPS:

- **Use savings to pay off debt, if possible.** If you are getting severance pay it might be prudent to pay off as much debt as possible. If you haven't refinanced your mortgage to a lower rate, consider doing this now and use some of the equity to pay off credit card debt. This may lower mortgage payments and eliminate credit card debt at the same time.
- **Be cautious about making only minimum payments on credit cards.** This increases your credit card costs and lengthens the time it will take to pay off the debt. During Phase I of your unemployment, do not take on any new credit debts. Put credit cards away or cut them up to prevent use. Keep one bank card only for emergencies.

Step 5: What do I do if I can't make my payments?

A. **Don't panic.** Develop a survival spending plan. In Phase II unemployment, lack of unemployment benefits can reduce any family's budget down to bare bones. This phase demands more actions be taken, more assets reviewed, and more stringent spending controls be introduced. Remember, this phase will not last forever.

Review your income and expenses just as you did before. Look at your income versus your expenses. Compare and adjust.

1. Work out what you can afford to pay on your bills. Creditors don't really want your house or car. They want to be repaid principle and interest on the loan they made in good faith. Often being able to afford the interest alone on a bill can be helpful. Divide between creditors the amount of income after all other regular expenses are met.
2. Contact creditors before you miss a payment. Often creditors will negotiate with you for reduced payments over a longer period of time, but you must be able to make the negotiated payments on a regular basis. Explain your situation and what has happened as well as what you expect to happen.
3. Be specific with what you offer a creditor. Talk to someone who can negotiate with you. Often the first person you talk to is not the one who can negotiate. Be able to offer a specific payment on the billing cycle. If you are unrealistic in your promises, it can "sour" a creditor to react in an uncooperative manner in the future. Often a creditor will take less than no payment at all.
4. Follow up with a letter detailing arrangements with the creditor. This means you have to keep track of dates, times, who was contacted, and what agreements were made with the creditor.
5. Make payments on time. Once you have a schedule of payments with the creditor, it is essential to make the payments. If circumstances change again for you, contact the creditor before you miss or decrease payments further.
6. Don't use credit during unemployment. Use credit only in emergencies since unemployment greatly affects your ability to repay the debt. Put the cards away and deal with cash as much as possible.

TIP:

- Although difficult, stick to a regular bill payment schedule. Open all bills upon receipt. Don't be tempted or frightened into ignoring the situation.

B. **Look at assets that might be converted to cash.** If you choose to do this, often the conversion will bring you cash, may eliminate a payment, and decreases expenses.

1. Among those things that might generate cash, consider selling: cars, boats, snowmobiles, motorcycles, antiques, collectibles, sports equipment, tools, furniture.
2. Convert whole or cash value life insurance to term life.
3. Borrow against the cash value of the life insurance policy. Remember to continue to pay premiums to keep the policy active during the loan period.
4. See about borrowing against 401(k) accounts or cashing in Individual Retirement Accounts (IRAs) that you might have saved. These types of assets are tax deferred until withdrawn. There may be penalties, but you will be borrowing your own money. Watch for tax implications.
5. Borrow from family or friends. Not always the best of alternatives, keep this type of loan as clear as possible. Write an agreement to repay the loan with terms of repayment including interest.
6. Sell stocks, bonds, or mutual fund shares. If you own these assets, carefully consider tax implications of the gain or loss. During unemployment, it is a good idea to stagger sales of these assets and try to optimize the sales price for a gain.

TIP:

- **Make sure you are plugged into community resources** and programs that could extend your resources. Using available resources can stretch your own resources quite a bit. Check into the Wisconsin Homestead Tax Credit, federal and state Earned Income Credits, and food stamp programs. Information on other programs can be obtained by checking into non-profit organizations in your area.

Summary

Being unemployed means that you must take control of your personal finances as quickly as possible. Take things one step at a time.

1. Talk to your family. Explain the situation and set goals as a group. This will help everyone understand and support the financial decisions.
2. Review and balance your income and expenses.
3. Use severance or some savings to pay off as much credit card debt as possible.
4. Refrain from using credit during your unemployment.
5. Talk to your creditors before you fall behind on credit payments.
6. Delay selling assets as long as possible, especially those with tax consequences.
7. Review a spouse's employment situation and pay stub to find sources of income that could be generated by overtime or reviewing deductions.
8. Use community resources where possible to extend family resources.

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