Sizing Up Your Financial Situation

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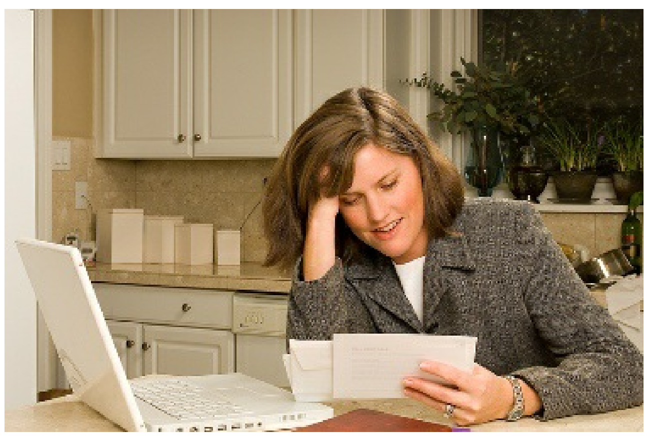
Sometimes unforeseen events in life challenge us. They may include unemployment, downsizing, a disability, natural disasters, divorce, or widowhood. Regardless of the reason, you need to take charge during these challenging times. When faced with reduced income or increased expenses, you need to develop a spending plan to help pay your bills. If your income will be affected for more than a month, you will need to adjust your spending habits to maintain control of family finances over an extended period.

Many people try to hide financial problems from themselves or family members. Not facing your problems can be very destructive because the worry and stress caused by financial uncertainty and lack of cash may be worse than the financial problem itself. It is important to look realistically



at your situation and actively seek solutions to your problems, despite the discomfort.

Because spending decisions affect the whole family, talk with your family about the situation. Let them know the family needs to change its spending plan. Involve everyone when setting spending priorities. If family members understand the tough choices that must be made and have a voice in the process, they will be more willing to accept the decisions.

As your family talks about what is most important, be sure to listen to what they say. Supporting each other can help you pull together as a family and get through these tough times.

How Other Families Handle Reduced Income

Studies show families respond to reduced income by cutting their spending. Spending for nonessentials such as vacations, eating out, and home furnishings are eliminated or reduced first. As the reduced income continues, many families also report reduced spending for basic needs including food, shelter, transportation, and medical care.

Families also say they revise their budgets. Most make a new spending plan that includes a revised plan for getting the bills paid.

Fewer families report increasing their income or using more credit to manage finances. Borrowing or using credit to pay bills often brings only temporary relief. For those families who did increase their use of credit, the more they borrowed, the more unhappy they were with their financial situation.

Studies have also found that families who quickly made changes in their spending habits were the most satisfied with how they were managing. Families who did not make changes felt more out of control and more dissatisfied.

Increasing Income

While you were employed, your employer was probably contributing to the unemployment compensation program on your behalf. If there is a chance you are eligible for unemployment compensation, go to your nearest Employment Service Office. You will need to be able to list all the employers you have worked for during the last 18 months. You will also need to take your social security card.

At the claims counter, you will receive help on how to file an initial claim. Expect to wait at least three weeks before receiving your first check. The payments are calculated from the first day you file, so filing promptly is to your advantage. However, there is a mandated waiting period of one week for first-time claims.

You may be eligible for public assistance under the following circumstances:

- There is a delay between when you apply and the time your unemployment checks begin arriving.
- You are ineligible for unemployment benefits.
- Your benefits have run out.

Additional Education or Training

Learning new marketable skills may be your answer for increased income. Courses are available through local technical colleges and other state and local institutions.

Contact admissions offices for catalogs and more information on regular courses and special programs for which you might be eligible. Some assistance for tuition, child care, and transportation may be available.

The federal government often provides grants, work opportunities, and low-interest loans to many students for education or training. The state also provides some financial assistance to eligible students. The financial aid office at each school or college can give you more information.

If health problems or a disability have led to your present situation, you may be eligible for retraining and help in searching for new employment through vocational rehabilitation. On-the-job training, youth employment and training programs, vocational and other skills training, and job search skills training may also be available. Special benefits for veterans and their dependents are available from the federal and state government. Check into all possible sources that will help you increase your income.

Making a Spending Plan

A spending plan is always an effective tool to help you get the most for your money. It is even more important when you have a sudden change in your income. A spending plan helps you:

- make decisions about how to spend your money
- provide for needs before wants
- match your spending to your current income
- prevent family arguments over money

Worksheet_-1_Monthly_Spending_Plan (pdf) can help you set up a spending plan for your current income. By comparing your income and planned expenses before and after your current situation, you can see what changes are needed.

Step 1 - Your Income

Add up your current total family income from all sources. Include income from other family members if it is used for family expenses. Use the take-home amount, or what you actually have to spend after deductions.

Do you receive income from any of these sources?

- Earnings from employed family members

- Unemployment compensation
- Withdrawal from savings
- Tips or commissions
- Interest or dividends
- Social Security
- Child support or alimony
- Public assistance
- Veteran's benefits

On the spending plan worksheet, list your income before it was reduced and the adjusted amount.

Step 2 - Your Monthly Expenses

If you had a spending plan before your income was reduced, you probably know how much you were spending for monthly expenses. If not, use old records, canceled checks, bills, and receipts to figure out how much you spent on the following categories:

- *Housing* - mortgage or rent payments, property taxes, insurance
- *Utilities* - electricity, gas, oil, phone, water, sewer, garbage, cable or satellite television
- *Food* - groceries, eating out, school lunches
- *Transportation* - gas, car repairs and maintenance,license, tags, parking, bus, taxi fares
- *Medical Care* - doctor, dentist, clinic, hospital, medicine, glasses
- *Loans* - car payments, installment and education loans, credit cards, charge accounts
- *Insurance* - health, life, liability, car, disability
- *Household Operations and Maintenance Repairs* - cleaning and laundry supplies, paper supplies, towels, equipment
- *Clothing and Personal Care* - new clothing purchases, dry cleaning, hair care, cosmetics, toiletries
- *Education and Recreation* - books, subscriptions, magazines, newspapers, lessons, tuition, hobbies, club dues, sports, pet expenses, entertainment, vacation, alcohol, tobacco
- *Miscellaneous* - child care, gifts, contributions, personal allowances, child support

Remember, not all of your expenses are monthly. Property taxes, insurance premiums, tuition, and holiday gifts may come once or twice a year. It is easy to forget about them and then not have the money to pay for them. Worksheet_-2_Occasional_and_Seasonal_Expenses(pdf) can help you to identify and anticipate these expenses. You will need to set aside some money in your monthly spending plan to meet these occasional costs.

As you think about what you were spending and try to plan how much you can now spend, ask these questions:

- Which expenses are essential to the family's well-being?
- Which expenses have the highest priority? The information in Deciding Which Bills to Pay First can help you determine this.
- Which areas can be reduced to keep family spending within its income?
- How much can you afford to spend in each category?

Adjust the amounts you will spend in each expense category and enter the new amount in the column labeled "adjusted amount" on the spending plan worksheet.

Step 3 - Balance Income and Expenses

Add up your adjusted expenses and compare the total to your current income. When your income is reduced, it may be difficult to stay within your income. What can you do if your expenses are greater than your income?

- Cut spending. See "Controlling Spending" for suggestions.
- Increase your income. What are the possibilities for part-time or temporary work for you or other family members to help supplement family income?

- Look at your other assets. What savings, investments, or property do you have that could be used or converted to cash to meet expenses? See Making the Most of What You Have. Keep in mind that borrowing and using savings may be only temporary solutions.
- Reduce your fixed expenses. If too much of your income is going to fixed expenses such as housing or debt payments, there may not be enough money left to cover your other living expenses. You may need to refinance your loans, move to lower-cost housing, or surrender the property to your creditor to get out from under some of your debt. See Deciding Which Bills to Pay First and Keeping a Roof Overhead.

Making Your Spending Plan Work

Once you have a spending plan that sets spending amounts for essential family needs and balances your spending within your income, you have to stick to it. Writing it down is not enough. You must use the plan to guide your spending.

Keep a record of what you spend in each expense category to be sure you do not exceed the amount on your spending plan. This record will help you keep track of your expenditures. By keeping track of what you have spent, it is easier to control your spending and live within your income.

Managing on a Seasonal or Irregular Income If you are self-employed, seasonally employed, or receive income from tips or commissions, your family income may change a lot from month to month. In that case, look ahead and carefully estimate your income. It may be helpful to estimate your income for a whole year so you can see when and how much it changes.

Even though your income may change from one month to the next, many of your living expenses are the same each month. This mismatch of income and expenses creates uncertainty that can cause feelings of insecurity and increase family tension.

Reduce this uncertainty by establishing a monthly family living allowance. Use expenses you identified as part of your spending plan to determine your monthly living allowance, or what it costs your family to live each month.

When you receive income, deposit a major portion of it in a special savings or money market account where it will earn interest but still be readily available. Then, each month pay yourself by withdrawing the amount of your family living allowance and putting it into your checking account to pay your bills.

Avoid the temptation to spend more money in the months when your income is greater. As a family on a seasonal or irregular income, you may want to schedule some major expenses such as insurance premiums, clothing purchases, and nonemergency medical and dental care to coincide with times when you anticipate more income.

Summary

Living on a reduced income may be temporary or prolonged. Getting the most from family income during this time requires careful planning and wise spending decisions.

A spending plan based on what you and your family consider to be most important can help you balance your spending with your available income and resources. Keeping track of your spending will help ensure that you have the money for the things your family needs most.