When Your Income Drops

In today's economy, many circumstances can lead to a sudden loss of income: loss of job, layoffs or cutbacks, reduced income, loss of support from a spouse, illness, death of a spouse, or divorce. If any of these events occur, they can be a serious blow to families who are struggling to survive economically in difficult times.

Very often the reduction in a family's income is not expected, and the natural reaction is panic. If your family suffers loss of income, try to remain calm and don't waste time and energy blaming yourself. Instead, take control of the situation by doing the best you can with the resources available to your family.

This publication offers suggestions for making day-to-day decisions with the money you do have, coping with creditors, maintaining control over your finances, and protecting your family's welfare.

Take Stock of Your Situation

Uncertainty and financial neglect can increase the stress associated with income loss. Take some time to study your current financial and family resources and map out the magnitude of your loss.

Once you know and understand your situation, you can develop a plan for making the most of family and community resources. A little knowledge goes much further than either imagining the worst or ignoring reality and neglecting bills.

Examine Family Resources

Begin by listing the incomes of all earners in the household. How long can you depend on those incomes? Are there other family members who are potential income earners, if only for this period of financial instability? When income is uncertain, it is better to err on the conservative side in your estimates. You may wish to make a few different projections of expected income—low, medium, and high.

Next, calculate the current market value of each item you own or asset that you can draw upon. Use today's value (what you could sell it for), not what you paid for it. Look at everything you own with the idea that its market value might help pay your bills for awhile. Be realistic, however, in assessing what items you would be willing to part with. Also, consider any funds which you have in reserve, such as savings or life insurance cash value.

Make a list of your family's nonfinancial resources that can be used to cut costs, traded for needed goods and services, or used to produce income. It is likely that each family member can contribute in some way to running the household more economically. Be imaginative in assessing all of your resources and looking for options or ways to make ends meet in hard economic times.

List Family Expenses

Once you've listed your family's resources and potential resources, consider your expenses. Expenses can be divided into those that are fixed, at least in the short term, and those that are variable or flexible.

Fixed expenses, or debts, are those for which your family is obligated to pay a set amount. Examples of fixed expenses are mortgage or rent payments, consumer or automobile loans, and charge cards. List all of your fixed expenses by answering the following questions for each:

- Who is the creditor? (Record name, address, and telephone number.)
- What is the balance due?
- What is the interest rate?
- What is your payment?
- How often and when is your payment due?
- Are you behind in payments? How much?
- Has the creditor started any action against you?

Next, calculate your family's monthly flexible expenses. Flexible expenses are harder to estimate, so use checkbooks, bank statements, and cancelled receipts to gain an accurate accounting of these expenses. Be realistic about which items are actual needs and which items can be reduced or eliminated. The worksheet on the back of this publication can help you organize your flexible expenses.

Reorganize Family Spending

A reduction or loss of income usually forces a family to alter spending patterns. While this is painful at best, the pain can be minimized if family members communicate openly and if the family works out and follows a spending plan.

While dollars are scarce, their value, in effect, grows. No longer can the family afford to "waste" money on luxurious, frivolous, or unnecessary items. It is important, then, that family members agree on which goods and services are high priority, which are less important, and which can be postponed or replaced by less expensive substitutes until finances improve.

When your family begins to see what income is available and how money is being spent, it is time for a family conference. Lay out the records of anticipated monthly income and scaled-down expenses for all family members to see and evaluate. Subtract expenses from income: Is the remainder positive or negative after all monthly fixed and flexible expenses are subtracted from monthly income? Are expenses out of line with expected income? Where can cuts be made so they cause the least sacrifice in family welfare?

It's easier to see the general pattern of spending if expenses are categorized. This reveals the percentage of income spent on food, housing, clothing, medical care, insurance, and other items. There are no hard-and-fast rules for family spending because individual needs, goals, and circumstances vary. However, examining spending by category will highlight potential differences between your family's stated goals and priorities and your actual spending patterns and income. If these differences are significant, you need to reach agreement on a plan for changing the way income is allocated. If your family is operating "in the red," a couple of things must happen: expenses must be reduced, income must increase, or both.

Set Priorities for Spending

Some expenses are more important than others. Putting your bills in a stack and paying them until the money runs out won't work. You may not have enough money to pay all your expenses, but you must get the most out of what you do have. Set priorities for your spending to make sure you meet the health and welfare needs of family members and minimize the legal and economic risks of not paying some bills.

Obviously, food and shelter for your family should be the first priority with the income you have available. After those two are taken care of, hard choices may need to be made on which bills you must pay first. The following list provides an example of how you might rank creditors according to the degree of risk involved in nonpayment:

- Second Priority—Utilities, insurance, automobile loan.
- Third Priority—Credit cards and outstanding debts, finance companies, credit union, and other loans.
- Fourth Priority—Doctors, dentists, hospital, and retailers.

Contact all of your creditors before your bills are due, explain your situation, and offer to negotiate new repayment terms. If a creditor agrees to new repayment terms, uphold your responsibility by meeting the terms you agreed to. If any changes occur that affect your repayment plan, contact your creditors immediately.

Negotiate Your Payments

Mortgage Payments. Most lending institutions are willing to work with homeowners who have mortgage payment difficulties. Generally, a lender does not want to foreclose on a mortgage because time and money may be lost in selling the property at public auction. Small, locally controlled community lenders can sometimes be more flexible in negotiating new short term payment plans than larger or nonlocal lenders. But be realistic. Eventually the lender will require full payment or will take legal action.

If you can't make full payments, act immediately before the first payment is missed. Call the mortgage company and speak to someone in the mortgage servicing department. Identify yourself by the loan number, and then explain your situation. Propose a plan, such as a deferred or partial payment plan. If your plan is rejected, ask what your options are and what you should do next. These questions are difficult to ask, but the information is absolutely essential for your next decision.

You may want to seek neutral advice regarding repayment alternatives and the consequences of each. Considerations include these:

- Extend the loan
- Refinance
- Sell, even if the market is depressed and a prepayment penalty is imposed
- Voluntarily surrender to the lender (deed in lieu of foreclosure)
- File for bankruptcy

The consequences of each alternative can be positive or negative and may vary from person to person. You may have to choose an option based on the least negative consequences.

Consider first your options for extending your loan or refinancing. Deciding whether to sell your home should be done fairly early to ensure that the equity is not used up with the interest. While the decision to sell may be difficult, the speed with which that decision is made could be the difference in cash-inhand versus no cash from the sale.

Voluntary surrender (a deed in lieu of foreclosure) means that you voluntarily turn over your house to the lender in consideration for the cancellation of the debt. This is an option to consider if foreclosure seems inevitable. People choosing this alternative usually—

- Have little equity in the house.
- Want to avoid the costs of foreclosure and having the information placed in their credit records.
- Have another alternative for housing. Your lender may, but is not required to, make arrangements to rent you the same house.

Avoid foreclosure if possible. A mortgage is delinquent on the date specified in the mortgage—usually when a payment is 30 days overdue. Most mortgage holders begin foreclosing on the first mortgage after the third month of delinquency. In areas of widespread unemployment, some local mortgage holders may be willing to accept interest payments plus a small payment on the principal rather than foreclose on a large number of homes in the community. Mortgage holders outside of the local area may be less willing to extend mortgage repayment terms beyond the third month.

Utility Bills. If you are delinquent on your utility bills, companies that are regulated by the Mississippi Public Service Commission (PSC) are required to notify you of their intention to discontinue services. You must be given notice, allowing you at least five days to pay your bill before your service can be cut off.

Reduced rates may be available to residential customers who are unable to pay the full amount of their utility bills because of extreme financial difficulty, particularly during months when bills may be highest. Contact your local utility company or the Mississippi Public Service Commission by phone or online at ***www.psc.state.ms.us***.

If you can't make full payments on your utility bills, you should take these steps:

- Notify the company immediately, before the due date and before fuel is needed. Explain the reason for your inability to pay.
- Propose a new payment plan based on your current ability to pay. If you don't have a plan or if your plan is not acceptable, develop one with the company.
- Check to see if you are eligible for any area assistance programs or ask your utility company about assistance. Many agencies, churches, and other groups provide money for utility bills in emergency situations.
- Talk with family members and decide how you will safely reduce the use of your utilities and cut your costs.

Telephone Bills. If you think you may not be able to pay your telephone bill, contact the telephone company. You may be able to work out a payment plan or change to a lower-cost service plan. If service is disconnected, you may have to pay old charges plus additional fees to reconnect your phone. Here are a few ideas to cut costs:

- Switch to a less expensive service plan with your current provider.
- Eliminate added features that increase your costs.
- Eliminate all unnecessary calls.
- Reduce long-distance and/or roaming calls.
- Use either a landline or wireless and discontinue the other service.

Cable or Internet Bills. Consider reducing to basic plans or eliminating services as a last resort.

Insurance Payments. If you can't make an insurance payment, call or write your agent or the insurance company. Explain your situation and ask them to consider a different payment plan. There may be some leeway (10 to 30 days) in premium payment due dates. Check your policy and confirm with your insurance company.

Determine your minimum needs for insurance. Check to see if a lower premium is possible by taking the following actions:

- Change to a monthly, quarterly, or semi-annual payment plan with the same coverage.
- Change to more basic coverage as long as your needs are met.

If your car is older and paid for, consider dropping collision coverage or raising the deductible. Make sure you are receiving any discounts offered by your company for eligible drivers.

Consider changing your life insurance policy to a less expensive type if that is appropriate for your family's situation. Converting whole life to term insurance may be one option. Another is to use your dividends to reduce your premiums.

A nonprofit credit counseling agency may be able to help to further negotiate lower monthly payments or interest. Find a counselor that serves your area by phone, Internet, or in person at the National Foundation for Credit Counseling's website: ***www.nfcc.org***. Current agencies in Mississippi include Money Management International (Tupelo and Biloxi), Consumer Credit Counseling Service (Southaven), and ClearPoint Credit Counseling Solutions (Jackson).

Conclusion

Coping with the stress and hardships of a reduced income is not an easy task for you or your family. There are no easy answers or quick cures. Adapting and regrouping will be easier if you remember that you are the same person as before—but with reduced cash flow. You can maintain control of your situation during this period of financial change by reducing and prioritizing spending as much and as quickly as possible. The step-by-step procedures outlined here will help you clarify your priorities, make decisions, implement your plan, minimize your anxiety, and strengthen and prepare you and your family for the future.

References

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Worksheet for Monthly Flexible Expenses

SPENDING CATEGORY	CURRENT AMOUNT	ADJUSTED AMOUNT
Church	$__________	$__________
Clothing		
Doctor, Drugs, Dentist		
Education		
Food		
Gifts		
Insurance Payments		
Car		
Health		
Home		
Life		
Personal Allowances		
Recreation		
Savings		
Transportation		
Utilities		
Cable		
Electric		
Gas		
Phone		
Water		
Other: __________		
TOTAL	$__________	

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