

Plan Your Spending *When Your Income Drops*



A family spending plan is always a good idea. When your income drops, developing a realistic family spending plan is not optional—it is necessary. Though the process of developing your first family spending plan may be painful, it is not a punishment. It is an essential tool for getting ahead and staying ahead.

First, list all of your financial obligations, along with your best estimate of the cost per month and the amount of money you have to work with. It is often helpful to go through your checkbook register and other records you may have to make sure you include everything. At this point it is better to list everything you can think of and over-estimate the cost. Later take a look at how to lower the cost of particular expenses.

Once your list is complete, consider what happens when you stop paying for each item. Stop buying food, and eventually, your family goes hungry. Stop paying your rent or mortgage payment, and you end up without a place to live. Thinking about your expenses this way helps you really come to terms with what is and is not important.

Once you have listed your obligations and thought about the importance of each, rank your expenses from most to least important. Feeding your family and providing shelter from the elements (including utilities and your rent or mortgage payment) should be among your most important expenses. Transportation is another critical expense. The importance of your remaining expenses depends on you and your situation.

Reducing Your Expenses

Take a look at each expense with an eye toward how you can cut back. A bigger gap between what you have and what you need to make ends meet means some very tough choices. Keep in mind that you do have options. You

are also the best judge of where you can and cannot cut back. The following tips can help you through the process.

Involve the Family. Making ends meet with less income affects everyone in the family. When children are involved in the decision-making process, they are more likely to support a plan you come up with together. You may be surprised by the contributions they make to the discussion. Including your children in the family budgeting process helps them learn financial management skills and concepts that last a lifetime.

Give It Up. Eliminate unnecessary expenses to free up cash for more important things. Expenses that fall on the bottom of your priority list make good targets. Review your bills for extras you can live without, such as premium cable channels, additional outlets, and long distance phone calls. If you have a cell phone and a home phone, give one up. These sacrifices may not be permanent, but for now they are necessary.

Find Cheaper Alternatives. Giving it up is not always feasible. It often makes more sense to substitute a lower-cost option. Instead of eating out for lunch, bring your lunch to work. Planning meatless meals a few times a week can make a big difference in your grocery bill. Carpooling to work or recreational activities can save you money on gasoline.

Economize. Change the setting on your thermostat to use less heat and air conditioning. Turn lights off when you leave a room. Plan meals, and use leftover food to avoid waste. Take over simple tasks that you paid others to do for you, like changing the oil in your car, mowing the grass, or cleaning the house.

Use Community Resources. There are plenty of free things to do in your community and resources you can tap into to help you during this difficult time. Information and

programs from the Mississippi State University Extension Service are free. Instead of going to the movie or renting a movie from the video store, check one out from the library. Many faith-based organizations also offer assistance to families in need.

Barter. Swapping resources with others can make a big difference when money is in short supply. Decide in advance who will supply any needed materials, and be clear on the details about exactly what will be done and by when. Bartering is more likely to be successful when expectations are clear to both parties.

Dealing with Debt

One of the most stressful parts of dealing with a loss of income is dealing with phone calls from anxious creditors. It is important that you have a plan based on your spending priorities. Once you have a plan, dealing with creditors becomes a lot easier.

If you are unable to make at least the minimum payment on your debts, your credit report will suffer and your credit score will go down. During this difficult time, protecting your credit may be a low priority, but it is important to understand the implications so you make choices with your eyes open. Try to make at least the minimum payment within 30 days of the due date to minimize the damage to your credit report and credit score. After 30 days, your late payment will show up on your credit report.

When you rank your financial obligations, it is natural to place your credit cards and other debts high on the list. But when you do not have enough money to make ends meet, you need to evaluate your debts a little differently. Think about your debt the way the courts would if you filed for bankruptcy.

The courts consider your debts to be either secured or unsecured. Secured means that if you stop making payments, the creditor has a claim on something you own. For example, your car loan is secured by the vehicle. If you stop making payments, the lender will repossess the car. Secured debts have priority over unsecured debts if you file for bankruptcy.

Unsecured debts are not backed by a particular piece of property. Most credit cards are unsecured debts. If

you stop making payments, the lender cannot take your vacation back. There are definite consequences for not making payments on unsecured debts, like late fees, higher interest rates, and damage to your credit report. The importance of those consequences depends on what you have to let go to continue making the payments.

Unsecured creditors know that if you end up having to file bankruptcy, they are very likely to get little or nothing toward repayment of what you owe. For that reason, most are willing to work out a payment plan with you. You are more likely to be successful in your negotiations with creditors if you have a good payment history with them, contact them before the due date to talk about options, and follow through on what you agree to do.

Some credit contracts include an acceleration clause, which means if you miss one payment, the entire debt becomes due. For secured debts, the creditor can seize the item you bought or the property you used as collateral and sell it to pay the debt. While giving back the item through repossession or foreclosure may sound like a good idea, it may not wipe out the amount you owe. The creditor will add the cost to repossess and resell the item to what you owe. A creditor may also get a court order, called a garnishment, to require your employer to withhold part of your wages until the creditor is repaid.

Some creditors will turn your debt over to a third party for collection. Federal law prohibits third-party collectors from harassing, oppressing, and abusing you. Learn more about dealing with debt collectors at the Federal Trade Commission website: www.ftc.gov

When You Cannot Pay Your Debts

Stop Using Credit. Many families use credit cards when they do not have enough cash to make ends meet. Relying on credit cards may work for a month or two, but is not a permanent solution. Sooner or later, spending more than you earn will catch up with you. Run up a big balance and then fall behind on your payments and your situation will get worse than it is now, fast. Penalty interest rates, late fees, and over-limit charges make a bad situation worse and leave you with very few options. If at all possible, stop using your credit cards and negotiate a realistic repayment plan with the credit card company now rather than later.

Develop a Plan. Before you contact any creditors, have a plan. Know how much money is available for all your monthly debt payments. Leave ten percent for negotiations with creditors. Have an idea of how much of the total you are willing to commit to each of your creditors, and be careful not to exceed it.

Ask for Better Terms. If you have not had problems paying your bills in the past, many creditors will work with you to help you through this crisis. Credit card companies may lower your interest rate. For some loans, the creditor may be willing to accept interest-only payments for a few months. This will not decrease the amount you owe and will extend the repayment period on the loan. Some creditors will not charge late fees and other penalties if you continue to make regular but smaller payments.

Communicate with Creditors. Visit local creditors, including utility companies, medical professionals, and others to whom you owe money in person. Creditors in your community may be more sensitive to your situation and more willing to work with you. Contact out-of-town creditors by phone. Write down the name and title of the person you talk with, and note the date and time. Follow up with a letter summarizing what you and the creditor discussed. Keep a copy of all correspondence to and from your creditors in case you need it for future reference.

Be Prepared to Negotiate. Creditors are not required to accept the terms you offer, so you may need to negotiate. Do not promise to pay more than you can afford. If the person you are talking with is unable to accept your terms, ask to speak to a supervisor or someone with more authority. If that fails, know that creditors have options, too, including legal action to collect what you owe.

Get Credit Counseling. Consumer credit counseling agencies can help you negotiate with creditors. They focus on unsecured debts and often can get much better terms than you could negotiate yourself. In most cases you will have to close all your credit accounts, and you must be able to pay something toward your unsecured debts to the counseling agency each month. The amount you have to repay in interest and fees will be reduced, which generally means it will take you less time to get out of debt. Be sure to ask about fees for debt management, counseling or other services, tax consequences, and the impact on your credit score.

See an Attorney. When all else fails, your best option may be to see an attorney to discuss your bankruptcy options. Consumers can file either Chapter 7 or Chapter 13. With Chapter 7, your assets above certain specified limits are liquidated, and the proceeds are used to pay your debts. With Chapter 13, you make payments to the court for three to five years that are used to repay your debt. Your attorney will go over your options with you and advise you about which is best for you.

A well thought-out spending plan probably won't solve your financial difficulties. It will, however, help minimize the damage from your loss of income and help you deal with anxious creditors. Only you can decide what is most important and where your money should go. Developing and following your spending plan is the only way to make sure your money goes where you want it to go.

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