

When Your Family Income Changes

Overview

Ways to take control of your finances when your income drops.

- Look at your lifestyle and spending habits
- Work together as a family to control spending
- Traps to avoid
- If you are going to be late with payments

A family's income may drop for any number of reasons. A layoff may lead to long-term unemployment or a lower-paying job. An employer may reduce or eliminate overtime wages. A disability, divorce, or death in the family may result in a dip in earnings. Whatever the reason, it's natural to feel worried, angry, or down when your income drops. It's also a temptation to keep spending as if your income hasn't changed -- until you face a serious financial crisis. But there are steps you can take to adjust emotionally and financially to your new circumstances before you run into problems.

Look at your lifestyle and spending habits

When your income drops, it's important to recognize that your life has changed and that you and your family will have to adjust to new spending habits and new expectations. The sooner you do this, the more control you will have over your financial situation and your life.

- *Take command of your situation as soon as possible by putting a halt to unnecessary spending.* It's natural to want to keep up familiar spending patterns to maintain the standard of living you are used to -- by using credit cards or dipping into savings to get by. But this will soon lead to financial trouble. By the time many people adjust their buying habits to reflect their changed financial circumstances, they are often in serious debt.
- *Stop using your credit cards.* Credit cards allow you to spend money you don't really have, at interest rates that make this among the most expensive forms of borrowing. Put your credit cards away in a drawer or cut them up if you find you can't control credit card spending. If you need to use a card for some purposes, use a debit card, which takes money for purchases directly out of a bank account, so you can't spend more than you have.
- *Don't exceed your credit limit on credit cards.* Most credit cards have a credit limit. But instead of restricting customers by denying approval for over-limit spending, companies often allow customers to spend beyond their limit and charge a steep fee for every over-limit expense. If you exceed your limit more than once in a billing period, you will be charged a fee each time.
- *Pay down your credit cards month by month.* Work toward paying them off one at a time. If you have one card with a very high interest rate, make the largest payments to that one every month until you pay it off. If the rates are about the same, make larger payments to the one with the lowest balance. You will feel

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better faster when you pay off the balance and retire the first card. Then start working on the next one.

- *Check your credit card interest rate each month.* If you reduce your payments, allow your unpaid balance to grow, or miss even a single payment, your lender may increase your interest rate without notifying you. Switching to a new credit card may not help matters because credit companies share this information.
- *Track your spending.* When your income drops and money gets tighter, it becomes very important to know where your money is going. It's often the cash spending - for coffee, meals out, movies, and other "extras" -- that throw a budget out of balance. A simple way to get a handle on your spending is to carry a notebook with you for two weeks and record every cash purchase. (One week is often not enough to get a complete picture, and a month is too much work for many people.) At the end of those two weeks, you should have a good idea of which expenses can be eliminated or reduced.
- *Draw up a new budget that takes into account your changed income.* Many banks can give you free booklets or worksheets on how to draw up a household budget that can make this task easier. Or search the Internet for terms such as "Free Budget Worksheets" to find forms you can download and print. The program that provided this publication can also provide you with budget worksheets.
- *Take a hard look at the big-ticket items in your budget.* Ask yourself:
 - Can you afford your current home? Downsizing to a smaller home or relocating to a less expensive neighborhood or town can be a tough change, but it may be the only way to make ends meet on your new income.
 - Could you drive a less expensive vehicle? Your car may cost more than you can afford in maintenance, insurance, gasoline, payments, and interest. If your car is costly to maintain, gets low gas mileage, or carries high loan payments, then consider trading down to a less expensive vehicle. If you are a two-car family, consider eliminating one car altogether, especially if you have access to public transportation. You may be able to do without both of them.
 - Are you a careful shopper at the grocery store? Convenience foods, expensive cuts of meat, and sugary drinks are all unnecessary additions to your grocery bill. Buy in bulk if possible and cook from scratch.
 - Is there a way to reduce your child care costs? If your spouse or partner is now at home, could he or she care for the children? Could you share child care with a relative or close friend?
 - Can you find ways to save on basics such as heat, utilities, or a telephone service plan? You may be able to cut your fuel costs substantially by making some low-cost changes, such as closing off a couple of rooms or adding weather stripping to doors and windows. If you have a cell phone, look for "hidden costs" that may be driving up your bill, such as "land line fees" that

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charge you more per call if you talk to someone using a regular land line instead of a cell phone.

- *Look at how much you are spending on luxury items and recreation.*
 - Switch to less costly entertainment. Movies, plays, and tickets to sports games can make a big dent in the budget. It's much cheaper to rent videos or DVDs, and cheaper still to borrow them from your local library.
 - Eating out costs money. If you eat fast-food meals for convenience or go out to dinner as a way to relax, cook more meals at home and make dining out more of a special treat.

Work together as a family to control spending

Your changed income will affect your entire household. Because everyone in the family affects spending decisions, each person should be involved in the effort to get the budget in balance. It's helpful to meet as a family to discuss your changed financial situation. Before you do that, here are some things to think about:

- *How are you handling the change in income?* Do you view it as a catastrophe or as a chance to take stock of what you have? Your attitude will influence your family's feelings about the change.
- *Do you have a clear understanding of the situation?* If you are uncertain about your financial picture, you may project uncertainty to your children, who now more than ever need stability in their lives.

When you are ready, sit down together as a family and describe your challenges. Emphasize that no one is to blame and that it will take everybody's help to adjust to the new income. Choose your language carefully. If you tell your family that they will be on a strict budget, they will feel deprived. Instead, ask them for help deciding how to spend the family's resources. This will help everyone adjust to the change more easily and feel more in control of the situation.

Here are some issues to talk about with your family:

- *"Living on a budget is nothing to be ashamed of."* This can be hard to accept in a culture that seems to be driven by spending. The people you and your children see on television tend to have expensive cars, clothes, and homes. Your children may worry that their friendships depend on things that cost money. Remind them that true friends value you for who you are, not for what you own.
- *"There are lots of ways we can save money as a family."* Discuss how each of you can help the family live within its means. Ask for everyone's input and create a family spending plan. Everyone will feel invested in the budget if they help develop it. Ideas may be simple, such as turning off lights when leaving a room and taking lunch to school instead of buying it. Other ideas may require some sacrifice, such as giving up summer camp or putting a limit on purchases over a certain amount.

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Older children may offer ways to contribute to the family income, by babysitting, mowing lawns, or finding a part-time job.

- *“We can still have fun together.”* In your efforts to reduce spending, it’s important to avoid cutting out all fun. When trimming entertainment costs, try to compensate in other ways so that your family doesn’t feel deprived or resentful. You may decide to cancel cable TV service, but you might still budget money to rent one movie every weekend. You may need to choose a vacation spot within driving distance or go camping rather than renting a place to stay, but don’t give up the special vacation time together. Ask your children to make a list of ways to have fun that don’t cost money. Ideas might include bike riding, having a picnic, going to the playground, and playing games at home. Encourage older children to search the Internet for free activities they would like to try.

Traps to avoid

When money is tight, it’s tempting to turn to quick fixes. But some can have harmful consequences. Here are three traps to avoid:

- *Don’t cash in your 401(k).* You may be tempted to claim the money in your retirement plan to pay off debts or maintain your lifestyle. If you do, you will not only affect your future, but you will lose a great deal of money. When you cash in your 401(k), a substantial portion of the funds is diverted to pay for income taxes as well as penalties for early withdrawal.
- *Think twice before consolidating credit card debt into a home equity loan.* Combining your high-interest loans into a single low-interest home equity loan may seem like a wise move. But unless you also cancel your credit cards and stop overspending, this consolidation of debt may simply allow you to build even more debt. And if you fall behind in the payments on a home equity loan, you will lose your home. A better approach is to cut back on your spending and use the money you save to pay off credit card debts. If you are having trouble meeting the payments on loans, call your creditors and explain how your financial situation has changed. Set up a payment plan that you can live with. If you’re still thinking about consolidating your loans, talk to a financial adviser first.
- *Avoid payday loans.* These quick loans carry outrageously high interest rates. They will only put you deeper into debt.

If you are going to be late with payments

It’s never a good idea to be late with payments, especially to credit card or utility companies. Late payments can end up costing you more money and have a negative effect on your credit report.

- *If you know you’re going to be late with a payment,* it’s very important to contact the company and talk with a customer service representative about your circumstances and when you will be able to pay your bill. The company may

work out a payment plan that includes reduced monthly installments. Some companies may not be willing to make special arrangements, but they may give you some extra time before reporting you to a credit bureau if you explain your situation and show that you are making an effort to pay your bills.

- *If you already have debts you can't pay, take extra steps to protect your assets and credit rating.* Consider getting in touch with a reputable credit counseling agency that can help you work out a repayment plan and negotiate with companies for such things as a temporary halt to interest charges. You can find agencies in your area through the National Foundation for Consumer Credit at www.nfcc.org, 800-388-2227, or the Association of Independent Consumer Credit Counseling Agencies at www.aiccca.org, 800-450-1794. Agencies that belong to these organizations have agreed to follow rules that help to protect consumers from fraud.
- *The program that provided this publication can give you additional information* on what to do if you are having trouble paying your bills or are facing serious financial difficulties, such as a possible bankruptcy, mortgage foreclosure, or eviction from your home.

The sooner you and your family change your spending habits, the easier it will be to find ways to live within your means. If you wait, you may get yourself into debt trouble that will make it much harder to get your budget in balance. Use this change as an opportunity to take charge of your finances so that you feel in control of your life. In time you will learn to spend less and live well.

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