

Getting Through Tough Financial Times

Setting Spending Priorities

Whether you are faced with a reduced income or have increased expenses, you may want to use a spending plan to help you pay your bills. If you have lost a job or are sick and cannot work, your income will be affected for more than a month. You may need to adjust your spending habits to maintain control of family finances over an extended period.

Many families try to hide financial problems from themselves or their family members. By not facing your financial problems, this can be very destructive to your family. It can cause worry and stress because there is financial uncertainty. Having the lack of cash may be worse than the financial problem itself. Look realistically at your situation and actively seek solutions to your problems, despite the discomfort.

Spending decisions affect the whole family, so it is important to talk to your family about the situation. Let the family members know the family needs to change its spending. Involve everyone in deciding spending priorities. When family members understand the tough choices that must be made, and have a voice in making the decisions, they will be more willing to accept the decisions.

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

How Other Families Handle Reduced Income

Families who are faced with a reduced income can cut their spending. The first items to be eliminated or reduced are the non-essential items such as luxuries, vacations, eating out, and home furnishings. If the reduced income continues, many families reduce spending for basic needs including food, shelter, transportation and medical care.

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

Some families may think they can increase their income, but fewer families actually do increase their income or use more credit to manage finances.

Research shows that borrowing or using credit to pay bills often brings only temporary relief and can be more expensive in the long run. For families, who did increase their use of credit, the more they borrowed, the unhappier they were with their financial situation.

Families who quickly made changes in their spending habits were happier with how they were managing their finances. Families who didn't make changes felt more out of control and more dissatisfied.

Making a Spending Plan

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

1. Make decisions about how to spend your money
2. Provide for needs before wants

3. Match your spending to your current income
4. Prevent family arguments over money

Using the Monthly Spending Plan worksheet can help you set up a spending plan for your current income. You can see what changes are needed by comparing your income and planned expenses before and after your current situation.

Step 1 – Your Income

Total up your current family income 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.

Which of these income sources, do you receive income?

- Earnings from employed family members
- Unemployment Compensation
- Withdrawal from savings
- Tips or commissions
- Interest or dividends
- Social Security
- Child support or alimony
- Public assistance
- Veterans benefits

Using 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 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, garbage, cable TV
- *Food* – groceries, eating out, school lunches
- *Transportation* – gas, car repairs and maintenance, parking, bus, taxi fares
- *Medical Care* – doctor, dentist, clinic, hospital, medicine, glasses
- *Credit Payments* – car payments, installment loans, credit cards, charge accounts
- *Insurance* – health, life, property, car, disability
- *Household 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, birthdays, and holiday gifts come once or twice a year. It's easy to forget about them and then not have the money to pay for them. Use Occasional and Seasonal Expenses to help you 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:

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

Adjust the amounts you spend in each expense category and enter the new amount in the column labeled "Adjusted Amount" on the spending plan worksheet. To practice this skill, visit *More for Your Money – Debt Management* section at MoreForYourMoney.extension.uiuc.edu and help the Jones family with their expenses.

Step 3 – Balance Income and Expenses

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

1. *Cut spending.* Review *Strategies for Spending Less* for suggestions, particularly for reducing flexible expenses.
2. *Increase your income.* What are the possibilities for part-time or temporary work to help supplement your income? Use your non-dollar resources, too. Check out *Bartering*.
3. *Look at your other assets.* What savings, investments or property do you have that could be used or converted to cash to meet expenses? Refer to *Making the Most of What You Have*. Keep in mind that borrowing and using savings may be only temporary solutions.
4. *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. Review *Talking With Creditors* 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 spending with your income, you'll 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 don't exceed the amount on your spending plan. A family record/expense book can help you list your expenditures and compare them to your spending plan. Or you may want to use the worksheets in MoreForYourMoney.extension.uiuc.edu By keeping track of what you have spent, it's 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 monthly. 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.

When your income changes 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.

To reduce this uncertainty, establish a monthly family living allowance. Use expenses you identified as part of your spending plan to determine what it costs your family to live each month.

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

Summary

Whether 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.

For more practice, visit <http://MoreforYourMoney.extension.uiuc.edu>

References

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