

# Finding Ways to Live on a Reduced Income

Suzanne Badenhop, Family and Consumer Sciences

## What Can You Do When Your Income Is Reduced or Disappears?

Loss of income is a traumatic experience. With so many families carrying a high level of debt today, the reduction in income or total loss of income through a job loss is especially traumatic. There are steps you can take to ease the burden and survive this experience. Your finances can still be within your control. It may take some deep soul searching, family discussions, and “belt tightening,” but you can make it.

Whatever your situation, try not to panic. Come to terms with the reality that you are unemployed, at least for the moment, and face the challenges that come with a loss of income. Don't put blame on yourself or other members of your family. Most important, don't ignore your bills.

## Family Communication

Communicating your financial situation with the members of your immediate family helps everyone to share in the decisions that must be made. Cooperation among family members is easier when everyone understands the situation. Other family members may suggest alternatives for reducing expenses that you have not considered. Try to be an active listener and hear what other family members are saying.

A family council meeting can help share your stress and find ways for everyone to work together to solve the problems. Spending less is a must. Stop all unnecessary spending immediately.



## First Things First

If your income has disappeared from the loss of a job, visit the local office for unemployment benefits. Don't put this off. There is a waiting period before your first unemployment check is received. Find out if you are eligible for unemployment benefits and, if so, determine how much you will receive in each check, how often the checks will come, and how long the unemployment benefits will last. This will help you with your immediate financial plan.

In Kentucky, unemployment benefits are administered by the Kentucky Department for Employment Services. To file a claim you will need the following information:

- Your Social Security number
- Your complete mailing address
- Name, address, and phone number of each of your employers over the last 18 months
- The exact date you began work at each job
- The last day you worked at each job

unemployed



# expenses

Then make a list of what your family owes. List the balance due, the APR (Annual Percentage Rate) interest, the minimum payments, and when they are due.

Remember to include upcoming seasonal bills such as auto insurance, homeowner insurance/renters insurance, school supplies, or other expenses that do not occur every month.

## Consider How You and Your Family Use Money

Even if you haven't lost your job, you may be facing more expenses than you have income. Think about how you reached this situation. Do you spend money to "get even" with another family member? Do you spend money as a way to make yourself feel better? Are you a compulsive buyer? Whatever your spending habits, it is time to eliminate unnecessary expenses and perhaps even reduce some of your necessary expenses.

Your immediate goal is to survive financially until you can find another job or pay down your debt to improve your cash flow each month.

## Know Your Family Income and Outgo

*Take a financial inventory. Know how much money you have coming in. Write down the amount of money you have each month to spend. Include income from all family members. Remember to include paychecks, unemployment compensation, child support, and any other sources of income.*

Make a list of what your family owns and the current market value. You might be surprised at what your assets are worth. Be realistic when assigning a market value. This is what it would be worth if you sold it today, not what you paid for it. Consider selling some of your assets to pay your debts.

If you have emergency savings, this can provide immediate cash to help pay some of your bills. Another possibility is to take out a loan. This could become a disadvantage in the future if you are unable to increase your income.

## Reduce Your Family Living Expenses

Begin to make a list of how the family income is spent. Make three columns of expenses – important expenses, less important expenses, and can do without expenses. Think about upcoming expenses in the next few weeks and months. Be sure to include them in your list.

Most fixed expenses, such as rent or mortgage payments, installment payments, and insurance premiums are due at a regular time each month or quarter. Most of these cannot be changed. You might be able to work with the creditor to change your payments temporarily. There is more information on this topic on page 3 of this publication.

Flexible expenses such as food, recreation, and clothing can be reduced by eliminating waste and unnecessary expenses. As a family, discuss some of the things on this list that you could eliminate or reduce while you are recovering from your loss of income.

If you aren't sure where your money is being spent or you don't have good written records, make a diary of everything you spent for the past week or two weeks. Be sure to include where you spent the money, the purpose, and the amount you spent. This will help give you a picture of where your money is being used.

From your list of expenses, look at the expenses in the "can do without" category. If you can give up these expenses until your income has increased again, then these should be the first place you can reduce your spending. Add up the total of these expenditures. For example, do you have cable or satellite dish service for television viewing? Do

you subscribe for service that includes movie channels? Many public libraries offer movie videos at no charge. Eliminating the extras on your television service can save several dollars each month. If you can receive the television signal for local stations with an antenna, eliminating the cable or satellite dish service completely, will save even more money. Try to look at other places like this where you can temporarily give up spending money.

Next, examine the less important expenses list. What items on this list can you do without for a short time period until you have more disposable income? If your income is greatly reduced because of job loss or a financial emergency, then probably most of the things on this list can also be eliminated from your spending. If you cannot eliminate them, then look at how you can sharply reduce the amount you spend on them. For example, how often do you eat meals away from home? Try to find ways that you can reduce your food expenses by eating less expensive meals at home.

Lastly, look at the list of important expenses. What items on this list could you spend less on? For example, most people consider telephone service an important expense. This is especially true if you are job hunting and expecting calls for interviews. Find out how much basic phone service costs. If you are paying for extra features such as call waiting, call forwarding, caller ID, and voice mail, look at how much you can reduce your phone expenses by dropping these extra features. If you have a long distance plan, shop for a less expensive plan. Often, you can make long distance calls at a reduced rate after 8 or 9 p.m. The trick is to discipline your behavior to make long distance calls when they are on a reduced rate. Most telephone plans change pricing every six months.

You might be surprised how much you can reduce your expenses by making a complete list of your expenses and finding less expensive ways to have the things that you need every day. Be careful to keep those expenses that protect you from further risk and expenses such as car insurance or life insurance.

## **Plan How You Will Pay Your Creditors**

When you do not have enough money to pay all of your creditors, you must make a decision about which bill you will pay first. Make a worksheet with five columns. In the first column, write down the names of each creditor. In column 2, write the amount you owe each creditor. In column 3, write the percentage of your total debt owed to creditors that amount represents. In column 4, write down the original monthly payment. Then decide if you will pay each creditor by proportions or in equal amounts, or indicate what will happen if you do not pay. Write down the amount you can pay each creditor in column 5.

Once you have worked out your repayment plan, contact each creditor and show them your plan. Do not avoid your creditors. If you cannot visit your creditor, call or write a letter. Most creditors would rather receive a small payment than nothing at all. The creditor would also rather have the money than the returned item.

Explain to each creditor that you do not have the money to pay back the minimum payment that he or she has specified on the monthly statement. Be prepared to explain to each creditor why you fell behind in your payments, your current income, your other obligations, and how you plan to bring this debt up to date and keep it current. Tell your creditor the exact amount you will be able to pay back each month. In some cases, you may even be able to get the creditor to drop interest charges.

Once you have worked out an agreement, stick with the plan. If you fail to follow the plan that you and your creditor agreed upon, you will harm your chances of getting future credit. Tell your creditors about any changes that may affect your payment agreement. If your creditors won't accept reduced payments, then you may have to consider loan consolidation, bankruptcy, or a debtor's plan through a credit counseling service.

Cut up your credit cards and do not use them until you are back on your feet and out of debt!

# credit counseling

# financial aid



## What Can You Do About Your Monthly Mortgage Payments?

If your mortgage payments are too high for you to pay, go to your lender and explain your situation. Ask the mortgage officer to allow you to pay interest only for a certain period of time or to postpone one or two payments until you have found additional income or worked out of your financial crisis.

## What Should You Do About Your Insurance Premiums?

When you lose your job, it is important to think of insurance coverage for your family's protection. If you have a whole life insurance policy, there may be a way to deduct the premium from the cash value of your policy or use your dividends to pay the premium.

If you were insured under your employer's group health, accident, and life insurance plans, you should be able to continue to pay for coverage up to 18 months under a COBRA plan. In this case, the premiums for your individual policy will be higher.

## Do You Have Skills That Can Make You Money?

Think about any skills that you have that can be used to earn money until you turn your financial situation around. Besides seeking employment, there are some additional choices to explore. Maybe other family members can find full- or part-time employment. Older children may be able to find ways to earn their spending money plus maybe even supplement the family income.

If you have skills, knowledge, and time, you may want to consider being your own boss. You just have to find a skill or product or service that others need and would be willing to pay you to provide for them.

## Turn to Community Social Agencies

When you are not eligible for unemployment benefits or when those benefits are insufficient, contact your local office for the Kentucky Cabinet for Health and Family Services. Several programs, such as food stamps and Medicaid, are available for families needing financial aid.

## Remember, When You Lose Income—

- Do not panic. You can still control your financial situation.
- If you lose your job, file a claim for unemployment insurance benefits right away.
- Communicate. Analyze what is important, and as a family, decide on a plan of action.
- Do not default on payments. Go to your creditors, explain your situation, and work with them to make adjustments.
- Be prepared to change your standard of living, at least temporarily, so you do not give up essentials.

*Adapted for use in Kentucky from "Living on A Reduced Income," a six-part newsletter from the University of Georgia.*

Photos © 2006 JupiterImages Corporation and © Thinkstock LLC

Educational programs of Kentucky Cooperative Extension serve all people regardless of race, color, age, sex, religion, disability, or national origin. Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, M. Scott Smith, Director of Cooperative Extension Service, University of Kentucky College of Agriculture, Lexington, and Kentucky State University, Frankfort. Copyright © 2005 for materials developed by University of Kentucky Cooperative Extension. This publication may be reproduced in portions or its entirety for educational or nonprofit purposes only. Permitted users shall give credit to the author(s) and include this copyright notice. Publications are also available on the World Wide Web at [www.ca.uky.edu](http://www.ca.uky.edu).

Issued 6-2006