



Family Finances: Getting By on Less

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Family Finances: Getting By on Less

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Losing a job or having your income reduced can come as a shock for many, especially if it a new experience for you. Getting by on less requires you to start taking action immediately. The steps are simple, the plan you develop probably will not be in place forever, but lack of planning and action will make things difficult in your family.

Establishing your net income, looking carefully at living expenses, strategies for reducing expenses, wise use of assets like emergency funds, and getting the family involved to get through this period are the steps you can follow to take control of your family financial situation. Let's take this one step at a time.

Step 1: How long will I be out of work?

Before you proceed with financial adjustments, you should consider how long you might be out of work. It is very possible that *six months to one year* will pass before you will be back fulltime in the workforce. This means that you must carefully anticipate the kinds of financial problems you might encounter.

Step 2: What will our income be?

Many families are two income families. They have several sources of income that can help blunt the impact of unemployment in the family. However, one income only will mean that much of the discretionary income your family uses will be limited or nonexistent in the near future.

Family income can be figured in two phases. Phase I includes unemployment compensation. Work out your net income (income after taxes) on a monthly base. Phase II occurs when unemployment has elapsed and the family begins to use more reserves and assets as income.

TIPS:

- **Review pay stubs.** Often net income can be maximized by looking at tax deductions (especially if you have large refunds each Spring), switching medical plans to reduce medical insurance costs, and looking carefully at amounts placed into direct deposit savings plans.
- **Be conservative in figuring your income.** Don't include overtime or income that is not constant from month-to-month.
- **It may be a good idea to review your credit report at this time.** Credit reports should be reviewed on a regular basis anyway, but knowing that you are up to date on all payments and all information is accurate can prevent mistakes from compounding later in your unemployment period.

| | | Net income worksheet | |
|-------------------------|--|----------------------|----------|
| Wages, Salaries | | Phase I | Phase II |
| Weekly pay (x 4.33) | | | |
| Bi-weekly pay (x 2.17) | | | |
| Twice per month (x 2.0) | | | |
| Monthly | | | |
| Child support | | | |

| | | |
|----------------------------|----|----|
| Unemployment (x 4.33) | | |
| Investment/Interest Income | | |
| Total net income | \$ | \$ |

Step 3: Where does our money go?

There are two ways to work out how much you are spending. One way is the RECALL. In a recall, you put together all the costs for the past month reconstructing your expenses using the check book register and bill stubs. This type of expense method works best if all purchases are run through a single checking account, and discretionary spending including the use of "pocket money", is limited.

The second way is to TRACK expenses for a month or two by writing down all purchases and payments every day. This includes making sure all bills are tracked by paying through a checking account or, if cash is used, keeping receipts and recording amounts every day.

Expenses, too, should be recorded on a monthly basis. Use the multiplication factors found in the Income Worksheet for adjusting expenses to a monthly base.

TIP:

- **Tracking expenses is not an endless task.** Use tracking for a month to discover where gaps are in your spending so you can adjust your spending plan.

| Monthly Family Expense Worksheet | | | |
|----------------------------------|-----------------------------|----------|-------|
| | Housing | Subtotal | Total |
| Rent/Mortgage | | | |
| Maintenance | | | |
| Utilities | <i>Electric</i> | | |
| | <i>Gas</i> | | |
| | <i>Water</i> | | |
| | <i>Phone</i> | | |
| Equipment/Furniture | | | |
| Insurance and Taxes | | | |
| | Food | | |
| Food at Home | | | |
| Food Away | | | |
| | Transportation | | |
| Car Payment(s) | | | |
| Gas. Oil, Repairs | <i>Gas</i> | | |
| | <i>Oil</i> | | |
| | <i>Repairs</i> | | |
| Insurance | | | |
| Public Transportation | | | |
| | Medical/Dental | | |
| | Credit Card Payments | | |
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |

| | | | |
|----|-------------------------------|--|--|
| 5. | | | |
| | Clothing/Personal Care | | |
| | Recreation | | |
| | Contributions/Gifts | | |
| | Other | | |
| | Education | | |
| | Life Insurance | | |
| | Child Care | | |
| | Cigarettes | | |
| | Cable television | | |
| | Savings | | |
| | Total monthly expenses | | |

Step 4: How does our income compare with our expenses?

This is the reality step. It is essential that you compare the "bottom line" against your expenses.

Comparing Income and Expenses

Monthly Income - Monthly Expenses = bottom line (+ or -)

_____ - _____ = _____

There are three possibilities after you compare income and expenses.

A. Your income matches your expenses. There is little room for error here, especially if you have used the recall method of determining your expenses. Try tracking expenses carefully for the next month, make adjustments and evaluate your spending again. Remember that if you go into Phase II, your income will not meet expenses and will need to be cut in the future.

B. Your income exceeds your expenses. You are able to manage on the reduced income coming into your family.

- Try to continue some kind of savings plan to build up your reserves.
- Continue to watch expenses carefully since further adjustments might have to be made if you enter Phase II of unemployment.

C. Your income fails to meet your expenses. There are basically things you can do if this happens:

1. Reduce expenses. Look at the flexible expense areas, those where you have some choices. Cutbacks, like minimum phone service, minimum cable service, packing lunches, and dropping collision insurance on a fully-depreciated and paid-off automobile can be temporary or permanent depending on the situation. It can help loosen-up some additional monies to meet mortgage and car payments.

TIPS:

- **Try putting your children on allowances** ... if they aren't receiving them already. Weekly allowances that cover specific expenses make it easier for you to keep track of what you are giving them "out of pocket" and make them more responsible for their own spending.
- **Decide what you want to spend on clothing, et al, for the children.** If they want something more than you can afford, "match" money with them for large purchases or special clothing choices.

2. Increase income. This can happen if you begin to draw on emergency monies or investments to supplement your income up to expense levels, or having the working spouse put in overtime or work more time at a family-owned or out-of-home business. Your spouse might also return to work and/or increase work hours.

TIP:

- **Be cautious about dipping into assets** prior to Phase II of unemployment. That will be the time when income will be reduced most. Be cautious about trying to start a home-based business when income is reduced. Start-up costs can increase expenses and reduce income.

3. Restructure debt. If one of the reasons that income doesn't match expenses is heavy credit card or unsecured debt, restructuring or reducing payments might be an alternative.

TIPS:

- **Use savings to pay off debt, if possible.** If you are getting severance pay it might be prudent to pay off as much debt as possible. If you haven't refinanced your mortgage to a lower rate, consider doing this now and use some of the equity to pay off credit card debt. This may lower mortgage payments and eliminate credit card debt at the same time.
- **Be cautious about making only minimum payments** on credit cards. This increases your credit card costs and lengthens the time it will take to pay off the debt. During Phase I of your unemployment, do not take on any new credit debts. Put credit cards away or cut them up to prevent use. Keep one bank card only for emergencies.

Step 5: What do I do if I can't make my payments?

Don't panic. Develop a survival spending plan. In Phase II unemployment, the lack of unemployment benefits can reduce any family's budget down to the bare bones. This phase demands that more actions be taken, assets reviewed, and even more stringent spending controls be introduced. Remember, this phase will not last forever.

Review your income and expenses just as you did before. Look at your income versus your expenses. Compare and adjust.

1. Work out what you can afford to pay on your bills. Creditors don't really want your house or car. They want to be repaid principle and interest on the loan they made in good faith. Often being able to afford the interest alone on a bill can be helpful. Divide between creditors the amount of income after all other regular expenses are met.
2. Contact creditors *before* you miss a payment. Often creditors will negotiate with you for reduced payments over a longer period of time, but you must be able to make the negotiated payments on a regular basis. Explain your situation and what has happened as well as what you expect to happen.
3. Be specific with what you offer a creditor. This will require you to talk to someone who can negotiate with you. Often the first person you talk to is not the person who can negotiate. Be able to offer a specific payment on the billing cycle. If you are unrealistic in your promises, it can "sour" a creditor to react in an uncooperative manner in the future. Often a creditor will take less than no payment at all.
4. Follow up with a letter detailing the arrangements you have agreed to with the creditor. This means you have to keep track of dates, times, who was contacted, and what agreements were made with the creditor.
5. Make your payments on time. Once you have established a schedule of payments with the creditor, it is essential that you make the payments. If the circumstances change again for you, contact the creditor *before* you miss or decrease payments further.
6. Don't use credit during unemployment if you can manage. Use credit for emergencies only since unemployment greatly affects your ability to repay the debt. Put those cards away and deal with cash as much as possible.

TIP:

- Even though it may be difficult, stick to a regular bill payment schedule. Open all bills when you receive them. Don't be tempted or frightened into ignoring the situation.

B. Look at assets that might be converted to cash. If you choose to do this, often the conversion will bring you cash, may eliminate a payment, and decrease expenses.

1. Among those things that might generate cash, consider selling cars, boats, snowmobiles, motorcycles, antiques, collectibles, sports equipment, tools, furniture.
2. Convert whole or cash value insurance policies to term life.
3. Borrow against the cash value of the life insurance policy. Remember to continue to pay premiums to keep the policy active during the loan period.
4. See about borrowing against 401(k) accounts or cashing in Individual Retirement Accounts (IRAs) that you might have saved. These types of assets are tax deferred until they're withdrawn. There may be penalties but you will be borrowing your own money. Watch for tax implications.
5. Borrow from family or friends. Not always the best of alternatives, keep this type of loan as clear as possible. Write up an agreement to repay the loan with terms of the repayment plan including payments and interest.
6. Sell stocks, bonds, or mutual fund shares. If you own some of these assets, consider tax implications of the gain or loss carefully. During your period of unemployment, it is a good idea to stagger sales of these assets and try to optimize the sales price for a gain.

TIP:

- **Make sure you are plugged into community resources** and programs that could extend your resources. By using the resources that are available, you can stretch your own resources quite a bit. Check into the Wisconsin Homestead Tax Credit, federal and state Earned Income Credits, food stamp programs. Information on other programs can be obtained by checking into non-profit organizations in your area.

Summary

Being unemployed means that you must take control of your personal finances as quickly as possible. Take things a step at a time.

1. Talk to your family. Explain the situation and set goals as a group. This will help everyone understand and support you as you make financial decisions.
2. Review and balance your income and expenses.
3. Use severance or some savings to pay off as much credit card debt as possible.
4. Refrain from using credit during your unemployment.
5. Talk to your creditors before you fall behind on credit payments.
6. Delay selling assets as long as possible, especially those with tax consequences.
7. Review a spouse's employment situation and pay stub to find sources of income that could be generated by overtime or reviewing deductions.
8. Use community resources where possible to extend family resources.

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