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When Prices Rise: Living on Your Income

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An increase in the price of goods and services can be traumatic. When you have to pay for things such as gasoline, food and health care, other difficulties may arise, especially if you and your family are living on a fixed income. Realizing that your income does not go as far as it used to, even in covering just the basics, can be alarming.

When prices rise, don't panic, but don't become complacent, either. Don't stop credit payments or ignore the fact that you are facing financial difficulties. Surviving a financial crisis will take work and planning, but it can be done. But act as soon as possible.

Prices are noticeably higher. What do I do first?

Jot down how you spend your income, if you do not already have a good idea, and then track your spending. You can use the spending tracker on Page 3. You may need to adjust your spending and follow a spending plan more closely (Spending Plan Worksheet available on Page 4).

Separate your family living expenses into fixed, flexible and occasional expense. Fixed expenses are expenses that you pay every month and the amount does not change. They include things such as mortgage/rent, installment credit and insurance. Flexible expenses include those you pay every month but the amount changes. Examples of flexible expenses include groceries, gas, utilities and entertainment. Finally, occasional expenses are those that do not occur every month. Don't forget to come up with a list of these occasional expenses so they don't throw off your monthly spending.

Communication is a family affair.

Many people try to hide financial problems from themselves or family members. Hiding financial difficulties from the rest of the family for long is nearly impossible, and it's not emotionally healthy. Not facing up to problems prevents you from taking positive steps forward.

Because financial decisions affect the whole family, talk to others about the present situation. Let them know about the need to change spending priorities. Involve all family members, regardless of their ages. Include your family decisions that must be made. As a family, discuss how income is spent, what is important and what is not so important. What must the family have in the next week? In the next month? In the next the next two months?

Don't burden family members with unnecessary worry, but do involve them; they may offer solutions or ideas not yet mentioned. Actively listen to gain a full understanding.

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Examine Your Expenditures

Your expenses hold the key to how well you do when needing to stretch your dollars farther. If your family does not follow a spending plan, this is the time to start. Family input is essential, as is being realistic and flexible. Be creative about how to cut expenses. Remember, you still want to live comfortably. Here are some suggestions:

- Before making purchases above a certain dollar amount, discuss the potential purchase with other family members.
- Control impulse buying. Make a shopping list and weight the importance of each item.
- Practice effective consumer skills. Comparison shop. Look at sale ads. Buy in bulk if possible. Look for cash discounts.
- Postpone the purchases of noncritical items (for example, furniture, technology or remodeling plans) if possible. Although prices may be tempting at end-of-season sales, carefully consider the purchase to ensure that you have the money needed for current necessities.
- Stop buying on credit.
- Do not drop insurance coverage or cancel essential medical and dental appointments. Postponing treatment may prove to be costlier in the long term.

Management Strategies

Conserve resources by using them wisely. Make your home energy efficient and consolidate shopping trips. Become more resourceful by cooking items from scratch or planting your own garden.

If you can't pay all of your bills, set priorities. After paying secured loans and basic essentials, pay those bills that:

- Maintain vital services (for example utility, phone, transportation, insurance)
- Have the highest interest rate/finance charges
- Cost the most to delay (bills that carry late penalties or may lead to repossession or disconnect/reconnect charges)

Be wary of quick, short-term, high-interest loans. If you miss just one payment, you could become saddled with a long-term, high-interest debt payment that seemingly never ends.

Remember

- You can control your financial situation if you plan carefully.
- Communicate with your family. Together, analyze what is important and decide on a plan of action.
- Examine your expenses. Be prepared to change your standard of living so you don't have to give up essentials.
- Don't default on payments. Contact your creditors, explain your situation and work with them to adjust.
- Begin to make plans for the future.

