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What to Do When Your Income Drops

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An abrupt reduction in family income can be a traumatic experience psychologically and financially. But you have ways you and your family can minimize the hardship.

First, don't panic. Give yourself time to get over the initial shock and then start making plans. Don't blame yourself or anyone else. Just concentrate on dealing with the situation. Here are some things you can do:

- ▶ Take stock of family and community resources.
- ▶ Recognize that your life will be different, at least for a while, but you and your family still can be in control of your household financial affairs.
- ▶ Start making adjustments immediately by setting priorities for spending.
- ▶ Involve the entire family in setting these priorities.
- ▶ Plan to pay creditors and protect family welfare.

Make every effort to maintain positive family relationships and not allow financial pressures to destroy these bonds. Recognize that family income will be reduced and the past level of spending will have to be lowered.

Give full attention to the feelings of others. Be especially sensitive to your children's interpretation of the situation. Help children understand that although reduced income is a serious problem, it does not change the importance of any individual in the family. Family members, when working together, can more easily deal with the new challenges they face.

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First Things First

Take stock of current family financial resources by calculating your net worth. Net worth tells how much a family is worth in dollars at a particular moment in time; it equals the difference between what you own and what you owe. A statement of net worth provides an important record of your current finances (Family Net Worth Statement Worksheet available on Page 3).

The next step is to compile a list of your family's nonfinancial resources that can be used to cut costs. Each family member likely can contribute toward operating the household more economically. In addition, consider belongings that could be sold to raise income. Be imaginative in assessing all of your resources and how they can best be used in hard economic times.

Depending on your circumstances, you may want to use emergency savings if available. If you decide to cash in a CD (certificate of deposit), talk with the financial institution where you purchased it to determine how much interest you will lose by cashing it out early. Obtaining a short-term loan using your CD as security might be less expensive. However, taking on new debt in turbulent times should be used as a last resort.

Examine Your Expenses

Your expenses hold the key to how well you do when dollars are scarce. 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 (Spending Plan Worksheet available on Page 4).

You should separate your family living expenses into fixed, flexible and occasional expenses. 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 your monthly spending off.

Flexible expenses are the easiest for families to examine and make changes. Be creative in how to cut expenses. Remember, you still want to live comfortably. Here are some suggestions for cutting flexible expenses:

- ▶ Agree to discuss purchases over a certain amount with your family members before buying.
- ▶ Control impulse buying. Make a shopping list and stick to it when in the store.
- ▶ Comparison shop. Purchase items on sale or buy in bulk.
- ▶ Avoid waste; conserve your resources. Don't throw food away; have a leftover night or freeze uneaten foods. Bring food from home for lunch.
- ▶ Buy produce in season. Buy other things out of season. Use free or low-cost community services to substitute for entertainment costs.
- ▶ Avoid buying things on credit. The interest expense will make the item you purchase cost more in the long run.
- ▶ Do not drop insurance coverage. The need for insurance is magnified by the stress you may be experiencing. However, make sure you are not paying for duplicate coverage by having several policies.
- ▶ Do not cancel essential medical and dental appointments. In the long run, such inaction may prove to be more costly. Many professionals are willing to negotiate the payments if details are worked out in advance.

Contact Creditors

Don't be afraid to contact creditors to discuss payment options. If you are having trouble making payments, don't ignore correspondence. Most creditors are willing to work with you in these situations. They may delay payments temporarily, negotiate lower payments or move payment dates. But you are responsible for taking the initiative to contact the creditor.

If you can pay some debts but not all, set priorities. Pay those bills that:

- ▶ Meet needs (shelter, vehicle if needed to travel to work)
- ▶ Maintain vital services (utility, phone, transportation, insurance)
- ▶ Cost the most to postpone (late penalties, finance charges, repossession or disconnect/reconnect charges)

Find Community Resources

Many resources exist in our state to assist those coping with unemployment or other loss of income.

▶ Job Service Centers

If you involuntarily lost your job and your previous employer paid into the unemployment insurance compensation fund, you may qualify for job insurance benefits. Filing for benefits immediately is important. You can find more information on the North Dakota Job Service website at www.jobsnd.com.

▶ County Human Services

Professionals are available throughout the state who can help people who need services and supports (Supplemental Nutrition Assistance Program [SNAP/food stamps]), Temporary Assistance for Needy Families (TANF), heating assistance, Medicaid, basic care assistance, child care assistance, in-home and community-based services, supports for elderly and disabled individuals, personal care assistance, child welfare, and referrals to other local resources and programs. For more information visit the North Dakota Department of Human Services website at www.nd.gov/dhs/locations/countysocialserv.

▶ Financial Counseling Services

Nonprofit credit counseling is available from the Village Family Service Center in person and online. To find what topics are covered and for more information, visit www.thevillagefamily.org.

▶ FirstLink 2-1-1 Helpline

FirstLink is a free, confidential service available to anyone for listening and support, referrals to resources/help and crisis intervention. FirstLink answers the 211 hotline, the National Suicide Prevention Lifeline, and communicates via the text line 898-211.

When You're Back on Your Feet

When your financial situation has improved, be extremely careful not to follow the urge to overspend to "catch up" on all the things you have put off buying and doing. Again, the family needs to decide carefully which purchases that were delayed will need to be made first.

Family Net Worth Statement Worksheet

Date completed ____/____/____

Assets – What you own

Cash	
Cash	
Checking account	
Savings account	
Certificates of Deposit	
Cash value of life insurance	
Total Cash	

Investments	
Stocks	
Bonds	
Mutual funds	
Treasury bills	
Total Investments	

Property	
Primary residence (market value)	
Vehicle (current blue book value)	
Jewelry	
Art	
Collectibles	
Total Property	

Retirement Accounts	
IRA	
401k	
403b	
Total Retirement Accounts	

Accounts Receivable (Any outstanding income you expect to receive)	
Total Accounts Receivable	

Total Assets	
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Liabilities – What you owe

Real Estate	
Primary mortgage	
Second mortgage	
Home equity loan	
Total Real Estate	

Installment Loans	
Vehicle	
Vehicle	
RV	
Boat	
Furnishings	
Appliances	
Total Installment Loans	

Personal Loans	
Student loans	
Medical	
Total Personal Loans	

Charge Accounts	
Total Charge Accounts	

Unpaid Bills	
Taxes	
Insurance	
Rent	
Utilities	
Total Unpaid Bills	

Total Liabilities	
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Total Assets _____ — **Total Liabilities** _____ = **Net Worth** _____

Spending Plan Worksheet

Month _____

Income – Money Coming In

Item	Budgeted Amount	Actual
Total Income		

Expenses – Money Going Out

Item	Budgeted Amount	Actual
Fixed Expenses <i>(Examples: Rent/Mortgage, Vehicle payment, Student loan payment, etc.)</i>		
Total Fixed Expenses		

Flexible Expenses <i>(Examples: Groceries, Food away from home, Entertainment, etc.)</i>		
Total Flexible Expenses		

Occasional Expenses <i>(Examples: Vehicle registration, Gifts, Rental insurance, etc.)</i>		
Total Occasional Expenses		
Total Expenses		

What to Do When Income Drops was originally authored by Debra Pankow, Family Economics Specialist, North Dakota State University and Elizabeth Gorham, Extension Family Resource Management Specialist, South Dakota State University, 2007.

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