

What To Do When Your Income Drops



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An abrupt reduction in family income can be a traumatic experience, both 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. 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.

First Things First

Take stock of family resources

A key to accomplishing anything is a sound beginning. Good financial management begins with taking stock of your family's current financial position or net worth. Net worth tells how much a family is worth in dollars and cents 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. The Family Balance Sheet may be useful as a beginning point.

The next step is to compile a list of your family's nonfinancial resources that can be used to cut costs, traded for needed goods and services or used to produce income. Each family member likely can make a contribution 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 or take out a loan. If you have followed the principles of good money management, you have the equivalent of a few months' salary accumulated in liquid savings. Start with passbook savings since you will be penalized if you cash in certificates of deposit.

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 in before maturity. Obtaining a short-term loan using your CD as security might be less expensive. Another option might be to borrow against a cash-value life insurance policy at a low rate of interest. In any case, remember that a loan must be paid back and money taken from emergency savings should be replenished as soon as possible.

Examine Your Expenditures

Your expenditures 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.

Your family living expenses must be separated into fixed and variable (or flexible) expenditures. Fixed expenses include mortgage payments or rent, installment credit, emergency savings, medical and life insurance payments, utilities and so on. Flexible expenses include recreation, leisure, food, clothing, personal spending and so on. The flexible expenses are the ones a family can examine and then make choices on ways to cut spending when times are tough.

Be creative about how to cut expenditures. Remember, you still want to survive comfortably.

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Family Balance Sheet

Current Assets

(could be turned into cash within 1 year)

Cash _____
 Checking Account _____
 Savings Account _____
 CDs _____
 Bonds _____
 Stocks _____
 Mutual Funds _____
 Annuities – cash value _____
 Money Owed You _____
 Life Insurance
 (present value) _____
 Other _____
 Total Current Assets \$ _____

Current Liabilities

(due within 1 year)

Charge Accounts _____
 Installment Loans _____
 Mortgage Loans _____
 Accounts Payable _____
 Other _____

 Total Current Liabilities \$ _____

Noncurrent Assets

(maturing in next 2-10 years)

Stocks _____
 Bonds _____
 Mutual Funds _____
 CDs _____
 Household Goods _____
 Car(s) _____
 Retirement/Pension Fund _____
 Personal Items _____
 Other _____
 Total Noncurrent Assets \$ _____

Intermediate Liabilities

(due next 2-10 years)

Installment Loans _____

 Mortgage Loans _____

 Other _____

 Total Intermediate Liabilities \$ _____

Fixed Assets

Home (present market value) _____
 Other Real Estate _____
 Total Noncurrent Assets \$ _____

Long-term Liabilities

Mortgage Loans _____
 Other _____
 Total Long-term Liabilities _____

Total Assets \$ _____

Total Liabilities \$ _____

Present Net Worth \$ _____

Date ____/____/____

TOTAL ASSETS	<i>(minus)</i>	TOTAL LIABILITIES	<i>(equals)</i>	PRESENT NET WORTH
\$ _____	—	\$ _____	=	\$ _____

Some suggestions to help you with this process:

- Agree to discuss purchases over a certain amount with other family members before buying.
- Control impulse buying. Make a shopping list and weigh the importance of each item.
- Use effective consumer buymanship. Comparison shop. Buy the specials. Use coupons. Go to price-competitive stores. Buy in bulk. Try for cash discounts.
- Avoid waste; conserve your resources. Try to get the most use or satisfaction out of each trip in your car, each use of the stove, each load in the washing machine, each dollar already sunk in clothing.
- Buy things out of season. Engage in home production. Exchange goods and services where possible. Use free or low-cost community services. Substitute with low-cost items. Postpone purchases if possible. Do NOT buy anything on credit.
- 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 payment schedule if details are worked out in advance.

Reduce Consumer Debt

Don't ignore those monthly payments on outstanding loans. Make a list of all your debts with the annual percentage rate, the specific terms of the contract and any finance charges. The largest payment for many families is the mortgage payment. If it is too big for you to handle in your new financial situation, go to your lender and see if you can refinance or pay only the interest for a short period of time or postpone one or two payments. Although these methods may mean the overall cost of the loan will be greater, you will not run the risk of losing your home.

For other debts, prepare a payment plan (with alternatives) and contact the lender immediately to explain your situation. Where possible, make an appointment and talk with the person in charge personally. Many people do not realize they can negotiate with their creditors.

As with the mortgage payment, you may be able to make smaller payments or pay only the finance charge for a short period. You may want to reduce payments on revolving charge accounts to the minimum. Then when your income increases, go back to the regular payment schedule. This will increase the total amount you must pay for the debt slightly, but it will ease the present financial burden.

You may be able to refinance the loan – that is, make a new contract for smaller payments over a longer period of time. Again, this will increase the overall cost of the loan, and in the case of a mortgage, involve closing costs.

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

- maintain vital services (utility, phone, transportation, insurance)
- have the highest interest rate
- cost the most to postpone (late penalty, repossession or disconnect/reconnect charges)
- may be collected vigorously

As a last resort to repaying debt, consider a consolidation loan. This would enable you to pay all your bills at once and then make one payment monthly for a large loan. If you do decide to obtain a consolidation loan, shop around for the best terms.

Be aware that taking out a new loan may involve additional fees, and consolidation loans frequently are very costly.

A consolidation loan may prevent repossession, help you avoid bankruptcy and may be advised when all your debts have higher interest rates than the consolidated loan and the consolidated loan can be paid off in the same or less time than the initial debts. However, if your spending

patterns and financial management style do not change, the same problems may recur.

If your financial affairs have deteriorated beyond repair, bankruptcy may be the last resort. Bankruptcy laws were designed to absolve people of insupportable debts and spare them undue harassment by creditors. Bankruptcy may be a consideration if 1) your creditors are unwilling to renegotiate debts, 2) you cannot obtain a consolidation loan and 3) no other help is available.

You should view bankruptcy seriously. It is on your credit history for 10 years and jeopardizes your credit rating.

Control Stress

Severe and prolonged stress associated with income loss may affect your physical and mental health seriously. In addition, stress contributes to many types of accidents through human error, fatigue, worry and haste.

Take Stock of Community Resources

Many resources exist in our state to assist those coping with unemployment or other loss of income. For information on the following and other support services, contact your local Extension office or visit the NDSU Extension Service Web site (www.ag.ndsu.edu/pubs/yjffamsci/he466w2.htm) to receive a copy of Extension publication HE-466, "Support Network Directory."

Job Services Centers (unemployment insurance, job training, job placement)

If you involuntarily lose 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.

If you've lost a job or are seeking a job or need job training, you can receive valuable assistance at one of 15 regional and district Job Service of North Dakota offices.

North Dakota Opportunities

North Dakota Opportunities is an agency that offers employment and training for seasonal workers and their families. Emergency nutrition, shelter, transportation and referral are available to qualified applicants.

County Social Services (food stamp program, TEEM, general assistance, medical assistance): Each county in North Dakota has a Social Service Board that has help available in many forms, such as food stamps, Aid to Families with Dependent Children (AFDC), Temporary Assistance to Needy Families (TANF), medical and general assistance. Food stamp information is available by calling (800) 755-2716.

Human Service Centers

Regional centers provide a variety of services, including counseling and vocational rehabilitation.

North Dakota Department of Human Services

Provides Social Service Block Grants to enhance quality of life for people whose well-being is threatened due to financial resources, emotional crises, etc.

Child Support Enforcement

Help in collecting child support is available through your nearest regional child support enforcement office. Contact the clerk of district court in your district for more information.

Personal Counseling Services

Personal counseling is available in many communities from local private counseling agencies, ministers and support groups. These counseling services are available to help get stress or depression under control. If you are uncertain about whom to call, contact the information and referral service listed in your local phone book.

Mental Health Association

The Mental Health Association of North Dakota maintains a HELP-LINE, (800) 472-2911, 24 hours a day, seven days a week.

Community Action Emergencies Services

Regional Community Action Agencies provide services related to emergencies, such as food pantries, housing, weatherization, Head Start (some regions), outreach referral information and self-reliance programs.

Social Security Administration

(www.ssa.gov/)

Information on receiving Social Security benefits and Supplemental Security Income for the aged, blind and disabled may be obtained through your local office or toll-free by dialing (800) 772-1213.

Housing Assistance Program

Housing assistance for income-eligible families and individuals is available by contacting the office closest to you.

Financial Counseling Services

(www.thevillagefamily.org/programs/counseling)

Nonprofit credit counseling centers have been set up by the Village Family Service Center in various communities. Contact the office nearest to you. The statewide toll-free number is (800) 627-8220.

Legal Assistance

(www.legalassist.org)

The elderly and people with limited income can get legal assistance from Legal Assistance of North Dakota Inc. The toll-free number is (800) 634-5263.

Childrens Health Care

Free and reduced health care, including vision and dental, are available through the North Dakota Children's Health Insurance Program "Healthy Steps" – call (877) 543-7669 – and through Blue Cross Blue Shield's Caring Program – call (800) 342-4718.

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.

Having a consolidation loan may have given you a feeling of security, but you may have new debts that need to be paid and/or an emergency fund in savings that needs to be restored (three to six months' living expenses). You will have a more realistic idea of what size your emergency fund should be in the future.

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