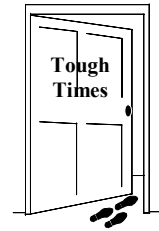


# Getting Through Tough Times



## Setting Spending Priorities

GTTT-1

Faced with reduced income or increased expenses, you'll need to develop a spending plan to help you pay your bills. If your income will be affected for more than a month, adjust your spending habits to maintain control of family finances over an extended period.

Many people try to hide financial problems from themselves or family members. Not facing your problems can be very destructive because the worry and stress caused by financial uncertainty and lack of cash may be worse than the financial problem itself. It's important to look realistically at your situation and actively seek solutions to your problems, despite the discomfort.

Because spending decisions affect the whole family, talk with your family about the situation. Let them know the family needs to change its spending. Involve everyone in deciding spending priorities. If family members understand the tough choices that must be made and have a voice in making the decisions, they will be more willing to accept the decisions.

As your family talks about what is most important, be sure to listen to what they say. Supporting each other can help you pull together as a family and get through these tough times.

### How Other Families Handle Reduced Income

Studies show families respond to reduced income by cutting their spending. Spending for non-essentials such as luxuries, vacations, eating out, and home furnishings are eliminated or reduced first. As the reduced income continues, many families also report reduced spending for basic needs including food, shelter, transportation and medical care.

Families also say they revise their budgets. Most make a new spending plan that includes a revised plan for getting the bills paid.

Fewer families report increasing their income or using more credit to manage finances.

Borrowing or using credit to pay bills often brings only temporary relief. For those families who did increase their use of credit, the more they borrowed, the more unhappy they were with their financial situation.

The studies also found that families who quickly made changes in their spending habits were the most satisfied with how they were managing. Families who didn't make changes felt more out of control and more dissatisfied.

### Making a Spending Plan

A spending plan is always an effective tool to help you get the most for your money. It is even more important when you have a sudden change in your income. A spending plan helps you:

- Make decisions about how to spend your money
- Provide for needs before wants
- Match your spending to your current income
- Prevent family arguments over money

Worksheet 1 on page 4, "Monthly Spending Plan," can help you set up a spending plan for your current income. By comparing your income and planned expenses before and after your current situation, you can see what changes are needed.



## Step 1 — Your Income

Add up your current total family income from all sources. Include income from other family members if it is used for family expenses. Use the take-home amount, or what you actually have to spend after deductions.

Do you receive income from any of these sources?

- Earnings from employed family members
- Unemployment Compensation
- Withdrawal from savings
- Tips or commissions
- Interest or dividends
- Social Security
- Child support or alimony
- Public assistance
- Veterans benefits

On the spending plan worksheet, list your income before it was reduced and the adjusted amount.

## Step 2 — Your Monthly Expenses

If you had a spending plan before your income was reduced, you probably know how much you were spending for monthly expenses. If not, use old records, canceled checks, bills and receipts to figure out how much you spent on the following categories.

- *Housing* — mortgage or rent payments, property taxes, insurance
- *Utilities* — electricity, gas, oil, phone, water, garbage, cable TV
- *Food* — groceries, eating out, school lunches
- *Transportation* — gas, car repairs and maintenance, parking, bus, taxi fares
- *Medical Care* — doctor, dentist, clinic, hospital, medicine, glasses
- *Credit Payments* — car payments, installment loans, credit cards, charge accounts
- *Insurance* — health, life, property, car, disability
- *Household Operations and Maintenance* — repairs, cleaning and laundry supplies, paper supplies, towels, equipment

- *Clothing and Personal Care* — new clothing purchases, dry cleaning, hair care, cosmetics, toiletries
- *Education and Recreation* — books, subscriptions, magazines, newspapers, lessons, tuition, hobbies, club dues, sports, pet expenses, entertainment, vacation, alcohol, tobacco
- *Miscellaneous* — child care, gifts, contributions, personal allowances, child support

Remember, not all of your expenses are monthly. Property taxes, insurance premiums and holiday gifts come once or twice a year. It's easy to forget about them and then not have the money to pay for them. Worksheet 2 on page 5, "Occasional and Seasonal Expenses," can help you to identify and anticipate these expenses. You will need to set aside some money in your monthly spending plan to meet these occasional costs.

As you think about what you were spending and try to plan how much you can now spend, ask these questions:

- Which expenses are essential to the family's well-being?
- Which expenses have the highest priority? The fact sheet *Deciding Which Bills to Pay First* can help you determine this.
- Which areas can be reduced to keep family spending within its income?
- How much can you afford to spend in each category?

Adjust the amounts you spend in each expense category and enter the new amount in the column labeled "Adjusted Amount" on the spending plan worksheet.

## Step 3 — Balance Income and Expenses

Add up your adjusted expenses and compare the total to your current income. When your income is reduced, it may be very difficult to stay within your income. What can you do if your expenses are greater than your income?

- *Cut spending.* See the fact sheet in this series *Strategies for Spending Less* for suggestions, particularly for reducing flexible expenses.
- *Increase your income.* What are the possibilities for part-time or temporary work to help supplement your income? Use your non-dollar resources, too. See *Bartering*, another fact sheet in this series.
- *Look at your other assets.* What savings, investments or property do you have that could be used or converted to cash to meet expenses? See *Making the Most of What You Have*, another fact sheet in this series. Keep in mind that borrowing and using savings may be only temporary solutions.
- *Reduce your fixed expenses.* If too much of your income is going to fixed expenses such as housing or debt payments, there may not be enough money left to cover your other living expenses. You may need to refinance your loans, move to lower-cost housing, or surrender the property to your creditor to get out from under some of your debt. See *Talking With Creditors* and *Keeping a Roof Overhead*, other fact sheets in this series.

## **Making Your Spending Plan Work**

Once you have a spending plan that sets spending amounts for essential family needs and balances your spending with your income, you'll have to stick to it. Writing it down is not enough. You must use the plan to guide your spending.

Keep a record of what you spend in each expense category to be sure you don't exceed the amount on your spending plan. A family record/expense book can help you list your expenditures and compare them to your spending plan. By keeping track of what you have spent, it's easier to control your spending and live within your income.

## **Managing on a Seasonal or Irregular Income**

If you are self-employed, seasonally employed or receive income from tips or commissions, your family income may change a lot from month to month. In that case, look ahead and

carefully estimate your income. It may be helpful to estimate your income for a whole year so you can see when and how much it changes.

Even though your income may change from one month to the next, many of your living expenses are the same each month. This mismatch of income and expenses creates uncertainty that can cause feelings of insecurity and increase family tension.

Reduce this uncertainty by establishing a monthly family living allowance. Use expenses you identified as part of your spending plan to determine your monthly living allowance, or what it costs your family to live each month.

When you receive income, deposit a major portion of it in a special savings or money market account where it will earn interest but still be readily available. Then, each month pay yourself by withdrawing the amount of your family living allowance and putting it into your checking account to pay your bills.

As a family on a seasonal or irregular income, you may want to schedule some major expenses such as insurance premiums, clothing purchases, and non-emergency medical and dental care to coincide with times when you anticipate more income. Avoid the temptation to spend more money in the months when your income is greater.

## **Summary**

Living on a reduced income may be temporary or prolonged. Getting the most from family income during this time requires careful planning and wise spending decisions.

A spending plan based on what you and your family consider to be most important can help you balance your spending with your available income and resources. Keeping track of your spending will help ensure that you have the money for the things your family needs most.

# Worksheet 1 – Monthly Spending Plan

Month \_\_\_\_\_ 19\_\_\_\_

	Before Income Was Reduced	Adjusted Amount
<b>Step 1 - Your Income (Take-home)*</b>		
Salary, wages.....	\$ _____	\$ _____
Unemployment Compensation.....	\$ _____	\$ _____
Other income ( _____ ) .....	\$ _____	\$ _____
Other income ( _____ ) .....	\$ _____	\$ _____
<i>A. Total Monthly Income</i> .....	\$ _____	\$ _____

## Step 2 - Monthly Expenses

Housing — mortgage or rent payment.....	\$ _____	\$ _____
Utilities — electric, gas, phone, etc .....	\$ _____	\$ _____
Food — at home and away.....	\$ _____	\$ _____
Transportation — gas, car repairs .....	\$ _____	\$ _____
Medical care — doctor, dentist, hospital .....	\$ _____	\$ _____
Credit payments — loans, credit cards .....	\$ _____	\$ _____
Insurance — life, health, car, property, house .....	\$ _____	\$ _____
Household operations and maintenance — repairs, cleaning, laundry supplies, etc .....	\$ _____	\$ _____
Clothing and personal care — clothes, laundry, toiletries, etc .....	\$ _____	\$ _____
Education and recreation.....	\$ _____	\$ _____
Child care .....	\$ _____	\$ _____
Miscellaneous — gifts, allowances.....	\$ _____	\$ _____
Savings .....	\$ _____	\$ _____
Seasonal/occasional expenses .....	\$ _____	\$ _____
Other expenses ( _____ ).....	\$ _____	\$ _____
Other expenses ( _____ ).....	\$ _____	\$ _____
<i>B. Total Monthly Expenses</i> .....	\$ _____	\$ _____

## Step 3 - Balance Income and Expenses

Total Monthly Income (A) \$ \_\_\_\_\_ = \$ \_\_\_\_\_ Total Monthly Expenses (B)

\* Because most bills are monthly, it's easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and bi-weekly income by 2.17 to convert them to monthly amounts.

## Worksheet 2 – Occasional and Seasonal Expenses

Some big expenses like property taxes and insurance premiums come due only once or twice a year. Others are seasonal, such as school clothes in the fall and holiday gifts in December. Use this chart to help you estimate these expenses and include them in your spending plan.

<b>Expense</b>	<b>Amount</b>	<b>Expense</b>	<b>Amount</b>
<b>January</b>		<b>July</b>	
<b>February</b>		<b>August</b>	
<b>March</b>		<b>September</b>	
<b>April</b>		<b>October</b>	
<b>May</b>		<b>November</b>	
<b>June</b>		<b>December</b>	

## World Wide Web Resources:

<http://www.americasaves.org>

- includes creating a spending plan and reducing consumer debt

<http://www.financenter.com>

- includes financial calculators on budgeting, saving, credit cards, etc.

<http://www.nnfr.org/home.html>

- family and personal finance topics, including investing, credit and budgeting

## References

*Take Control of Your Finances.* Learn By Mail Series. University of Illinois Extension. 1995.

*Working Women's Guide to Financial Security.* Barbara Dahl, University of Illinois Extension. 1996.

*66 Ways to Save Money.* Consumer Literacy Consortium. Save Money, Pueblo, CO 81009, 50 cents each, payable to Superintendent of Documents.

*Getting Through Tough Times* is a 19-part series for individuals and families experiencing personal/financial crises.

Contact your local University of Wisconsin Extension office for copies of other fact sheets in this series. The address and phone number can be found in the yellow pages of your phone book under "governmental offices - county."



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