

Cutting Back and Keeping Up When Money is Tight

When your monthly budget needs a tune-up

Whether it's due to a drop in income, a big unexpected expense, or the cost of everyday living overtaking your paycheck, there are steps you can take to get a handle on your finances – and your financial stress.



The very first step is to figure out if your income covers all of your current expenses. An increase in expenses or a drop in income usually means a change in lifestyle. The *sooner* you look at your household budget, the more options you have and the better off you will be in the long run.

Once you have a better understanding of where your money is going, it's time to look at ways to make the best use of your hard-earned dollar. This guide will walk you through ideas for saving on everyday spending and finding the money you need to make ends meet.

Talk with your family and friends about your stress and the changes that might need to happen at home. Friends can be a good sounding board for you and might help you come up with creative solutions for saving money.

If you have children at home, you don't want to worry them with adult concerns about paying for groceries or the mortgage, but it's okay to let them know that there's less money coming into your home. Children can be part of the solution when you let them know that some purchases can't be made or some activities will need to be cut or postponed. Your teens might already be contributing to the family budget through a part time job. Families often come out stronger when everyone pulls together.

When you're ready to take charge, look over the steps in this guide. See which tips fit your unique situation and give them a try. If you want more information or additional options for dealing with debt, contact your county UW-Extension office.

Facing a drop in income? Use this checklist to get your budget back in balance.

- Figure out how much you can spend.
- Track how much you are spending.
- Figure out where you can cut back.
- Explore ways to increase your income.
- Make a plan to keep up with bills.

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Step #1: Make a Monthly Spending Plan

When you have a change in your income, your expenses, or both, the first step is to figure out what your current income will be and how much your monthly living expenses add up to. Use this worksheet to figure out if your income will cover all of your current expenses.

Basic Living Expenses

<i>Monthly Expense</i>	\$ Amount
Rent/Mortgage	
Electricity	
Heating Oil or Gas	
Water/Sewer	
Cable/Satellite	
Internet	
Cell Phone/Landline	
Gas for Car	
Car insurance payment	
Eating Out	
Groceries	
"Stuff" for household & personal care	
Clothing and Laundry	
Doctor co-pays/Prescriptions	
Entertainment – movies, hobbies, habits	
Pets	
Gifts/donations	
Health/Life insurance	
Money put into savings	
MONTHLY EXPENSES \$ (total from above)	
+ MONTHLY DEBT PAYMENTS \$ (total from debt chart)	
= ADD UP TOTAL MONTHLY SPENDING \$	

Debts (bills that charge interest)

Name of Creditor	Monthly Payment Requested	Total Amount Owed Yet
Car Payment 1	\$	\$
Car Payment 2		
Medical Bill		
Past Due Utilities		
Credit Cards		
TOTAL DEBTS	\$	\$

TAKE HOME INCOME/PAYCHECKS

(after taxes/benefits are taken out)

Income (1) \$ _____

Income (2) \$ _____

Income (3) \$ _____

Income (4) \$ _____

TOTAL MONTHLY NET (TAKE HOME) INCOME \$ _____

Minus Total Monthly Spending - _____

Difference +/- _____

Ask yourself:

→ Does your income cover all of your living expenses and savings goals?

→ Or are you running out of money by the end of the month?

First things first: Where is my money going?!



Sometimes it's hard just to figure out where your money is going, much less where to start if you need to cut back. That's where having a monthly budget or spending plan comes in.

But spending plans don't work if there's *not enough room* for flexibility in your monthly expenses and your savings goals. They also don't work if there's *too much room* - "spare change" spending – like that \$20 bill that just disappears before you know it.

Here are some tips to get you started on creating your own monthly spending plan:

- **Be realistic:** Keep track of what you actually spend, not what you think you spend. See "Ways to Track Spending." Also, be realistic about the amount you can save for your financial goals without feeling deprived during the month.
- **Be specific:** If you go through the effort of putting your monthly expenses in categories, you'll have a much better idea of where you're spending your money. This will also help you to decide where *you want* to spend your money and where to make changes, like cutting back on vending machine snacks instead of trying to cut back on healthier food.
- **Allow for the unexpected:** Life never fails to throw a few curve balls. Having an emergency fund or savings for those expenses that are likely to come up in the future – like car repairs – will keep you from blowing your budget or having to take on debt.
- **Get (sort of) organized:** Sometimes staying within your spending plan is a matter of paying bills on time to avoid late fees or balancing your checking account regularly to avoid overdrafts. If you set up a regular time for paying bills and a specific place for sorting and filing paperwork, life will get a whole lot easier.
- **Prioritize:** There are a lot of ways to spend a dollar. Most financial experts would agree that top budget priorities are to keep up with housing-related bills, car payments, and basic living expenses. Ideally, your spending reflects what's most important to you and is based on your family's financial priorities and values.
- The bottom line is: ***Are you happy with where your money is going?***

If you find that your credit card balance continues to grow each month, this could mean trouble. You might be relying on credit to make ends meet. Plus, minimum payments due can quickly become unmanageable.

Step #2: Track Spending



Most of us have a good handle on the cost of our fixed monthly expenses – that is, those bills that stay the same month after month. It's those expenses that change a little, or a lot, each month that can really throw you off. If you have a hard time figuring out where your money goes each month, there are many different ways to track your spending.

- **Notebook:** When you spend money, write it down right away. Keep a pen and paper in your pocket, car, or purse.
- **Receipts:** Put your receipts in a folder or envelope and add them up at the end of the month. Didn't get a receipt? Write the amount on the folder.
- **Calendar:** If you're used to looking at a calendar every day, write down what you spend, what bills were paid, and income received in your calendar.
- **Checkbook:** Look through your checkbook register for check and debit purchases. Or look through your monthly bank statement.
- **Envelope method:** If you usually spend cash, put your spending money for the day or week in an envelope. When you take cash out, put your receipt in or write your purchase on the envelope. You can also divide your expenses into categories like "groceries" or "entertainment" if you're trying to limit your spending. When one envelope's empty, the money has to come out of another envelope – you decide.
- **Computer:** Enter your spending and income into a computer program that totals up your cash flow for you at the end of the month.
 - **Quicken, Money**
 - **Free programs: mint.com, quizzle.com, thebeehive.org**
- **Bank:** Many banks offer online bill paying, tracking, text messages, online piggy banks for saving money, and other features.

Why track your spending?

The biggest reason budgets don't work for many of us is that our spending and expenses change weekly or monthly. When you're trying to stick to a spending plan, it's easy to get discouraged the minute you go over.

Tracking your spending lets you stay on top of where your money is really going. It gives you the big picture for all of your spending during the month. After all, what really matters is how far ahead or behind you come out at the end of the month.



If your monthly expenses are consistently higher than your monthly income, you have **3 options: *cut back on spending, increase your income, or do both.***

Step #3: Cutting Back on Spending

Are you happy with where your money is going?

If not, look at your habits. Sometimes we just buy things or go places out of habit without giving it a lot of thought. When money's tight, it's a great idea to look over your spending for small ways to trim costs. Tracking your spending will help you to be more aware of your spending habits – and changing a few habits can result in big savings.

There are 3 ways to save money on (almost) anything. Pick one expense out of your budget: _____

Can you figure out a way to:

- Do it **less often**? _____
- Buy it **cheaper**? _____
- Or even **cut it out** altogether? _____

Who wants pizza!

- ~ Meal out at a pizzeria (includes breadsticks and drinks) = \$40
- ~ Order a large take-out from a pizzeria = \$15
- ~ Pick up a "take & bake" from the grocery store = \$9
- ~ Buy ingredients and make pizza at home (using frozen dough) = \$6
- ~ Buy a frozen pizza (on sale, of course) to cook at home = \$3



Do you buy snacks or soda pop when you're away from home?

<u>From home:</u> 30¢	<u>From a machine:</u> 75¢
2 sodas/day: 60¢	2 sodas/day: \$1.50
Weekly total: \$4.20	Weekly total: \$10.50
Monthly total: \$18	Monthly total: \$45
Yearly total: \$219	Yearly total: \$547.50



Spending Adds Up

Cable or Satellite Package = \$60/month = **\$720/year**
 DVD Rentals 3 @ \$12/week = \$36/month = **\$432/year**
 Movie Tickets 2 @ \$8/each = \$16/month = **\$192/year**
 Treats at Movie 2 @ \$5/visit = \$10/month = **\$120/year**

What are your habits?

So Where's the Money?

Consider some of your habits and how they add up over time. The question is, what habits – eating out, music downloads, or ? – would you be willing to cut back on? If you miss whatever you cut out too much, then that's not the expense to cut out. Move on and try something else.

Purchase or Habit	How Often Monthly	Monthly Cost x 12 = Yearly Cost
<i>Example: Eating Out = \$20</i>	<i>4 times/month = \$80</i>	<i>\$80.00 x 12 = \$960.00</i>
What's your total?	Monthly \$	Yearly \$

Step #4: Increasing Your Income

Sometimes more money can come from turning a hobby into a second job, getting a tax refund, reducing the amount of taxes withheld, or selling stuff you don't use anymore. Even small changes can add up. But it's just as important to understand how decisions to cut costs to save money can affect your future financial security.

Dropping or Decreasing Benefit Contributions: When you look at your paycheck, what deductions do you see listed? Some deductions might be non-negotiable, like a pension plan, while other contributions might be scaled back even if temporarily. Check with your human resources office to find out which payments are under your control.



Keep in Mind:

- ❖ **Health coverage:** There are typically restrictions and enrollment periods surrounding health care plans and supplemental policies that may prevent or postpone your ability to cancel certain coverage. If you drop a policy and later want to re-enroll, you may be faced with issues around pre-existing conditions and waiting periods.
- ❖ **Retirement savings:** Some pension programs are mandatory, but you might also have voluntary retirement contributions taken out of your paycheck. Cutting back on retirement savings can add more to your monthly budget now, but you'll have less money when you're older which could mean working longer or living on less later.
- ❖ **Life and disability insurance:** Some policies are mandatory, while others could be cancelled. Dropping certain types of protections could leave you and your family vulnerable to economic disaster. Instead of dropping the coverage entirely, are there options to increase your deductible or waiting period? Just make sure you have the money to cover a larger deductible if something happens.

Taxes and Tax Credits: A drop in income might affect the amount of taxes you have withheld from your paycheck. You might also be eligible for tax credits, such as earned income, child tax credit, or homestead credit, when you file your taxes next year.



Keep in Mind:

- ❖ **Do the math:** You don't want to be in a position of having too little taxes withheld and then scramble for money next April to make a tax payment.
- ❖ **File taxes even if you don't owe money:** Tax credits can either be *refundable*, meaning they will add to your refund if you don't owe any money, or *non-refundable*, meaning they will only credit you if you owe money. While deductions are subtracted from your income, tax credits are subtracted from your tax due. Which is better depends on your income level.
- ❖ **To find out more:** Visit the Internal Revenue Website at: www.irs.gov.

Selling Assets: Selling items online or at a rummage sale can help you come up with cash to put toward your monthly bills. While this can be a good one-time source of cash to pay down debt, it doesn't add to your monthly income to cover future debt payments.



Keep in Mind:

- ❖ **You could lose money:** When selling, you typically won't get as much money as you paid for an item. If you plan to replace the item when you get back on solid financial ground, this option could cost you more money in the long run.
- ❖ **Are you really willing to sell?:** You might own some family heirlooms or items with sentimental value that would be too hard to part with.
- ❖ **Do you own it?:** You might not be able to sell an item that is being used as collateral for a loan. Sometimes the creditor will give you permission to sell the item, such as an auto, in order to use the money to pay off the balance on the loan.

Withdrawing Retirement Savings: The Internal Revenue Service allows “hardship withdrawals” from certain retirement plans under circumstances that present an immediate and heavy financial need, including preventing foreclosure or eviction. Your withdrawal is limited to the amount of money you paid in and does not include any employer match or interest income. A withdrawal is not considered necessary if you still have other options available to you, such as getting a bank loan or selling assets.

A hardship withdrawal is different from taking a loan out of your retirement account. Unless you’re purchasing a home, a loan must be repaid within 5 years with payments beginning immediately. On the other hand, a hardship withdrawal doesn’t need to be paid back. If you take out a loan and then leave the company before the loan is paid back, you must repay the loan right away or else pay taxes and penalties.



Keep in Mind:

- ❖ **You could owe more taxes:** Withdrawals are taxed as income, plus there’s a 10% penalty added on, so you need to figure this amount into how much savings you plan to withdraw. It’s extremely important to check with a tax professional about penalties and taxes due if you are considering cashing in a retirement policy. Find out more on the IRS website at: www.irs.gov.
- ❖ **There are exceptions for withdrawals:** A retirement plan is not required to offer hardship withdrawals. Your options for withdrawing savings also depend on the type of plan you have, such as a 401(k), 403(b), 457(b) or IRA.
- ❖ **The long-term impact:** A hardship withdrawal permanently lowers your retirement savings since the money can’t be paid back once it’s taken out. Also, you won’t be able to contribute to any retirement account for at least 6 months following a withdrawal.
- ❖ **If it comes down to bankruptcy:** Retirement savings are exempt from seizure by your creditors during a bankruptcy. Once you’ve spent the hardship withdrawal from your retirement savings, what other options do you have for keeping up with your bills? Borrowing from retirement savings may not be the best option if you end up filing for bankruptcy a few months later.

Increasing household resources

When’s there not enough money available to cover monthly bills, there are other ways to balance the family budget. If your income has dropped, you may be eligible for a number of programs that target individuals and families with lower incomes. Government and non-profit assistance programs can help bring in needed resources, such as housing, heating, or food payment assistance.

Most programs don’t use the poverty line as a cutoff point for eligibility, but instead many programs have eligibility criteria that are based on multiples of the poverty line. For instance, school meals are generally provided at no cost to children with family incomes below 130% of the poverty line, and school meals are at reduced cost to children with family income up to 185% of the poverty line.

The state of Wisconsin and the federal government offer many programs to help you find financial security. Check out access.wisconsin.gov or contact your county human services office to see if you qualify.

Dial 2-1-1

If you are having immediate trouble meeting your basic needs, call 211 for a local directory of all the government and non-profit programs, agencies, and organizations that seek to provide services to low-income individuals.

Step #5: Paying Bills

Using a monthly spending plan worksheet, work out your new income and monthly expenses, factoring in any new cuts you plan to put into place. It's helpful to figure out what bills are priorities for you, for example, the mortgage or car payment. After you set aside enough money for priorities, then divide the rest of your income among the other bills. This will give you a picture of your current spending and how tight your budget is during the month.

If you find that money is tight and you're worried you won't be able to keep up with payments, **take action right away**. It may be a matter of moving a payment due date to later in the month, for example, to better match your paycheck. Or it might mean renegotiating a lower monthly payment. Not all creditors or credit card companies will be willing to negotiate with you, but if you've been a good customer, it increases your chances that they'll work with you.

At the first sign that you will not be able to make a payment, do the following:

- **Contact your creditors BEFORE they contact you.** When you call creditors, you'll need to work with someone—a supervisor, accounts manager, or “loss mitigation” specialist—who can negotiate with you. Be prepared for busy signals or spending some time on hold since many others in similar situations may be calling too. If the creditor is local, make an appointment to meet with them in person.
- **Make specific and realistic offers to creditors.** A creditor does not have to accept a lower payment from you, but it never hurts to ask and explain your situation. Agreements may include lower payments over a longer period (with more interest added) or payment on interest alone for a set time period. Don't make promises you can't keep.



- **Follow up with a letter detailing the arrangements you agreed to with each creditor.** In the letter, write down the terms of your agreement including amount and due date, the name of the person you talked to, and the date. Keep a copy of the letter for your records. Get agreements in writing and signed by the creditor before you send in payments.
- **Contact a credit counseling agency** if you need help working with your creditors. These agencies charge a fee, and a debt repayment program may affect your credit rating. Beware of *debt settlement* agencies that might charge you high fees and not pay off your creditors. To find a reputable credit counselor near you, go to: www.debtadvice.org. For help with options to keep up with your mortgage, call 1-888-995-HOPE or go to: makinghomeaffordable.gov.
- **Consider seeking legal advice** if a creditor has filed a judgment against you to garnish your wages or repossess collateral, you may want to speak with an attorney *before* the court date. You have rights under the Consumer Protection Act.
- **Don't take on new debt.** You may be tempted to use credit cards or a home equity loan to pay bills. Unless your situation turns around quickly, more debt can create bigger problems.

If you've already tightened up your budget and cut out all the extras over the past few years, there may not be any more places left to trim. Really big cuts in your budget usually call for bigger lifestyle changes, such as selling a car or getting a second job. Consider meeting with a budget counselor to review options

For more information about prioritizing bills and working with creditors, check out:

- “*Dealing with a Drop in Income*” at www.uwex.edu/ces/flp/economics/resources_flp.cfm
- “*Managing Your Personal Finances in Tough Times*” at fyi.uwex.edu/toughtimes/