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SETTING NEW PRIORITIES FOR SPENDING

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If you or your family are faced with a reduction or loss of income, you'll need to develop a plan to help you meet your everyday expenses. It isn't easy. Sometimes people try to hide financial problems from themselves or other household members at crisis points. However, not facing problems can be very harmful 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 the situation and actively seek solutions to your problems, despite the discomfort it brings.

Because spending decisions affect everyone who lives in your household, it is important to communicate openly with them about the situation. Let them know everyone needs to change their spending patterns. Involve everyone in deciding spending priorities, even children. 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 follow through on them.

As members of your household talk about what is most important, be sure to listen to what

they say. Supporting each other can help you pull together and get through this rocky patch.

How Others Handle Reduced Income

Research shows that individuals and families respond to reduced income by cutting their spending for non-essential items first. Vacations, eating out, recreation and home furnishings are eliminated before basic needs such as food, shelter, transportation and medical care.

When dollars are scarce, people say they revise their budgets. Most families make a new spending plan that includes strategies for getting bills paid. It may be as simple as marking the due dates of fixed bills on the calendar to be sure they are paid on time and then hanging the calendar in a conspicuous place like the front of the refrigerator. Fewer people report increasing their income or using credit to manage finances. Borrowing or using credit cards to pay bills brings only temporary relief. In studies of financial stress, people who increased their use of credit were more unhappy with their financial situation

¹Adapted from *When Your Income Drops*, written by Barbara Rowe and Denise Schroeder, Purdue University Extension Service, West Lafayette, IN 47906.

the more they borrowed. Those who quickly made changes in their spending habits were the most satisfied with how they were managing. Those who didn't make changes felt more out of control and more dissatisfied.

Making a New Spending Plan

Creating a spending plan is not difficult. The major requirements are income and spending records, a knowledge of family spending goals and priorities, and a certain amount of patience and discipline to get the plan started and to see it through. Financial counselors point out that the most difficult and time-consuming step in any financial activity is the first one—getting started. Once underway, chances are any required record-keeping will only take an hour a week or less. It may only require writing flexible expenses for things such as food or transportation on that family calendar. After a month, you will have a feel for cash flow and can discuss how expenses can be changed to adjust to the current income.

Work may be needed. Look back through checkbooks, receipts or charge account records for amounts spent on clothing, long-distance telephone calls, entertainment, personal care items, and expenses that don't occur very often like property taxes. As you begin cutting back and keeping track of outgoing dollars, put a shoe box, empty restaurant-sized peach can, or a spindle for storing labeled receipts.

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

- Which expenses are essential to the family's well-being?
- How much can you afford to spend in each category?
- Are there opportunities to cooperate with others by trading or sharing what we can do or learn to do?
- Can we substitute a less costly item?
- Can we do without or do it less often?

When members of your household begin to see how money was and is being spent, it is time for a conference. Lay out the records of anticipated monthly income and expenses for all family members to see and evaluate. Subtract expenses from income. Is the remainder positive or negative after all expenses are subtracted from monthly income? Use Worksheet 1 to develop or readjust your spending plan.

It's easier to see the general pattern of spending if expenses are categorized. This reveals the percentage of income spent on food, housing, clothing, medical care, insurance and other items. There can't be any hard-and-fast rules for household spending because individual needs, tastes and economic circumstances are so important. However, examining spending by each category does highlight differences between stated goals and priorities and actual spending patterns and income.

If your household is operating "in the red" month after month, a couple of things must happen—expenses must be reduced, income must rise, or both. Do you have savings that can be used to meet expenses in an emergency? Are there assets you could sell to help out with expenses? What are the possibilities for part-time or temporary work to supplement your income? Are some expenses out of line with stated priorities or expected income? Where can cuts be made so they cause the least sacrifice in household well-being?

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 property to creditors to get out from under your debt.

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 Worksheet 2 to help you estimate these expenses and include them in your spending plan.

WORKSHEET 1: **Income/Spending Plan**

Income

Gross salary \$ _____
 Interest income _____
 Dividends _____
 Business/profit sharing _____
 Profit from rental property _____
 Profit from sale of assets _____
 Alimony/child support received _____
 Annuities _____
 Pension/retirement funds _____
 Social Security _____
 Disability insurance payments _____
 Cash gifts _____
 Other income _____

Total cash income \$ _____

Expenses

Federal taxes \$ _____
 Social Security (FICA) _____
 State income taxes _____
 Property taxes _____
 Other taxes _____

 Rent/Mortgage _____
 Utilities _____
 Gas _____
 Telephone _____
 Water _____
 Garbage & sewer _____
 Electricity _____
 Property insurance _____
 Household maintenance _____
 Furniture/appliances _____
 Other housing expenses _____

 Savings _____
 Investments _____

Retirement account(s) _____
 Future goals _____

 Automobile expenses _____
 Loan payments _____
 Insurance & licenses _____
 Tires, maintenance, repair _____

 Food _____
 Clothing _____
 Medical _____
 Health insurance _____
 Doctor _____
 Dentist _____
 Prescriptions _____

 Life/disability insurance _____
 Child care expenses _____
 Child support/alimony paid _____
 Recreation, hobbies _____
 Personal care _____
 Education, books _____

 Bank loans _____
 Charge accounts/credit cards _____

 Gifts _____
 Charitable contributions _____
 Business/professional expenses _____

 Personal allowances _____
 Miscellaneous (HOK) _____

Total expenses \$ _____

 TOTAL INCOME \$ _____
 LESS TOTAL EXPENSES _____

 DIFFERENCE \$ _____

Worksheet 2: Occasional and Seasonal Expenses

Expense	Amount	Expense	Amount
January		July	
February		August	
March		September	
April		October	
May		November	
June		December	

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