

Take Control of Your Finances When Your Income Drops



Studies have found that when income is reduced, many families do not adjust their lifestyle for about 6 months. Ignoring the situation can bring disaster. Your best chance of landing safely on the other side is to take control of your resources as quickly as possible.

Be thorough in preparing for takeoff into unknown territory by completing each item in this financial pilot's checklist. Be sure to involve your family co-pilots and crew in the planning and preparation, too.

Preparing for Takeoff

1. Take stock of your financial situation.
 - Prepare a net worth statement (list of what you own and owe).
 - Make an list of personal property and estimated value.
 - List personal skills of family members.
 - Identify skills and resources you could trade, sell, or convert to cash.
 - Accumulate savings to stay at least 1 to 3 months ahead.
2. Examine family resources.
 - List current gross income of each family member (before deductions).
 - Look for ways to reduce paycheck deductions.
 - Estimate future income from unemployment or other benefits.
 - List expected severance pay.
 - Look for ways to increase income.
3. List family expenses.
 - Fixed monthly expenses.
 - Flexible monthly expenses.
 - Daily expenses.
 - Periodic annual expenses.



4. Reorganize family spending.

- Look for ways to reduce expenses.
- Create a spending plan to live within expected income.
- Spend on a cash basis (avoid using debit and credit cards).
- Prioritize expenses, separating needs from wants.
- Decide which bills are most important to meet critical family needs.
- Shop around. Look for sales or generic. Do it yourself.

5. Control credit.

- List debts.
- Avoid new credit (don't use credit to replace lost income).
- Maintain credit payments.
- Create a plan for paying down debts.
- Contact creditors to negotiate payments. File written agreements.
- Consult a nonprofit credit counselor for serious debt problems.

6. Network with others in your family and community.

- Tell friends and family about your job search and situation.
- Seek assistance from churches, government, or nonprofit organizations.
- Check eligibility for Earned Income Tax Credit next year.
- Apply for unemployment insurance after separation.

References

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Information Sheet 1867 (POD-11-18)

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Produced by Agricultural Communications.

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Extension Service of Mississippi State University, cooperating with U.S. Department of Agriculture. Published in furtherance of Acts of Congress, May 8 and June 30, 1914. GARY B. JACKSON, Director