

Living Resourcefully With Reduced Income

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If your income drops due to a layoff, cut in hours, divorce, disability or death of a family member, you are not alone. About one in four families during any 10-year period needs financial assistance for a short time.



While the reasons for reduced income vary, the financial hardships and stress people experience are similar. Loss of income is central to life. The emotions you feel are a normal part of loss and recovery.

Though circumstances may seem beyond your control, you can change some aspects of your situation. In turn, you can reduce your anxiety by starting to take charge now.

This fact sheet will help you look carefully at ways to downsize your spending, talk with creditors and find community resources. There are changes you can make that will help you manage until you get back on your feet financially.

Think

Think about how you spend money. Comfort shopping, impulse buying and other negative spending habits can be especially dangerous when you are facing reduced income. Do you:

- Buy things just because you have always bought that brand or product?
- Shop because it makes you feel good?

- Feel like you have to purchase things just because your friends have them?
- Go shopping to ease anger, frustration, boredom or depression?
- Buy new things now because next week or next month you may not have the money?
- Use spending as a form of power or control over a spouse?

These spending habits work against you. Think about why you buy what you buy. Pay attention to how you feel about shopping. Set some rules for yourself. Eliminate all unnecessary spending.

Reorganize

What is your family's current situation? Accept it as today's starting point and begin to regroup. Be prepared to change your everyday way of living.

What is your family's income? List the income from all sources and from all earners. There may be other potential earners in your family such as teenagers or stay-at-home spouses who can enter the workforce. Explore job options for these potential earners.

What are your family's financial assets? List the amount of savings accounts, certificates of deposit, money market funds, stocks, etc. These can be used to pay bills until you can find a way to increase your income.

What do you own? Make a list of all items you own. Record the current market value (what you could sell it for today). Look at everything you own

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with the idea that selling it might help pay bills if your financial crisis continues. If you live in a community with widespread unemployment, selling items may be less profitable. What do you own that can be turned into cash? What would you be willing to part with? Family heirlooms probably should not be listed.

What do you owe? Make a list of all debts. Write down the total amount you owe and the interest rate. List each minimum payment amount and the due date. Record the name, address and telephone number of each creditor so you'll know who to call if the need arises. If you've missed payments, determine how many. Make a note of any actions creditors have made against your unpaid or overdue accounts.

Regain Control

Look at the things you can do today – not the things you can't do. Make a new plan. Your goal is to find ways to live within your current income.

If your income reduction is drastic and will last more than a couple of months, something has to change. You can't keep spending the same way or you will use up your assets, plunge deep into debt and create ever bigger problems for yourself. Don't try to hide from the reality of your current financial situation. Worry is always worse than facing reality. Regain control by taking a hard look at your budget and finding ways to make ends meet. Here are some strategies you can use:



1. Identify your basic needs. Food and shelter top the list. What else is essential for your family's survival?
2. List the most and least important needs of all household members.
3. Discuss and prioritize your family's needs. This is crucial if needs differ among family members.
4. Reduce personal and household expenses to basic needs.
5. Stop using credit except for emergencies.
6. Prepare a written budget.
7. Set priorities for paying bills.
8. Control spending by setting limits for each item in your budget.
9. Follow your written budget.
10. Negotiate new repayment terms with creditors. Show them your budget and let them know you have a definite plan for making payments.
11. Use community resources to supplement your income while you are reorganizing. See the list of Community Resources in this fact sheet.

12. Minimize the risk of additional personal and family stress. Maintain good health with proper nutrition and exercise. Remember to relax and have fun. Look for free or inexpensive entertainment such as going to a park or library. Keep the lines of communication open.

Communication

Communicate with your family. All adults in the household should be aware of financial difficulties. Be honest about the situation. Family members may add to the plan of action. You may discover new ideas and resources. Talk to your children about the changes too. Reassure children that you will take care of them. Children need to feel secure.



Communicate with your creditors. Contact them before you miss a payment if possible. Let them know you are trying to reorganize your budget. Work to negotiate a new payment plan if necessary.

Pay Bills

Make a list of all of your bills. List them from the most important to the least important. You may not have enough money to pay all of the bills. Make sure you meet health and welfare needs. Minimize the legal and economic risks of not paying some bills. Read your credit contract. There may be penalties, late charges, a remainder-due-in-full clause or the risk of repossession of the item. If you can't pay all bills, which ones can be renegotiated or delayed? Rank bills and creditors according to the degree of risk involved in nonpayment:

- **First Priority** – rent, house payment, utilities, insurance
- **Second Priority** – minimum payments for credit cards and other outstanding debts
- **Third Priority** – doctors, dentists, hospital and retailers

Contact all creditors before bills are due. Explain your situation and offer to negotiate new repayment terms for each bill. Make partial payments or interest-only payments, if necessary. Don't make promises you know you can't keep. Let creditors know about any changes that affect your new repayment plan.

Utility Bills – If you get behind on utility bills, the company may discontinue service. You may receive a shut-off notice and have several days before the utility is turned off. If you can't pay your utility bills:

- Notify the company immediately and explain why you can't pay.

- Discuss your options and possible payment plans.
- Check to see if you qualify for energy assistance programs. Some agencies, churches and groups provide assistance to help with utility bills.
- Talk with family members and decide how to cut utility costs.

Phone Bills – If you think you may not be able to pay your phone bill, contact the company. You may be able to work out a payment plan or change to a lower-cost service plan. If service is disconnected, you may have to pay old charges plus additional fees to reconnect your phone. Here are a few ideas to cut costs:

- Switch to a less expensive service plan.
- Eliminate added features that increase your costs.
- Eliminate all unnecessary calls and use a low rate plan.
- Reduce long-distance and/or roaming calls.
- Use either a landline or wireless and discontinue the other service.

Rent – Tell your landlord about your situation before rent is due. Ask for a temporary postponement until your income resumes. Offer to provide some service, such as painting, in exchange for rent. Suggest making smaller payments for a month or two, with the understanding that you will catch up when your income increases again. Often it costs money for a landlord to change tenants so they may be willing to work with you. Laws regarding failure to pay rent on time vary. Check your lease for details about the consequences of missed payments. If you think your loss of income will continue for more than a few months, you may have to consider moving to lower-cost housing.



Mortgage – If your loss of income will only be for a few months, you may be able to cut back on other expenses and continue to meet your mortgage payments. If meeting your mortgage payment appears impossible, contact your lender immediately before you miss the first payment. You may be able to skip a payment or arrange a lower payment, but you will have to make these up in the future with larger payments or a lump sum. Be realistic. Eventually, the lender will require full payment or will take legal action. *If you miss a mortgage payment*, you have defaulted on your contract and your lender can begin foreclosure on your home.

Most lenders do not want to foreclose on a mortgage because time and money may be lost in

selling the property at public auction. The lender may be able to change the terms of your loan or refinance. You can finance your loan for a longer period of time with reduced payments. If interest rates are lower now than when you bought your home, refinancing at the lower rate could mean smaller payments. Small, locally controlled community lenders may be more flexible in negotiating new, short-term payments than larger or non-local lenders.

If your loss of income is going to last a long time or be permanent, you will need to consider other options. You do not have to live under the extreme stress and strain of meeting mortgage payments that are too high. Some options you have are:

- Taking in a boarder and using the money toward mortgage payments.
- Renting your house to someone else and renting less costly housing for yourself. (Check the affect this will have on taxes and changes needed on insurance coverage.)
- Selling your house and buying or renting less costly housing.
- Moving in with relatives or friends. Offer to share some of the housing costs.
- Deeding your house back to the lender. You may not lose much. For example, if you have been paying on a 30-year mortgage for 10 years, you have not paid for much of the house yet – only about 10 percent. If you choose deeding the house back to the lender in lieu of foreclosure and the house has decreased in value, you are still responsible for the total amount of the loan and must pay the lender the difference. If by staying in this house you will not have enough money for food or other necessities, you may find it less stressful to leave the house and find less expensive housing.

Insurance – Check your insurance policies for due dates and amounts due. If you can't make a payment, call your insurance agent or the company. Explain your situation and ask about different payment plans. You may be able to change to a monthly, quarterly or semiannual payment plan. You can often lower your premium by changing to a higher deductible. For automobile insurance, you might consider changing to more basic coverage. Make sure you are receiving any discounts offered by your company for eligible drivers. For life insurance policies, term life is usually less expensive than whole life.

Many workers have health insurance benefits through their employer. If you are facing job loss or reduced hours, you need to know your health insurance options:

- Can you enroll in another group plan? You may be able to request special enrollment for you and your family in your spouse's group health insurance plan. Typically, requests must be made within 30 days of the time you lost coverage.

- COBRA Continuation Coverage is usually available to employers with 20 or more employees. You and your family members could continue the same group health plan. You pay the full premium, but it is usually lower than private health insurance. You generally have 60 days to sign up, and COBRA is usually available for 18 months.
- Several government-sponsored insurance programs are available to Arkansas residents. ARKids First is a state-sponsored program that provides health insurance for kids ages 18 and younger. Both moderate-income and low-income families are eligible. To apply, call the toll-free hotline at 1-888-474-8275 or visit the ARKids First web site at <http://www.arkidsfirst.com>. Medicare is for people ages 65 and over and for certain people who are disabled. Medicaid is for low-income and special-needs individuals and families. The toll-free number for the Centers for Medicare and Medicaid Services is 1-800-633-4227.
- Private health insurance coverage is often more expensive than group plans or COBRA. More information on health coverage is available from the Arkansas Insurance Department at <http://insurance.arkansas.gov> or 1-800-852-5494.

Bankruptcy

As a last resort, you may need to consider filing for bankruptcy. Bankruptcy is a proceeding in a federal court in which a debtor who owes more than his or her assets can receive debt relief by transferring his or her assets to a trustee or agreeing to reorganization of assets and liabilities. Personal bankruptcy is usually either Chapter 7 or Chapter 13:



- **Chapter 7** – A trustee is appointed to take over your property. Any property of value will be sold or turned into money to pay your creditors. You may be able to keep some personal items and possibly real estate depending on the applicable laws.
- **Chapter 13** – You can usually keep your property, but you must earn wages or have some other source of regular income and you must agree to pay part of your income to your creditors. The court must approve your repayment plan and your budget. A trustee is appointed and will collect the payments from you, pay your creditors and make sure you live up to the terms of your repayment plan.

Consumers who file bankruptcy must still pay child support, alimony, fines, taxes and some student loans. You will be required to have credit counseling and financial management education. Bankruptcy

will stay on your credit report for 10 years and can make it difficult to obtain credit.

Seek Community Resources

Community support may be in the form of information, programs or services. These resources were created to assist consumers during times of economic crisis. You should feel no stigma attached to accepting temporary help from your community. Even businesses sometimes receive subsidies during tough economic times.

Community resources can help you during a financial transition, but they are not intended as long-term or permanent solutions to your financial dilemma. In addition to the statewide resources listed, seek out local family or human service agencies, mental health and crisis centers, emergency telephone hotlines, and church and crisis groups to help you.

Consumer Resources

The Arkansas Attorney General's Office advocates for citizens with regard to environment, utilities, antitrust and consumer protection. Contact them if you have consumer complaints or if you suspect fraud. The phone number is 501-682-2007 or toll free at 1-800-482-8982. Visit their web site at <http://www.arkansasag.gov>.

Educational Resources

Educational programs and information are provided throughout the state by the University of Arkansas Division of Agriculture Cooperative Extension Service. Subjects covered include financial management, family relationships, parenting, nutrition, health and youth development, to list just a few. Visit the web site at <http://uaex.uada.edu> or contact your local county office.

Public libraries have information on résumé writing and job search techniques. Reference manuals can be used to find names and addresses of prospective employers. Ask the librarian to help you find the resources you need. Many libraries also have computers that can be helpful for your employment search.

Employment Resources

Arkansas Workforce Centers provide the latest information about job vacancies, worker availability and salary or wage rates in your area. Dislocated workers can get help finding new jobs through self-service labor market information and job seeking databases. They provide help with job seeking skills such as résumé writing and interview preparation. The Center's statewide referral system can put you in touch with other agencies that can provide services you may need to get a good job. To locate a center near you, call 501-371-1020. Visit the web site at <http://www.arworks.org>.

Private employment agencies are licensed and regulated by the Arkansas Department of Labor. They charge a fee after they find you a job. Be sure to ask about the fees and read the contract carefully before you sign. Employment agencies may also have some job listings of employers who pay agency fees if you are hired. You can request the agency to contact you only on fee-paid positions.

Debt Counseling Resources



Credit counseling and debt management services work with consumers who are having problems with debt. They provide counseling and may help you set up a debt management plan with your creditors.

The Consumer Credit Counseling Service provides money management counseling to individuals and families including budget counseling, debt management, reviewing credit reports, housing counseling for families experiencing mortgage default, first-time home buyer classes and consumer education. They have offices in Little Rock, North Little Rock, Fort Smith, Conway, Hot Springs, Pine Bluff, Russellville and Jacksonville. They are also in Memphis, Tennessee, and Southaven, Mississippi. You can contact the main office at 1-800-255-2227 or 501-753-0202 or online at <http://www.helpingfamilies.org>.

Credit Counseling of Arkansas, Inc., is a non-profit organization dedicated to reducing financial stress through free credit and housing counseling, free seminars, credit report reviews and debt management. They offer credit counseling in-office, by telephone and online. They have offices in Fayetteville, Bentonville, Fort Smith, Springdale, Siloam Springs and Harrison. Contact Credit Counseling of Arkansas at 1-800-889-4916 or online at <http://www.ccoacares.com>.

Beware of credit repair scams. Some companies may seem to offer a quick fix for your credit problems. Beware of companies that ask for money up front. A reputable program will spend time reviewing your financial situation, help you set up a budget and teach you about money management. Check the company's references before you provide any personal information or credit card account numbers. Reputable credit counseling organizations have counselors who are certified and trained in the areas of consumer credit, money and debt management, and budgeting.

Food and Nutrition Resources

Supplemental Nutrition Assistance Program (SNAP) provides food assistance to cover a portion of

the food budget. Benefits are distributed through an Electronic Benefits Account. Eligible consumers receive an ATM magnetic-stripped card to use in applying benefits from the account to food purchases. To apply for SNAP, call or go to the Department of Human Services (DHS) office in any county and ask for a SNAP application form. You can also apply online at www.state.ar.us/dhs/dco/index.html.

The Women, Infants and Children program (WIC) provides food, nutrition education or counseling and access to health services for eligible pregnant, breast-feeding and postpartum women, infants and children to age 5. The WIC program provides vouchers that participants use at authorized grocery stores and farmers' markets for certain products such as infant formula, cereal, milk, eggs and other items. For information about WIC, contact your local county health unit or contact the state WIC office at 501-661-2473 or toll free at 800-235-0002. Visit the WIC web site at <http://www.healthyarkansas.com/wic>.

School meals are provided free or at reduced cost for eligible children. Students who qualify for free or reduced-price school lunches are eligible for the breakfast program where it is available. Local schools can provide information about eligibility and applications. Free and reduced-price meals are also available at some child care centers and home day care.

The Emergency Food Assistance Program distributes commodities to food banks, soup kitchens, shelters and other nonprofit agencies. To find a distribution center near you, call 1-800-467-3663.

Arkansas' Community Action Agencies (CAA) often offer nutrition assistance in addition to other services and support programs for low-income individuals and families. To locate your nearest Community Action Agency, call 501-372-0807 or visit the CAA web site at <http://www.acaaa.org/ex>.

Housing Resources

Emergency housing or funds to help in providing short-term housing may be available through local nonprofit agencies, shelters or the Salvation Army.

Rental Assistance Programs pay a portion of low-income family housing costs. Check with your public housing or Community Action Agency. Tenant Based Rental Assistance (TBRA) is a rental subsidy program that helps low-income tenants with rent and utility costs, as well as to pay security and utility deposits. TBRA is available through Arkansas Development Finance Authority; call 501-682-5900.

The Home Energy Assistance Program provides financial assistance to help low-income individuals and families meet the costs of home energy. Call 501-682-8726 or contact your local Community Action Agency.

Income Assistance Resources

The law provides unemployment insurance benefits for unemployed workers and, under certain conditions, for those working only part time. Employers contribute to or reimburse the Arkansas Unemployment Trust Fund from which benefits are paid. Find out if you are eligible at your local office of the Department of Workforce Services or call 866-392-7284.

Transitional Employment Assistance is a time-limited program for eligible families with children. Services may include cash assistance, employment-related services, job-readiness activities, transportation assistance, child care assistance or other support services. Contact your local office of the Department of Human Services or call toll free 800-482-8988.

Supplemental Security Income provides basic income for people with limited income and resources who are disabled, blind, or age 65 or older. Contact Social Security toll free by calling 800-772-1213 or visit your area office. Visit the Social Security web site at <http://www.socialsecurity.gov/reach.htm>.

Legal Resources

Legal services are available to low-income persons for civil cases such as spouse abuse or tenant problems. Call toll free 1-800-952-9243 or visit the Arkansas Legal Services web site at <http://www.arlegalservices.org/Home/PublicWeb>.

The Arkansas Bar Association has a web-based service to help you locate an attorney. The service is called Find a Lawyer. Go to <http://www.arkansasfindalawyer.com>. You can search by area of practice or by location.

Medical Resources

Medical assistance is available to needy individuals and families through several programs including Medicaid, Medicare and ARKids First. Check with your local Department of Human Services.

Some doctors or clinics may offer free or reduced-cost care to those who are unable to pay. Check with your local doctors or clinics or contact your area Community Action Agency.

The Arkansas Department of Health has units available in all counties. They provide a variety of services free or at reduced cost depending on ability to pay. These services include such things as medical examinations, immunizations, well-baby care, prenatal care and other programs. Services of health units are available to anyone regardless of income level.

Summary

Managing the stress and hardship of a reduced income is not easy. There are no easy answers or quick cures. Adapting and regrouping will be easier if you remember that you are the same person as before but with reduced cash flow. You can maintain control of your finances by reducing and prioritizing spending as quickly as possible. The procedures outlined here will help you clarify your priorities, make decisions, implement your plan, minimize anxiety and prepare for the future.



Credit is given to Judith R. Urich, Ph.D., CFP, former family resource management specialist, Cooperative Extension Service, as author of the previous fact sheet FSHEC132, Living Resourcefully With Reduced Income.

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