

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.



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.

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.

UW-Madison Division of Extension

fyi.extension.wisc.edu/money/

March 2020

Contact a local Educator at your Extension County Office for more assistance and additional resources - counties.extension.wisc.edu/



Extension

UNIVERSITY OF WISCONSIN-MADISON

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 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 waiting periods. Learn more about coverage options at - <https://www.healthcare.gov/>.
- **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.

