

Living Resourcefully with Reduced Income

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If your income drops due to a lay-off, 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 will 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 changes you need to make to downsize your spending, talk with creditors, and what community resources may be available to help you until you can get back on your feet.

Think

How do you use money? Do you spend money:

- To buy things just because you have always bought that brand or product?
- On things just because they make you feel good?
- On things just because your friends have them?



- To work off anger or frustration, to ease boredom or depression?
- To buy things **now** because next week or next month you may not have the money?
- To get even with a spouse for spending money?

These spending habits work against you if you are trying to get control of your finances. "Playing games" can "create leaks" in your spending. Notice your mood when you spend your money. A change in your mood or feelings toward money may help you to regain control of your finances.

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 earners or potential earners in your family. Discuss how long the income will last.

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What do you own? Make a list of all items you own. Record today's value (what you could sell it for), not what you paid for it. Look at everything you own with the idea that selling it might help pay your bills for a while. If you live in a community with widespread unemployment, values may be less.

- 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.
- How much do you have in reserve – savings, life insurance cash value, money market funds, etc.?

What Do You Owe? List Information About Debts

- Record the name, address and telephone number of each company, business or person to whom you owe money.
- Include the total you owe and the interest rate.
- Note your payments and when each is due.
- Determine how many payments you have missed.
- Finally, has the creditor started any actions against you?

Regain Control: Make A New Plan

Look at the things you can do, TODAY, not what you can't do. Your new plan must enable you to live within your current income, whatever the amount.

Don't kid yourself. If your drastic reduction in income is going to last more than a month or two, something has to change. You can't go on like before or you will plunge deeper into debt or use up your savings, creating even larger problems for yourself. Don't try to hide your real financial situation. Worry, caused by lack of cash, uncertainty and financial change, is always worse than facing reality. To make sure you are in control, know the facts about your situation and discuss them with your family.

Use a combination of the following strategies to help you develop a plan for your family and avoid adding to your financial crisis.

- **Identify** your basic needs.
- **List** the most and least important needs of all household members.

- **Discuss** and prioritize your family's needs. This is crucial if needs differ among family members.
- **Reduce** personal and household expenses to basic needs.
- **Stop** using credit except for emergencies.
- **Prepare** a written budget.
- **Set** priorities for paying bills.
- **Control** spending by setting limits for each item in your budget.
- **Follow** your written budget.
- **Negotiate** new repayment terms with creditors; show them your repayment plan (written budget).
- **Use** community resources to supplement your income while you are reorganizing. See the Community Resources section, page 6.
- **Minimize** the risk of additional personal and family stress through proper nutrition, exercise, limited use of tobacco and alcohol, and open and frequent communication about your situation with all family members.

Communicate

To take charge of your financial situation, communicate with your family and with the people to whom you owe money. Communicating within your family may be difficult, but everyone needs to be involved. Each family member may add to the plan of action. And, you may discover new ideas as you talk.



Communication with creditors is a must. Discussing your circumstances or plan with an outsider isn't easy, but the sooner you do, the more control you will have over your situation.

Pay Bills

Set Priorities

Stack your bills from the most to least important. You may not have enough money to pay all the bills. Make sure you meet the health and welfare needs of family members and minimize the legal and economic risks of not paying some bills.

To help you set priorities:

1. Reread your credit contracts. Look for the following points:
 - Is there a grace period?
 - Will there be a penalty or late charge?
 - Is there a remainder-due-in-full clause, where the creditor can demand full payment if you forget to pay?
 - Is there a repossession clause where the creditor can seize the item and sell it?



2. Ask yourself:
 - Is the mortgage or rent payment due?
 - Is the total amount owed large (more than \$100)?
 - Can phone, utilities, insurance be cut off?
 - What necessary items can be repossessed?

Make the hard choices. If you can't pay all bills, which ones can be renegotiated or delayed? Rank creditors according to the degree of risk involved in nonpayment:

- **First Priority** – Utilities, landlord, house payment, car and life insurance.
- **Second Priority** – Minimum payments for credit cards and other outstanding debts, finance companies, credit union, 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 only interest 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 are behind on utility bills, companies regulated by the Arkansas Public Service Commission (PSC) must notify you in writing they intend to discontinue services. You will have five days to pay the total bill, before your service is cut off. Utility cut-offs can occur during the winter months. However, residential gas or electric service may not be cut off in below-freezing temperatures.

There are also special provisions for elderly and handicapped persons. Ask your power company.

City-owned electric, water or sewer utilities and fuel oil and LP suppliers are not covered under the state regulation. They set their own policies regarding late bills and service disconnects.

If you can't pay your utility bills:

- Notify the company immediately. Explain why you can't pay.
- Propose a new payment plan based on your current ability to pay. Do your best to develop a payment plan that the company will accept.
- Check if you qualify for energy assistance. Many agencies, churches and groups provide money for utility bills in emergencies.
- Talk with family members and decide how to cut utility costs.

State-regulated utility companies are not required to offer a budget repayment plan to a delinquent customer. Discuss your plan with the customer service representative before you are hopelessly behind.

Telephone Bills – Telephone service may be disconnected if your bill is not paid within five days after you get a shut-off notice. Contact the company before your bill is due. Depending on your prior record, a payment plan **may** be set up where you will not have service interrupted.

1. To reconnect your phone service, you must:
 - Pay all old bills.
 - Apply for service and pay installation charges.
 - Pay a large deposit.
2. Begin to cut your costs:
 - Switch to standard measured service.
 - Eliminate added features and unpublished listings that add to your costs.
 - Eliminate all unnecessary calls if you have a standard measured-rate plan.
 - Reduce long-distance calls.

Rent Payments – Tell your landlord your situation before your rent is due. See if you can arrange to provide some service in exchange for rent

or make smaller payments for a month or two and then catch up when your income increases again. Often landlords are willing to work with tenants because changing tenants is costly to landlords.

If you don't pay your rent, it is delinquent when specified in your lease. If there is no lease agreement, check with your landlord. If your landlord wants to evict you, you must be given a written notice allowing you three days to vacate the premises. If after three days, you do not vacate your rental unit, the landlord can begin legal proceedings to remove you, household members and any personal possessions from the property.

Mortgage Payments – Most lenders do not want to foreclose on a mortgage because time and money may be lost in selling the property at public auction. Small, locally controlled community lenders may be more flexible in negotiating new short-term payments than larger or non-local lenders. But, be realistic. Eventually, the lender will require full payment or will take legal action.



If you can't make full payments, act immediately before the first payment is missed. You must discuss your financial situation with the lender either in person, by telephone or by letter.

First, call the mortgage company – collect or toll free, if possible, or at your own expense. Speak to someone in the mortgage-servicing department. Tell the representative who you are; identify yourself by the loan number.

Explain your situation and your plan. Take written notes of the conversation; be sure to get the representative's name. Follow-up any telephone calls by writing a letter to the lender to state your new payment situation. This avoids misunderstandings by you or the lender. You may need your letter at a later time if your credit was affected by past-due mortgage payments.

If you can't call, you must explain your situation in a letter. Include in your letter a telephone number where you can be reached, the complete address of the property and the loan number assigned to your mortgage. Explain why you can't make a full payment. Tell the lender you would like to discuss your plan for payment. Ask for an immediate response. Keep copies of all correspondence in one place so you can find them when you need them.

Second, if you have already missed a payment, contact the lender immediately to discuss your situation. Ask the lender to consider a partial payment plan. Stick to the agreed-upon plan.

Third, seek neutral advice about repayment alternatives and the consequences of each. Consider the following:

- Extending your loan
- Refinancing
- Selling, even if the market is depressed and a prepayment penalty is imposed
- Voluntarily surrendering to the lender (deed in lieu of foreclosure)
- Filing for bankruptcy

The consequences of each alternative can be positive or negative. You may have to choose an option based on the least negative consequences. Consider first your options for extending your loan or refinancing. Deciding whether to sell your home must be done fairly early to ensure that the equity is not used up with the interest. While the decision to sell may be difficult, the speed with which that decision is made could be the difference in cash-in-hand versus no cash from the sale.

Voluntary surrender (a deed in lieu of foreclosure) means that you voluntarily turn over your house to the lender in consideration for cancellation of the debt. This is an option to consider if foreclosure seems inevitable. People choosing this alternative usually:

- Have some equity in the house.
- Want to avoid the costs of foreclosures.
- Want their credit records to state they used a voluntary disclosure rather than a forced disclosure.
- Have another alternative for housing. Your lender may, but is not required to rent you the same house.

Avoid foreclosure if possible. A mortgage is delinquent on the date specified in the mortgage usually when a payment is 30 days overdue. Generally, most mortgage holders begin foreclosure after the third month of delinquency on the first mortgage. In areas of widespread unemployment, some local mortgage holders may be willing to accept interest payments plus a small principal payment rather than foreclose on a large number of homes in the community. Mortgage holders outside of the local area may be less willing to extend mortgage repayment terms beyond the third month.

Lending agencies recognize the problems faced by homeowners and farmers particularly in hard economic times. Most lending institutions are willing to work with farmers and homeowners who have mortgage payment difficulties.

Employer-group health insurance coverage may terminate immediately or at the end of the month. Within 14 days of your termination if you are entitled to COBRA benefits, you must be notified by first-class mail what your rights are. If you were covered under COBRA rules, you have a 60-day period to decide whether to continue your previous health insurance coverage. Usually, you pay the full cost of the coverage.

Insurance Payments – There may be some leeway (10 to 30 days) in premium payment due dates. Check your policy and confirm with your insurance company.

If you can't make an insurance payment, call or write your agent or the company. Explain your situation and ask about a different payment plan.

Determine your minimum needs for insurance. Ask if a lower premium is possible through:

- Changing to a monthly, quarterly or semi-annual payment plan.
- Changing to more basic coverage.

If your car is older and paid for, consider dropping collision coverage or raising the deductible. Make sure you are receiving any discounts offered by your company for eligible drivers. Work with your agents to ensure that your basic insurance needs are covered.

Consider changing your insurance policy to a less expensive type. Converting whole life to term life may be one option. Another is to use your dividends to reduce your premium.

Bankruptcy

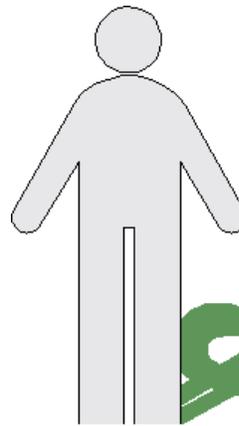
As a last resort, you may need to consider filing for bankruptcy. You don't have to be absolutely broke to file a petition; you may be coping with only one major debt that is making other debts impossible to handle.

This discussion, based on state and federal law, is provided to inform, not to advise. It is not intended to apply to any specific problem.

Deciding whether to file bankruptcy is hard. Bankruptcy procedures are complex. You may want to seek legal advice about the details of your situation. Legal fees are often required in advance. Be organized with your facts and papers and request a half-hour consultation. In some cases, you will want to discuss tax consequences with an accountant. Each bankruptcy method will require court-filing fees.

Bankruptcy laws are designed to discharge (formally forgive) some or all of your debt, protect you from wage garnishment and allow you to avoid undue harassment by creditors. As a result, bankruptcy gives you a fresh start to rebuild your economic life.

The four methods of bankruptcy under federal law are referred to as **Chapters**. **Chapter 7** is used by consumers, businesses and farmers; **Chapter 11** is used mostly by businesses; **Chapter 12** exists for family farmers; and **Chapter 13** is primarily used by consumers.



Chapter 7 is referred to as straight bankruptcy. A straight bankruptcy proceeding includes a court-administered sale of the debtor's non-exempt property, those items which do not fall under state exemptions. You are allowed to keep exempt assets. Non-exempt assets are sold and the proceeds are used to pay creditors of your dischargeable debt on a pro rata basis, and your dischargeable debt is erased.

Chapter 11 (for businesses) and **Chapter 12** (for farm operations) are used under special circumstances. Seek legal and tax advice.

Chapter 13, often referred to as a wage-earner plan, enables individuals to seek court approval of a plan to repay their debts in full or in part over three to five years. To be eligible, individuals must owe less than \$100,000 in unsecured debts, less than \$350,000

in secured debts and have sufficient income to fulfill the court-approved repayment agreement. Individuals continue to retain all property while repaying creditors. Upon successful completion of Chapter 13, the debtor has an opportunity for a fresh financial start with property intact and the satisfaction of having repaid all or a portion of the debts.

Remember, not all your debts may be discharged (forgiven). In all cases, you must still pay most taxes, alimony and child support. In some cases, other debts, such as student loans, are also non-dischargeable (unforgivable). To determine other non-dischargeable debts, contact your attorney.

Once the bankruptcy process is completed, legally your financial slate is wiped clean. However, the fact that you went bankrupt becomes part of your credit report for 10 years. Your future access to credit may be limited. If you used Chapter 13, be sure that is noted on your credit report, as it is viewed more favorably than Chapter 7, straight bankruptcy. You may feel some psychological and social pressures in your community. Bailing out may mean leaving creditors, some of whom may be local merchants and friends, in a lurch.

Seek Community Resources

Community support may be in the form of information, programs or services. Since unemployment is a community problem as well as a personal one, you should feel no stigma attached to accepting temporary help from your community. Even business receives 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 hot lines, and church and crisis groups to help you.

Consumer Resources

Attorney General's Office of Consumer Protection – Is responsible for consumer complaints, especially deceptive advertising, fraudulent business practices and credit fraud. Contact numbers: (501) 682-2341 or toll free at 1-800-482-8982.

The Public Service Commission – This commission handles complaints about state-regulated utilities. In addition, it also regulates these companies. Contact toll-free number: 1-800-482-1164.

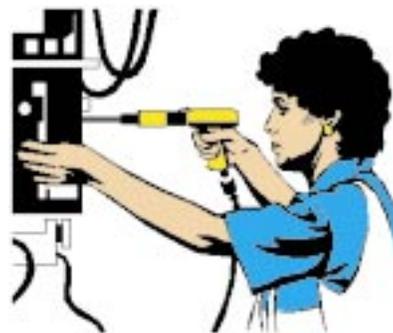
Educational Resources

Arkansas Cooperative Extension Service – Provides educational programs and self-help information throughout the state. Subjects covered include financial management, family relationships and parenting, foods and nutrition, farming, horticulture, 4-H and youth, and much more. Contact your local Cooperative Extension Service listed in your telephone directory under the county name.

Public Libraries – Have information on resumé writing, job search techniques, names and addresses of prospective employers in reference manuals, and local and out-of-town telephone directories. Ask the reference librarian to help you get started. Larger libraries have computers to help your employment search.

Employment Resources

Arkansas Workforce Centers – Help you link to both local and statewide job openings, training or job counseling in one visit. These “one-stop” centers are found in county seats, larger towns and cities. To find the closest Arkansas Workforce Center, call toll-free 1-866-ARWORKS. The services are free. Your local Arkansas Workforce Center also can tell you the salary or wage rates in your area. 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. Included in this referral system are the Employment Security Department, Department of Workforce Education, Department of Human Services, U.S. Department of Housing and Urban Development, Older Worker Programs, National Farmworker Jobs Program, Job Corps and American Indian Center of Arkansas.



Private Employment Agencies – Are licensed by the state. They charge a fee after they find you a job. Know the fee required and understand the terms of the contract before you sign. Employment agencies also have job listings of employers that pay agency fees if you are hired. You can request the employment agency to contact you only on fee-paid positions.

Placement Offices – Colleges and vocational schools, local union offices and community action agencies may offer job listings and training in job search skills.

Debt Counseling Resources

Consumer credit counseling agencies, credit unions, Cooperative Extension Service county offices and banks may provide debt and budget counseling for no or modest fees. Agencies that pool or consolidate debts frequently charge high fees to manage your bill paying. Beware of agency fees based on a percentage of your debt. Ask how the service operates, who sponsors it and what the fees are.

Nonprofit Credit Counseling Service agencies provide budget and debt counseling. The agencies can help you set up a debt repayment plan with your creditors. Any Arkansan can contact the nearest service in your area to set up an in-person or telephone appointment to discuss your situation.

- **Jonesboro, West Memphis, Blytheville, Batesville, Paragould** – 1-800-9NO-DEBT
- **North Little Rock** – 1-800-255-CCCS offices in Little Rock, Hot Springs, Pine Bluff, Conway, Ft. Smith, Harrison, Russellville, Searcy, Springdale, Greenville, MS
- **Texarkana** – 1-800-856-0257 serves surrounding counties
- **El Dorado and surrounding counties** – 1-800-850-CCCS
- **Fayetteville, Berryville, Bentonville, Harrison, Rogers, Springdale** – 1-800-889-4916

Food and Nutrition Resources

Food Stamp Program – This U.S. Department of Agriculture program furnishes a food stamp benefit in the form of a debit card to eligible participants. The benefit is used like money to purchase most kinds of food. Apply through your local Food Stamp Office operated by your county's DHS. Call ahead to make an appointment and find out what information you need to bring to your first interview.

Special Supplemental Program for Women-Infants-Children (WIC) – Participants receive vouchers every month that enable them to purchase infant formulas, dairy products, cereals and juice. This program is limited to pregnant and nursing women and to small children who meet the program's

requirement. Apply through your local county health department.

School Meal Program – This program offers free or reduced-price breakfasts and lunches to eligible children. Apply through your local school.

Commodity Food Distribution – This statewide program distributes surplus cheese, butter, dry milk, etc., periodically to eligible persons. Inquire through your local community action agency.

Local Food Pantry – A two- to three-day supply of food (donated from individuals and businesses) is distributed free to eligible people periodically through local food pantries/banks. Emergency distribution is also available in some cases. Call your local community action agency or the county's Department of Human Services to find the food bank nearest you.

Housing Resources

Emergency Shelter Assistance – Emergency housing and funds to help in providing short-term housing may be available through the local social service department, churches, shelters or Salvation Army.

Rental Assistance Program – This program pays a portion of a low-income family's housing costs. Check with your public housing or community action agency.

Home Energy Assistance Program (HEAP) – This federally sponsored program provides short-term help with utility costs based on household size and gross income. Check with the community action agency or public utility serving your county.

Income Assistance Resources

Unemployment Insurance – If you lose your job and are covered by unemployment insurance, file a claim immediately with your local unemployment offices. Take your social security number with you. There will be a waiting period before you receive your first check. To tide you over, ask if you're eligible for public assistance or food stamps. If you quit your job because of sexual harassment, racial circumstances or a severe cut in hours or wages, you may qualify for benefits.

Temporary Assistance to Needy Families (TEA) – This program provides monthly income and services to qualifying families with dependent children under the age of 18. Eligibility and benefits paid are based on the family's income, assets and expenses. Apply through your county's Department of Human Services.

Supplemental Security Income – This program provides a basic income for eligible people if they are 65 or older, blind, disabled or retarded. The Social Security Administration (SSA) manages this general assistance program. The program is not related to whether you receive social security.

Insurance Information Resources

Arkansas State Insurance Commission – For insurance information specific to the state of Arkansas, contact the Consumer Service Division at 501-371-2640 or toll-free at 1-800-852-5494.

Legal Resources

Legal Services – Eligible low-income persons can get assistance related to civil cases such as spouse abuse, tenant problems and food stamp cases. Offices are located throughout the state. Consult your telephone book for the phone number of the district office servicing your area.

Find a Lawyer – The Arkansas Bar Association has a web-based service to help you locate an attorney called Find A Lawyer. Go to the Arkansas Bar web site <http://www.arkbar.com> and click on “find a lawyer.” You can search by specialty such as employment law, workers compensation or general practice as well as city and county. Be organized with your facts and records when you make appointments with lawyers to keep your costs down.

Medical Resources

Medical Assistance – Medicaid provides some medical benefits to people on TEA. ARKids First covers Medicaid eligible children 18 and younger with family incomes up to 200 percent of poverty. It covers some medical and dental services. Check with your county’s Department of Human Services.

Doctors and Clinics – Some doctors and clinics offer free or reduced-cost care to those unable to pay.

Check with local doctors and clinics, your health department, hospital or community action agency to see who provides this service.

Hospital Services – Some hospitals must provide some free care, through the Hill-Burton Act, to people unable to pay and not covered by medical insurance or government medical assistance. If your local hospital does not fall under the Hill-Burton Act, coverage may still be available locally. Contact your local hospital’s business office for more information.

Health Departments – Health departments are 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, pre-natal care, family planning and other programs. Services of health departments in Arkansas are available to anyone, regardless of income level.

Summary

Managing the stress and hardships 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 financial changes by reducing and prioritizing spending as much and as quickly as possible. The step-by-step procedures outlined here will help you clarify your priorities, make decisions, implement your plan, minimize anxiety, strengthen and prepare you and your family for the future.

Acknowledgments

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