



**“When Your Income
Decreases – But Your
Bills Don’t”**

2003



This Presentation

- This presentation will guide you through steps you can take in order to mitigate your financial situation in light of a job loss or income reduction.
- These are recommendations and we encourage you to seek professional assistance for more detailed guidance and help.



Coping with a Reduction in Income

A change in a person's employment situation, whether a job loss or a reassignment, can be one of the most stressful experiences a person can have.

This presentation is designed to help you or someone you know cope with the financial aspects of a reduction in income.



The First Steps

“Too often, snap decisions lead to costly mistakes that can have long-term negative effects.”

(William L. Anthes, Ph.D., president of the National Endowment for Financial Education)

Regardless of your income level or the reason for job loss, personal and financial support options are available through community, government and religious programs.

Identify/Enhance a Cash Reserve Fund

- Stop spending!
- Determine needs versus wants.
- Develop a spending plan/budget.
- Collect unemployment benefits as soon as you are eligible.
- Don't cash out retirement benefits except as a last resort.



Areas to Consider

- Disconnect all but basic telephone service.
- Disconnect Cable TV (since satellite TV requires a long term contract, call the provider to ask about possible options).
- Inquire if health club or other fees can be frozen or sold.
- Stop dining out—especially fast foods.
- Substitute less costly items, i.e., generic brands.
- Limit shopping trips--try to make due with food or other products you have on hand.



Contact Creditors NOW

- Vital services, such as gas, electric, water and phone can be shut off.
- Interest charges can continue to increase your debt.
- Damage to your credit report will take longer to rehabilitate.
- You have a much better negotiating position with the original creditor—don't wait until the debt is turned over to a collections agency to discuss your concerns.



How to Contact Creditors

- In writing - a letter is better than a phone call because:
 - You have had a chance to think through your circumstances and developed a budget plan for paying your bills.
 - You won't get upset or confused if the creditor tries to intimidate you verbally.
 - You and the creditor have a record of your proposal.



Before You Write Your Letters

- Know the amount of monthly income you can count on (be realistic), include:
 - Unemployment insurance benefits
 - Other sources of income (i.e., alimony, income from other family members)
 - Reliable child support
 - Wages for part-time or temporary work
- Do not include what you hope to get or what is inconsistent income.



Before You Write Your Letters

- Know your current fixed expenses:
 - Rent/mortgage
 - Utilities (gas, electric, water, sewer, telephone, etc.)
 - Loans/Credit cards
 - Any thing you are liable for month to month, i.e., insurance costs, child care, etc.



Before You Write Your Letters

- Know your current flexible expenses:
 - Food
 - Clothing
 - Recreation
 - Transportation
 - Contributions – charity, religious organizations
- Be realistic!



Before You Write Your Letters

- Now, develop a *Spending Plan*.
- Take your monthly estimated income and subtract your fixed expenses and new flexible expense amount (the pared-down amount).
- The remaining money should be used toward your plan to repay your debt.



Before You Write Your Letters

- Know approximately how long your income will be reduced.
 - Again—be realistic.
 - For every \$10,000 you want to earn annually, it takes approximately one month to find a job.
- Determine what you think is a reasonable amount to pay each creditor each month and your plan for repaying.
 - Be realistic about what you will be able to pay each month. If you are not able to maintain payments at the agreed amount the payment arrangement may be cancelled and the entire amount becomes due.



Writing the Letter

- Include the creditor's name and address on the letter.
- Make sure the letter is dated.
- Reference the account number or any other identifier.
- Describe your financial situation and request their consideration of your payment proposal.
- Include a good-faith payment in the amount of your proposal.
- Clearly sign your name and provide your address and phone number.



After Writing the Letters

- Mail a letter to each creditor and keep a copy for yourself.
- Write up a summary list of your spending plan and repayment plans and keep it by the telephone in case your creditors call back with questions.

Credit Priorities – Who to Contact and Pay First

■ First Priority:

- Mortgage Lender or Landlord
- Utility Companies (Gas, Electric, Water, Sewer)
- Telephone Company (land-line, cellular)
- Auto Loans
- Personal Loans
- Insurance Companies
- Student Loans



Credit Priorities

- Second Priority:
 - Credit Cards
 - Doctors, Dentists, Hospitals

Dealing with Specific Types of Creditors

■ Utility Companies:

- Know the company's disconnection policy.
- Ask about their Energy Assistance programs.
- Ask for a budget plan.
- Ask if there are Emergency Funds available.



Phone Company

- If you do not pay your bill, service may be disconnected temporarily or permanently.
- Your phone can be permanently disconnected if:
 - You have a poor record of paying bills with the local company.
 - Your bill is larger than usual.
 - You have lived in the area a short time.
 - The company made efforts to reach you by phone or mail and received no response.



Phone Company, continued

- If your phone is disconnected, you must:
 - Pay the past bill in full.
 - Pay a substantial deposit, for example, twice the amount of your average bill.
 - Reapply for the phone and pay installation charges.



Housing Payments - Rent

- Write your landlord about your situation immediately.
- If your lease is almost up, you may want to consider moving to less expensive housing - be sure to include moving expenses, deposits, and family adjustments in your calculations.
- Consider a roommate or sublet - check with your landlord first.
- Try to negotiate maintenance or repair services in lieu of rent payments.



Housing Payments - Mortgage

- Write to your mortgage lender about your situation immediately - some allow skipped payments, some suggest partial or interest only payments for one to six months.
- If possible, arrange for an equity line of credit to get you through.
- Last resort - you may consider selling your house. But consider all of your options before you do that. You may not be able to make a profit on the sale of your home or you may not be able to find less expensive housing if you rent. You also need to consider moving costs and the tax consequences if you do sell your house.



Car and Other Vehicle Payments

- If you cannot make your car or other vehicle payments, they can be repossessed.
- What to do:
 - Check with your creditor or another lender to explore re-financing options to lower your payments - remember that you will increase the total finance charges you pay for the loan.
 - If you do not need the vehicle, you can try to sell the vehicle for at least the amount to satisfy the loan.



Credit Card Bills

- What to do:
 - Write letters to all of your creditors immediately.
 - Inquire about their hardship program.
 - Do not use your credit cards.
 - Do not get a cash advance on your credit cards.
- Avoid a “bad” credit rating.



Insurance Premium Payments

- Renter's, vehicle, property, homeowner's
- There may be a 10-30 day grace period for making payments - check with your insurance company to be sure.
- Do not let a short term situation harm your family's well-being



Insurance Premium Payments

- What to do:
 - Write your present companies immediately and explain your situation. Ask what payment options are available.
 - Determine your minimum needs for insurance.
 - Cancel duplicate and non-essential policies.
- If you must borrow, consider a home equity line of credit before your job expires.

Car Insurance

- If the creditor agrees or if the car is paid for and the car is not new, reduce the premium cost by increasing the deductible on Collision and Comprehensive—YOU MUST KEEP LIABILITY COVERAGE



Health Insurance Options

- Contact the payroll specialists at your agency to find out how long you will have health insurance.
- Transfer to your spouse/partners insurance if possible.
- Check out possible eligibility through the BadgerCare or Medicaid program.
- Sign up for COBRA if necessary.
- Check out the HIRSP Program.



Life Insurance

- Contact your agent.
- Change your policy to a less expensive form if possible.
- Check into borrowing money on your policy to pay premiums.



Debt Consolidation Loans

- These loans typically use an asset, such as your house, as collateral.
- The purpose of a debt consolidation loan is to consolidate all debt into one loan and take advantage of lower interest rates.
- Contact a bank, credit union or mortgage lender for this service.
- Before entering into a debt consolidation loan, try to negotiate a reasonable payment plan with your creditors first.

Consumer Credit Counseling

Services - CCCS (also known as Adjustment Service Companies)

- The CCCS can contact creditors and negotiate reduced payments, fee waivers, etc. to distribute payments for you.
- These companies will generally work with unsecured credit only.
- CCCS' must be licensed in Wisconsin (go to www.wdfi.org or call 1-800-452-3328).
- Beware of unlicensed CCCS' and companies that promise to repair your credit for a fee.



Avoid Business Opportunity Scams

- Common themes
 - Multi-Level Marketing
 - Franchise Opportunity
 - Gift Clubs
 - Work at Home
 - Dot com's



Avoid Business Opportunity Scams

- Get all the facts
 - Shop around
 - Listen carefully to the sales presentation
 - Get the promises in writing
 - Consider getting professional advice
 - Check references



Avoid Business Opportunity Scams

- Study the documents carefully. Ask to take them home to read before signing.
- Investigate claims about potential earnings.
- Get in writing the number and percentage of owners who claim they have done as well as they claim you will (required by law).



Additional Steps

- Learn to accept what you cannot change.
- Take responsibility for yourself and your circumstances and determine how to make the most of your circumstances.
- Look for ways to transform the situation into an opportunity for growth – this is a good time to re-evaluate your goals and values.
- Learn from the experience; make decisions proactively to ensure that you will be in a solid position if you face similar challenges again.



Additional Steps

- List the things you can do to stay focused, starting with small, confidence-building tasks that lead to larger achievements.
- Keep an open mind about work options.
- Discuss your feelings in confidence with friends and family.
- Be patient with yourself and your situation; allow some time for fun.

Where to Go for Help

- Federal Trade Commission, 1-877-FTC-HELP, www.ftc.gov
- Better Business Bureau-National, www.bbb.com, 1-800-273-1002
- Consumer Protection--Department of Agriculture, 1-800-422-7128, www.datcp.state.wi.us
- Department of Financial Institutions, www.wdfi.org