

Money for Life

November 2008

Dear Readers,

Smart consumers will prepare for the economic downturn by getting their finances in order. To that end, consumers should take a hard look at current debt obligations, as well as any anticipated large expenses. No one ever regrets being prepared, and it is never too soon to address riding out a recession. This month's newsletter focuses on tips to survive in uncertain times.

WHAT IS A RECESSION?

The formal definition of a recession is a period of two quarters of negative Gross Domestic Product (GDP) growth. However, you don't need a dictionary to tell you you're feeling the financial squeeze. Prices for food and fuel, two commodities you can't do without, are up dramatically. Wages are stagnant, unemployment is on the rise, and credit is harder to get.



HOW DO WE PREPARE?

Consider the following advice:

- **Make yourself invaluable at work.** It is never a good time to lose a job, but when jobs are scarce, you want to make a special effort to hang onto the one you have. Be sure to have a good attendance record, be willing to take on extra tasks, and complete projects on time. Some industries, such as those

associated with housing, are more vulnerable than others, but anyone would be smart to prepare for the worst by updating their resume. Now is the time to begin networking to discover what opportunities are out there. If you are laid off, file immediately for unemployment benefits.

- **Investigate health insurance options.** If you are laid off, knowing your health care options in advance will put you ahead of the game. Many companies allow you to continue on their plan for a limited number of months. However, this is usually at a very high rate. Know in advance if you can be added to your spouse's plan, or visit with an agent about stand-alone plans. Doing so will prevent any gaps in coverage.
- **Be familiar with your financial situation.** There's nothing like seeing your financial picture in black and white. Write down all sources of income from each wage-earner in the household. Next, subtract all of your monthly living expenses, things such as rent or mortgage, utilities, food, insurance, etc, followed by secured debt payments and then other credit obligations. When times are tough, it's critical to pay priorities in this order. If your creditor is happy, but your electricity has been turned off, you've paid backwards.

- **Pay down existing debt.** High interest credit card debt takes money that could be going to a better use. Devote any extra money to freeing yourself from the bondage of debt. This is a good time to consider a part-time or weekend job with all of that income dedicated to debt. Doing so will allow you to come out from under the burden of debt, while providing you with extra money once the debts are paid off. The idea of a second job may not sound appealing, but neither is debt.

- **Don't take on any new debt.** Hard times won't last forever. Unless you have home or vehicle repairs that won't wait, delay any large expenditure until you're on more stable ground. Be willing to forego the luxuries for a while.

- **Start or add to a rainy day fund.** Everyone should have a liquid savings account for the inevitable emergency. Without it, you're one trip to the emergency room, one flat tire or one leaky roof away from financial distress. Understand that it's not "if" the emergency is going to come along, but "when." Prepare by socking away 10 percent of each paycheck. That's a small amount of money that you'll never miss, but certainly will be glad you have it when you need it.



- **Consider setting up a home equity line of credit.** This may be hard to do during this economic environment, but it will be impossible if you're unemployed. Opening a line of credit will require significant equity in your home and a solid credit rating. However, if you are successful in setting up this loan vehicle, know that you won't incur any interest unless you borrow against it. It's a nice safety net to have in place.
- **Adjust your withholding allowances.** No one wants to end up owing Uncle Sam. Nor do we want to give him our hard-earned money all year only to have him give it back to us interest free. The average income tax refund in recent years has been well over \$2,000. If you're used to receiving a refund, adjust your withholding allowances and start putting \$200 in your pocket each month.

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