

Money for Life

May 2008

Dear Readers,

Getting through tough times means making changes in spending habits. Studies have found that families who quickly make changes in their spending habits realize the greatest satisfaction while those who delay changes felt out of control. This is the time to re-evaluate your family's priorities and to eliminate waste.

COMMUNICATION

It is important to remain positive and remember that you are still in control of your financial situation, if you plan carefully. Because spending decisions affect the whole family, you need to communicate with the whole family and analyze what is most important when deciding on a plan of action. By communicating with your creditors, you can work with them to make adjustments. You must be prepared to change your standard of living, at least for a while, so you do not have to give up essentials. What must the family have in the next week, the next month, or the next two months?

Communication also includes listening. Remember your whole family probably is upset. Active listening includes giving full attention to understanding the feelings of another person.



DETERMINE WHERE TO CUT

To balance your budget and reduce spending, you have to know exactly how much money you have coming in and going out. Consider the following:

- Stop carrying credit cards. Pay in cash. Using a credit card to maintain current living standards is incurring high interest debt and is adding to, not resolving your problem.
- Eat at home. We spend 16% of our income on food, and more than a third of that amount is spent in restaurants, on fast food, and vending machine snacks. Eating at home or bringing your own homemade lunch or snacks is a lot cheaper.
- Conserve utilities. Turn off the lights and the television when not in use. Run the dishwasher, clothes washer and dryer with full loads and less frequently. Lower the house thermostats in the winter and use fans instead of air conditioning in the summer.
- Make lists and plan ahead. Weigh the importance of each item on your shopping list. Reduce the number of

shopping trips. Look for upcoming bills such as an insurance payment due twice a year.

- Disconnect the cable. Play board games. Go to the library. Walk more.

USE SAVINGS

If cash is required, use emergency savings or take out a loan if you can get one. This will depend on your individual circumstances, but there are some disadvantages either way.



When you take money from your savings account, it will no longer earn interest. If you take out a loan, you pay interest for the privilege of using someone else's money.

Another solution might be a passbook loan. You'll lose interest on the savings account and pay interest in addition, but the total cost might be less than the interest on another type of loan. If your family decides to withdraw money from a savings account, take money from a regular account first and leave any certificates of deposit untouched. You'll lose interest on the certificates if you cash them in before they mature.

In any case, think carefully about taking on any additional debt until you get back on your feet again.

Don't be tempted to spend from your tax-deferred 401(k) retirement savings plan. If you spend that money, you will pay income taxes and a penalty if you're under age 59 1/2, and you will lose that tax shelter that allows the earnings to compound tax deferred. If you are forced to leave a job, you may receive a sizable sum from your tax-deferred 401(k). To preserve the tax deferred benefit and avoid the penalties, roll the money into an IRA. You must have your company deposit the money directly into your IRA rollover account. If you take possession of the check even for a few days, the company must withhold 20% for income tax.

BE PROACTIVE

Do not ignore bills. Immediately contact your child care provider, utilities companies, finance company, and make an appointment to explain your problem. Creditors will work with you, if you communicate with them. Consider:

- Smaller payments for a short time until you can get back to your regular payments.
- Ask if you can do maintenance work in place of part of a rent payment.
- Look for less expensive housing to rent. Be sure to include the cost of moving, deposits, hook-up fees when considering the move.
- Refinance loans for smaller payments over a longer period of time. Do realize that this will increase the overall cost for the loan.
- Talk to your lender and see if you can pay interest only for a certain period of time or postpone one or two payments.
- Come to a “forbearance agreement” which is a legal agreement that will allow you to pay a fraction of the monthly payment until you are on your feet again.

PRIORITIES

Your mortgage is your most important bill. Try to pay it first.

It is important to continue insurance coverage. There may be a grace period in making payments from 10 to 30 days. Check with your insurance company. If you allow insurance to lapse, you may not be able to renew it. Write your insurer and ask what payment options are available.



It is the law that you keep liability coverage for your car. You may be able to reduce premium costs by increasing the deductible on collision and comprehensive or consider eliminating that coverage if, there is no lien.

In many life insurance policies, there is an automatic premium loan clause. It may be possible to deduct from the cash value of your policy or use your dividends to pay the premium.

In most cases, an individual has a 30-day grace period of health insurance coverage after leaving a company. You will be permitted to reapply for coverage during that time and will not be required to undergo a medical examination. Be prepared...the premiums will most likely be higher. Check with an insurance agent and human resources office immediately.

A federal law allows you to retain health care coverage for up to 18 months (and longer in some cases) while you are in employment transition. This transitional health care coverage, COBRA, allows you the same benefits that you had under your employer’s group plan. These benefits might also include drug, dental, and vision care.

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If you are unable to pay taxes, contact your local county treasurer to learn about procedures used when property taxes are delinquent. Interest accumulates on unpaid taxes. If you receive notice of any actions, take them seriously. Unpaid taxes will result in the sale of your property through auction.

Visa and MasterCard are the most valuable references on your credit report. Pay them on time, even if you only make a minimum monthly payment.

Be sure to read your auto loan agreement because it may stipulate your car can be repossessed after you’ve missed only one payment. If your car is worth more than you owe on it, you may be able to refinance your loan with lower monthly payments. If not, your lender may agree to a temporary schedule of reduced payments.



Delinquent child support can really hurt your credit record. All child support payments of \$1000 or more owed must be reported to credit bureaus.

The IRS can be extremely tough, if you don’t pay your taxes on time. If you can’t pay, contact the IRS to arrange a payment schedule.

Medical bills are not reported to credit bureaus until they are sent to collection agencies. You can often work out a modified payment schedule with a doctor or hospital.

You can ask to defer payments on federal student loans. You will not be required to make any payments during the deferment period and no interest will accrue. You cannot qualify for deferment, if your student loan is in default.

UNEMPLOYMENT BENEFITS

Don’t be shy about applying for unemployment benefits if you have lost a job. It is insurance – NOT a handout. The program is financed by employers to pay benefits to workers who are unemployed because of conditions beyond their control. You can usually collect benefits for 26 weeks. Congress sometimes extends it to 52 weeks during times of recession.

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