

Reduced Income Action Plan

Next steps and best practices.

Prioritize

Whether you have experienced a job loss, are going through a divorce, a disability, or other income reduction, prioritizing which bills to pay first is an important first step. Paying bills that maintain shelter, such as the mortgage or rent, are most important, as well as continuing crucial services like the power and water. Bills that are lower on the list of priorities will be those that will not affect your job or shelter, like cable, gym memberships, credit card bills, etc.

Communicate

Once you have determined which bills must be paid first, it is important to make as many of your creditors aware of your situation as possible. Let them know that you are experiencing financial hardship because they may be willing to make special arrangements for you for a period of time. Any help you receive moves you one step closer to getting your financial life back on track.

Explore the Options

See what's available as an income replacement:

Unemployment Benefits

If your financial difficulties are due to a job loss, find out if you qualify for public benefits while you search for a new position. Determine whether you qualify to receive unemployment benefits through your state. In general, federal and state unemployment insurance programs provide unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under state law), and who meet other eligibility requirements. Check the unemployment office in your state by going to dol.gov/general/location.

Disability Benefits

If you are struggling financially due to a disability, determine whether you qualify for disability coverage offered either through your employer, private coverage, or through your state. Although it can be quite difficult to qualify, Social Security pays long-term disability benefits under two programs: the Social Security disability insurance program and the Supplemental Security Income (SSI) program. If you are eligible for any programs, process the paperwork to collect the benefits as soon as you are able to do so. If it looks like you may qualify for Social Security benefits, you can apply online at ssa.gov or call 1-800-772-1213.

Additional Income

If the shortfall is not too large, seek ways to supplement income until you find a permanent solution. What are your skills, talents, passions? Can you work a second job or turn a hobby into an income stream? Think outside the box. If necessary, even consider selling items to generate some cash.

Budget

Create or update your budget to reflect your new reduced income and your revised financial priorities. Calculate whether you will have a shortfall once you have set priorities and cut back on any unnecessary expenses.

Savings & Reserves

Once you know your shortfall, you can look at your reserves and see how long it can last. For example, if your shortfall is \$350 per month and you have \$1,000 in savings, then you know you can make ends meet for three months while you look for a permanent solution. If you do not have money in a savings account, consider options such as borrowing from home equity, borrowing from a retirement plan, borrowing from friends or family members, or taking out a

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personal loan. Whenever taking on new debt, consider the pros and cons of each option, including the long-term impact on your future financial health.

Credit & Loans

If you are having a short-term financial hardship, you may need to use credit cards or loans. Be very careful to avoid unnecessary debt, but it is better to stay current on your top priority bills in the short term, even if using credit, than to suffer the negative consequences of not paying (e.g. utilities turned off, car repossessed, etc.). Be sure to make your credit card or loan payments on time to preserve your credit score.

Consider taking out a personal loan if you have good credit and have not yet fallen behind on your payments. Search for personal loan rates offered by local lenders.

Keep in mind that if you have negative items or a poor credit score appearing on your credit report, you may not qualify for the best rates available, or at all. The other problem with trying to qualify for a personal loan is that the creditor considers your debt to income ratio, and if your income has recently been decreased, it will likely be more difficult to qualify.

Payday Loans

Stay away from payday loans. Avoid these predatory loans at all costs. Advertisements for payday loans make them seem like a fast, easy, no-nonsense way to get money when you're in a financial hardship. Getting a loan is as easy as showing a recent paystub, a copy of your driver's license, and a blank check. Paying off that loan can end up taking months, even years, to pay back. Most people find themselves taking out new payday loans to cover old payday loans and ultimately end up paying thousands of dollars on what started out as a few hundred dollars of debt.

Alternatives to Payday Loans

- Small loan from your bank or credit union
- Cash advance from your credit card (shop around for the best rates and fees)
- Small loan from a family member or friend
- Payday advance from your employer
- Hardship payment plan from your creditors
- Consumer credit counseling
- Emergency hardship programs (typically offered by your state, county, or city's human resource department)

Maintenance Plan

As you start bringing in additional income – whether it is from unemployment, disability, or a supplemental job – update your budget. Continue to pay your top priorities first and start funding your emergency savings. Explore ways to get caught up or to start paying more toward your lower priority bills. Explore debt management options like debt stacking or credit counseling to help you get back on track.

If you have more questions or want more details on how each of these options could work, talk to a Money Coach. They can help you determine the best next step for you and your situation.

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