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When Prices Rise: Living on Your Income

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An increase in the price of goods and services can be traumatic. When you have to pay more for things like gasoline, food, and health care, other difficulties may arise, especially if you are retired and/or are living on a fixed income. It can be alarming to realize that, even in covering just the basics, your income does not go as far as it used to.

Overall price increases are often due to an increase in the price of one essential product. An increase in the price of that essential product may trigger an increase in the price of other products and services. For example, an increase in the price of a barrel of oil may result in an increase in the price of gas at the pump, which, in turn, may help to increase both transportation and heating and cooling costs. As price increases continue, it doesn't take long until you personally feel the effects, perhaps even to the extent that you have little or no discretionary funds and/or you strain to pay all your bills.

When prices rise, don't panic, but don't become complacent either. Don't stop credit payments or ignore the fact that you are facing financial difficulties. You need to adjust your spending and develop a spending plan (budget) to pay bills. Your financial affairs are still within your control. Surviving a financial crisis will take work and planning, but it can be done—and you may even come out stronger when it's over. Make an action plan as soon as possible.

Remember...

- You can control your financial situation if you plan carefully.
- Communicate with your family. Together, analyze what is important and decide on a plan of action.
- Examine your expenditures. Be prepared to change your standard of living, at least temporarily, so you don't have to give up essentials.
- Don't default on payments. Contact your creditors, explain your situation, and work with them to make adjustments. Some creditors may have hardship programs for those experiencing financial duress for which you may qualify.
- Begin to make plans for the future. Adjust to a reduced standard of living.

Prices are noticeably higher. What do I do first?

Jot down how you spend your income. If you do not already have a good idea of how you spend your income, track your spending for a month or two. This will give you a good idea about where you will be able to make changes in your spending habits. **(See "Methods for Tracking Expenses.")**

Separate your family living expenses into fixed and variable (flexible) expenditures. Examples of fixed expenses include mortgage payments or rent, installment credit payments, deposits into emergency savings, medical and/or life insurance payments, and utility payments (if on an equal payment plan). Examples of flexible expenses include spending on gasoline, recreation, leisure, food, clothing, and personal care. The family can examine flexible expenses, especially, for cuts that can be made when times are tough. Perhaps family members are meeting wants instead of needs. Can less expensive brands or items be used?
If you are unsure how to plan for your expenses on short-, medium-, and/or long-term bases, the Family Money Manager publication (http://www.ext.nodak.edu/extpubs/yf/fammgmt/fe222w.htm) has worksheets, suggestions, and additional resources that may help.

Communication is a family affair. Many people try to hide financial problems from themselves or family members. It is nearly impossible to hide financial difficulties from the rest of the family for long, and it's not emotionally healthy to try. Not facing up to problems prevents you from taking positive steps forward.

Because financial decisions affect the whole family, talk with others about the present situation. Let them know the need to change spending priorities. Involve all family members, regardless of their ages. Include your family in decisions that must be made. As a family, discuss how income is spent, what is important, and what is not so important. What must the family have in the next week? In the next month? In the next two months? You may need to alter plans for taking a vacation or scale back the number of people with whom you plan to celebrate a family event.

Communication is sharing. Don't burden family members with unnecessary worry, but do involve them; they may offer solutions or ideas not yet mentioned.

Communication is listening. Actively listening includes giving full attention to understanding the feelings of another person. Accusing one another of being responsible for the current economic situation won't help anyone.

Methods for Tracking Expenses

* Envelope method – Strictly uses cash. Less secure than other methods, but it is the easiest. Separate envelopes used for each budget category (e.g., housing, transportation, food, entertainment, personal care, phone, miscellaneous).

* Receipt/Account Book method – All family members collect receipts to be placed in a designated container. All receipted amounts are placed on a ledger at end of the month.

* Checkbook method – Expenses are recorded only one time and it is easy to use, but one must remember to record transactions. All cash purchase; must be recorded.

* Budget Register method – More complicated than other methods, but it handles all transactions (i.e., cash, check, deposits, withdrawals, credit payments). It is a compact record that goes with you.

* Software/Online methods – Examples are Mvelopes.com, Excel Spreadsheet, My Money, and Quicken.

Examine Your Expenditures

Your expenditures hold the key to how well you do when dollars are scarce. If your family does not follow a spending plan, this is the time to start. Family input is essential, as is being both realistic and flexible. Be creative about how to cut expenditures. Remember, you want to survive comfortably. Here are some suggestions:

• Before making purchases over a certain dollar amount, discuss the potential purchase with other family members.

• Control impulse buying. Make a shopping list and weigh the importance of each item.

• Practice effective consumer skills. Comparison shop. Examine the specials. Use coupons. Go to price-competitive stores. Buy in bulk. Look for cash discounts. Shop at thrift or discount stores.

• Engage in in-home production. Exchange goods and services, where possible. Use free or low-cost community services.

• Postpone the purchases of non-critical items (e.g., furniture, flat-screen television, or remodeling plans), if possible. Though prices may be tempting at end-of- or out-of-season sales, to ensure that you have the funds necessary for the current season's necessities, carefully consider the purchase of something out of season (e.g., a snow shovel purchase in the spring). Stop buying on credit.

• Do not drop insurance coverage. The need for insurance is magnified by the stress you may be experiencing. However, if you have several policies, make sure that you are not paying for duplicate coverage.

• Do not cancel essential medical and dental appointments. Canceling such appointments may prove to be more costly long term. Some medical and dental professionals may be willing to negotiate payment schedules if details are worked out in advance.

MANAGEMENT STRATEGIES

Be a smart shopper—resolve to prioritize and focus on needs, not wants.

Conserve resources by using them wisely—make your home energy efficient; consolidate shopping trips to the store.

Become more resourceful—consider planting your own garden; cook items from scratch; offer your services for hire.

Which bills should you pay first?
If you can pay some bills but not all, set priorities. After paying for secured loans and basic essentials, pay those bills that

- maintain vital services (e.g., utility, phone, transportation, insurance),
- have the highest interest rate,
- cost the most to delay (e.g., bills that carry late penalties or may lead to repossession or disconnect/reconnect charges),
- may be vigorously collected.

Be wary of quick, short-term, high-interest loans. If you miss just one payment, you could become saddled with a long-term, high-interest debt payment that seemingly never ends. Here is an example of this type of debt: Paying off a $500 loan by making 22 monthly payments of $68 will cost $1,453 (with $953 spent on interest, the interest rate is about 150%).

Bankruptcy is not a good option. Financial institutions are also affected by economic issues, and as the funds they have available for loans become restricted, a good credit report for those wanting to borrow money becomes more essential.

Management Tools

Take an inventory of your resources. To help monitor your financial progress, you can use a tool such as the "Family Balance Sheet" (http://www.ag.ndsu.edu/pubs/yf/fammgmt/fe222c.pdf) to help figure your assets, liabilities, and net worth.

Emergency savings are essential. Those attempting to get out of debt may fail to realize that they should have emergency funds available. These funds may help ensure that a debt repayment plan does not have to be postponed for unexpected household or other emergency expenditures.

Reduce consumer debt. Don't ignore your monthly payments on outstanding loans. Make a list of all your debts. Include in that list each debt's annual percentage rate, the specific terms of the contract, and any finance charges. Analyze your debt payment options by utilizing a program such as the online program PowerPay (https://powerpay.org). Determine how much you owe to each creditor, then print out a plan for making power payments until you are completely out of debt. Continue making payments to build up your emergency savings to a minimum of three (3) months of expenses.

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