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Managing Finances in Tough Times

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The Covid-19 pandemic has us all thinking about how to adapt to guidelines to keep our loved ones and ourselves healthy and safe. Added to this stress is the uncertainty about economic conditions and how this may affect our personal finances.

“Most of us have our daily spending on autopilot,” notes Peggy Olive, University of Wisconsin-Madison Financial Capability Specialist. “Having to change our routines can also provide an opportunity to rethink our household spending for the coming months.”

If a family is facing a large drop in income or unexpected expenses, keeping up with financial obligations, like a mortgage, car payment, or student loan, can become a challenge. If it appears that money will be too tight to make an upcoming payment, contact creditors before missing any payments. Many creditors are willing to set up special payment plans or waive late fees, especially if an individual has a good track record of keeping up with past payments. Some mortgage lenders and credit card companies have hardship plans in place allowing extra time for bills or to set up payment plans to lower monthly minimum required payments.

Every budget starts with knowing how much money is coming into the household every month. How certain that amount of income is or how much it may fluctuate will be different for each household. Use any reliable sources of income as the bottom line for how much money is available to work with each month. Occasional sources of income, like tips, commissions, or side jobs, can be added into the budget once the money is received, but may not be as reliable when the economy is in recession.

The second step is to track your spending starting today if you don't already do this. A spending plan can help to keep track of large bills that are due and to avoid late fees. You can use a notebook to write down daily spending and monthly bills. There are many free online spending websites, apps, and templates that may be useful too. One resource for budgeting worksheets and links is the UW-Madison Division of Extension “Managing Your Personal Finances in Tough Times” website at fyi.extension.wisc.edu/toughtimes/.

Tracking spending and bills over the prior month provides an opportunity to look at regularly occurring expenses, such as rent or mortgage, car payment or other transportation costs, student loans, utilities, and credit cards. These regular expenses are usually easier to plan for and to keep track of than daily groceries or gas purchases, but they are also the biggest chunk of a household's spending. It can also be helpful to project additional expenses that may be due in the coming months, such as a quarterly car insurance payment.

After tracking spending for one month and planning for irregular expenses, the final step is to compare total spending to income. If a household spends less than it brings in each month, the difference is a great opportunity to add to emergency savings or other goals. Having this unspent income directly deposited into a savings account is an excellent way to set aside funds without being tempted to spend the money first.

“It’s not unusual for household spending to be greater than income a few months out of the year, even in the best of times,” adds Olive. “If it looks like monthly spending will be more than income every month, that’s a sign to take steps now.”

To avoid problems keeping up with payments or building up an unmanageable level of credit card debt, a solution might be as simple as a few cuts to spending, especially smaller habits like buying extra treats at the grocery store or putting off purchases to replace clothes or household items. A bigger shortfall in income could require a bigger lifestyle change or looking for other temporary or one-time sources of income. Some credit unions and other organizations may offer emergency loans for families facing hardships. These can be valuable tools, but should only be used in a real emergency.

Setting priorities for spending is an essential step in balancing a household budget — especially when less money is available. UW-Madison Division of Extension offers tips and worksheets on managing personal finances in tough times, and how to prioritize bills when there’s not enough income to cover all expenses. Find these resources at fyi.extension.wisc.edu/toughtimes/. For more information and educational resources on managing your family’s finances, contact Jeanne Walsh from Extension Chippewa County here <https://chippewa.extension.wisc.edu/>