Financial Tips for Dealing with the Sequestration

A reduction in income is not something most people want to experience, even if it is only for a short period of time. Though not as severe as a layoff, the financial impact can still be a difficult adjustment.

If you are facing the prospect of a reduction in income due to the sequestration, hopefully you have managed your finances so that any reduction in income will have little impact on your lifestyle or your ability to meet your obligations. For others, the prospect of a cut in pay is a scary thought if you are having trouble getting by on your current income.

In either scenario, this may be a good time to review your finances, reduce your spending and debt, and increase savings if possible. Taking a positive, proactive approach to your finances can help you avoid problems in the future.

Below are some ideas and suggestions to help you minimize the financial impact a reduction of income would have on you and your family:

- **Determine your incomes net reduction:** This should be your first step. How much of a reduction are you going to be taking in reference to your take home pay? This allows you to get a better picture of the real impact any reduction will have on your ability to meet your obligations. For example, maybe your gross pay (before taxes) is $800 a week, or the equivalent of $160 a day. After federal, state, and local taxes plus your contribution to your TSP, your actual take home might be closer to $120 a day depending on your situation. This is going to give you a clearer picture of what steps you have to take when budgeting, cutting expenses, etc. and is going to be easier to replace than if you were calculating based on your gross pay.

- **Develop, and implement a written budget/spending plan:** This step in nothing more than tracking your income and expenses. This valuable tool allows you to better manage your finances to meet your living expenses and plan for future purchases. An excel worksheet is being provided for your use in developing a budget. If you don't like the one provided, there are dozens of budget worksheets available for free online.

- **Track spending:** Keep a written log of all your purchases this includes lunches, snacks, incidentals etc. Cut and reduce unnecessary spending. If you are going out for lunch everyday spending $6-$8 when you can pack your lunch for $2.50-$3.00, that can add up to hundreds of dollars in a year. If you track your spending closely, you will be able to identify opportunities to reduce wasteful spending habits.

- **Separate wants from needs/downsize:** More is not always better; simplify your life sell of unneeded or unused items. Most of us pad our budgets, and many items we list as needs are really wants. Technology can be a major expense shop for a better plan, eliminate unessential features. Internet, unlimited plans, and many ancillary features are not necessary when money is tight, the same with cable TV. Do you have a vehicle, TV, motorcycle etc. that you really don't need? It may be time to sell it. The point is recognizing what is essential and what really is not necessary when money is tight.

- **Review your exemptions:** Check your Leave and Earnings Statement (LES), and/or paystub to make sure you are claiming the proper number of exemptions and not over withholding on your federal and state taxes. That big tax refund you have been getting at the end of the year when you file your taxes is money that you can put to better use now to pay bills, buy groceries, pay down debt, build savings, etc. Stop giving the government an interest free loan! To calculate the number of exemptions you should claim on your W-4 go to: https://mypay.dfas.mil/mypay.aspx where there is a link to the IRS withholding calculator for calculating exemptions, or you go to: http://www.irs.gov/Individuals/IRS-Withholding-Calculator. The calculator will walk you through the process to determine the proper number of exemptions you should be claiming. You can then make any changes to your W-4 online at https://mypay.dfas.mil/mypay.aspx.

- **Lower your credit card interest rate:** If you have credit card that has a high interest rate, contact your credit card company to see if you are getting the best interest rate you qualify for. A lower interest rate means lower payments with more of your payment going to reduce you balance. This is only going to work if you have been making your payments on time, with no late payments. When you call the credit card company, explain that you always make your payments on time, and have a good credit score (assuming you do) and that you have seen cards with a lower interest rate that you qualify for. If the credit card company representative seems reluctant to assist you, ask to speak to a supervisor. Persistence and perseverance often will pay off, but if the company will still not work with you after talking to them, it may be time to shop for a new credit card with better terms.

- **Shop your auto and home insurance:** Same principle as above—shop around for a better rate on your insurance. Rates can vary widely between companies. It is a good idea to occasionally shop around. When getting a quote from another company, make sure they are quoting you a policy with comparable or better coverage than your current policy.

- **Take a second or part time job:** The goal here is simple; make up the loss income. Maybe you can take a part time job in the evenings or on your days off? Could your spouse, if you are married, increase their hours, if they work hourly, or get a part time job? Perhaps you have always wanted to start a small business; this may be the opportunity to pursue that goal.

- **Reduce your savings/contributions to retirement plan:** This should be a last resort step, as reducing contributions—especially to retirement plans like the Thrift Savings Plan (TSP)—can negatively impact your long term retirement savings, but sometimes it may be necessary to temporarily reduce your contributions. If possible, when reducing your contribution to a retirement plan like TSP or a 401K, try to at least still contribute enough to maximize any employer matching contributions your plan may offer.

- **Withdraw savings/sell investments/borrow or withdrawal from a retirement plan:** This would be another last resort, worst case scenario option. If you have an emergency savings fund, this may be the time you have been saving for. First try to reduce your spending and expenses before tapping into savings, but sometimes you may not have a choice. Avoid making a withdrawal from a retirement account like TSP, or 401K, as taxes, and penalties may be imposed. Taking a loan is a much better option. TSP has a loan option; use caution though—any portion of a loan you take on your retirement saving that is not repaid—in most cases, is going to be subject to taxes, and penalties. You can get more information regarding loans, and withdrawals from your TSP at https://www.tsp.gov/index.shtml.

- **Seek Assistance:** There are numerous public agencies and charities that may be able to provide assistance during a financial emergency. Military members can contact their local Troop and Family Assistance Center for assistance to learn more information on the types of assistance available.

- **Prioritize what gets paid:** If, after developing a budget, cutting your spending, getting rid of unneeded items, toys, etc., you still are unable to meet all your obligations, then you may have to prioritize what gets paid. Food, shelter, utilities such as gas, electric, and a vehicle to get to work take priority. They are always paid first. Credit cards, unsecured lines of credit, payments for vehicles and toys such as boats, and motorcycles, etc., that are not needed for work, or to produce an income, would not be paid in a worst case scenario. Will this have a negative impact on your credit? Absolutely, but you make sure the essentials are paid first. Never take money intended for rent or mortgage to pay on your credit card because the credit card company keeps calling you making threats. Contact your creditors in advance if you see that you are not going to be able to make your scheduled payment due to a temporary financial situation. Often, creditors will work with their customers to find a temporary solution, especially if the customer has a good payment history with them.

- **Avoid Payday Loans:** These types of loans should be avoided as they charge high interest rates and fees, and can lead to an endless cycle of debt. Although regulatory authorities have worked to limit abuses within the industry, there are loopholes in the law that some lenders exploit. Seldom, if ever, is one of these types of loans a good choice for meeting a short term financial situation.

Below is a list of websites that have useful information, worksheets, and financial tools to help you manage your money:

http://www.irs.gov/ - Here you will find the withholding calculator for calculating the proper number of exemptions you should be claiming along with other information regarding withdrawing money from retirement accounts and any taxes and penalties that may apply.

https://powerpay.org/ - Use this website to develop a debt reduction plan; learn about putting together a budget or saving plan. This site also has a number of useful tools and financial calculators.

https://www.tsp.gov/index.shtml - Thrift Saving Plan website has information about the plan including types of loans and withdrawals available.

https://www.mint.com/what-is-mint/ - Mint.com is a popular site with many financial tools and features including budget worksheets, debt elimination, etc. It will also help you pull all your financial information into one place to get a clearer picture.

https://www.rentometer.com/ - Rentometer is a website that allows you to compare rents in your area to see if you are paying too much. It is also useful if you a moving to a new location and would like to get an idea of rents in the area.

https://www.annualcreditreport.com/cra/index.jsp - Annualcreditreport.com allows you to get a free credit report from each of the three major credit bureaus each year.

For further assistance or to discuss this or other financial questions you may have, please contact Mr. Bruce Nieman, Personal Financial Counselor, at office: (614)336-4212 / cell: (330) 314-5323 / email: bnieman@mflc.zeiders.com. Mr. Nieman is part of the Joint Family Assistance Program (JFSAP). This Department of Defense program offers free, confidential solution based financial counseling to military members and their families, and is administered through the Ohio National Guard Joint Force Headquarters Family Readiness and Warrior Support Program.