

# Dealing With A Financial Setback

Financial setbacks come in all shapes and sizes. It can be an expensive household repair or major car trouble. It may be increases in your insurance plus a rent hike taking effect at the same time. Or, it can be something more extreme, like getting a pay cut at work- or even being given a pink slip. It may be a medical emergency that isn't covered by insurance, or some good news that will cost you a bundle, like a wedding or the birth of a baby.

It's impossible to plan for every financial hit you will take in your lifetime.

The question is: What are you going to do about it?

You could ignore it, and keep borrowing or charging to pay for daily expenses when your income is swallowed up by the surprise. By going that route, you'll be paying a lot more than you should for this setback because of accumulated interest. But you have options—there are proactive steps you can take. So, if you're hit with hard times, keep these tips in mind:

## 1.) Don't panic

Panic is the first reaction many people have when experiencing a financial setback. It won't be easy, but do your best to keep your cool. Keeping calm will allow you to think more clearly and resolve your deficit quicker. Remember, as difficult as things seem, they'll always look a little better after some levelheaded planning.

## 2.) Crunch the numbers

I'll disappear if you just ignore me and pretend I don't exist, said no problem – ever. That's because problems won't disappear when they're ignored, especially not money problems. If anything, they snowball into a mountain of financial issues you really don't want. So, difficult as it might be, sit down and figure out exactly how much more money you'll need in order to cover your new expense, or to fill the gap of an income loss.

## 3.) Work twice as hard

When you're dealing with a financial setback, you're looking at less money than you need to get you through the month. The only way to stretch what you have to fit your needs is to earn more or to spend less. Since tightening your budget is almost always stressful, try to find ways to add to your income first. If possible, put in more hours at work or seek extra projects, even if it means working nights and/or weekends. Consider freelancing or consulting if you can. Take a side job for some extra cash. Do whatever it takes to bring in a little more money to cover the additional expenses.

If you've been laid off or your hours have been cut, it's OK to work at a job that is below your skill level until you find something more permanent. There's no shame in earning an honest living.

## 4.) Trim your spending

Now, it's time to see which expenses you can trim. Before cutting your budget in half, though, take the time to prioritize. List all the expenses you cannot do without and the ones that would be irresponsible to neglect. Don't



skip mortgage payments or neglect your insurance premiums because you're short a few hundred dollars. Instead, take an honest look at your remaining expenses and see where you can cut back.

If you're careful, you may be able to cut your grocery bill in half. Trim spontaneous purchases by only using cash – and keep a minimal amount on you at all times. If you're a two-car family, consider scaling back to one car for now. Push off your vacation plans until things start looking up. Do whatever you can to come up with the extra cash.

### **5.) Contact your creditors**

If you absolutely cannot make some of your minimum monthly payments anymore, contact your creditors before they come calling on you. It's always best to be up front about your financial situation. Most creditors will be happy to work out a reasonable payment plan with you.

### **6.) Reach out to family and friends**

The people who care about us most are the ones who can get us through anything. Don't be embarrassed to tell your family and friends what's going on. They'll support you and encourage you until you get back on your feet, and they may even be able to help you out with employment opportunities or helpful contacts.

### **7.) Be proactive**

Hindsight is always 20/20. Harness the urgency you feel now to get into the habit of building up an emergency fund. As soon as you're back on your feet, start putting away money that can be pulled out in future setbacks. Experts recommend that you have 3-6 months worth of living expenses saved up in case you can't work for any reason. Knowing you have that money to fall back on will take the stress out of these situations.

Do you need help recovering from a financial crisis? Call, click, or stop by MembersAlliance Credit Union today, for help with money management and ending the debt cycle.

### **SOURCES\*:**

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<https://www.moneymanagement.org/Budgeting-Tools/Credit-Articles/Financial-Crisis/How-To-Recover-From-a-Personal-Financial-Setback.aspx>

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2550 S. Alpine Rd. Rockford, IL 61108 – Phone 815-226-2260

<https://www.membersalliance.org/>

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