



SURVIVING A FINANCIAL DOWNFALL *Eight Steps You Can Take to Weather the Storm*

ENGLEWOOD, COLORADO—Forget the financial windfall, which only a lucky few ever see. Instead, have you asked yourself how you would survive a financial *downfall*?

“Financial downfalls come in all shapes and sizes, and rare is the person who never experiences one,” says Nan Mead, director of Communications for the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is an independent, nonprofit foundation committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach financial goals.

From 9/11 to Hurricane Katrina; job layoffs to divorce; disabling accidents to increasing heating costs, and even significant holiday debt—living the good life suddenly can come to a halt. Be prepared to handle these crises before you find yourself in serious trouble. Mead suggests the following eight steps as key guidelines to help weather almost any financial storm.

1. Take a deep breath. A financial crisis can trigger a range of emotions—anger, disappointment, fear, frustration and loss of self-esteem. Recognize these feelings for what they are—responses to a difficult, stressful situation. Give yourself time to process your emotions before you make any drastic decisions, such as moving out of your home or considering bankruptcy. These changes may be necessary down the road, but first you need to take stock of your situation. Mead says, “It’s important to focus objectively on how you will solve your financial challenge before letting your emotions divert you from making a logical decision.”

2. Assess the situation. Work out how much money you have to get through the next few weeks and months. If you’ve been wise enough to create and maintain an emergency savings account over the years, this is the time to tap into it. While you’re doing these calculations, make sure you know the priorities of your debts and other financial obligations. Make a list of your income, expenses and assets to help you start developing a plan to solve your financial crisis.

3. Cut back immediately. After you’ve analyzed your expenses, decide what you can do without, at least temporarily. For example, can you give up cable TV, the cell phone and dining out? Larger, although more drastic, cuts also could include selling your car to

eliminate monthly payments, switching the kids from private to public school and moving from your current apartment or house to something less expensive. “Put everything on the list, and then take a hard look at each item,” Mead says. “You may be surprised at how many expenses you can reduce or eliminate.” Another way to conserve is by redefining your recreational pastimes to include less expensive activities. For example, enjoy an afternoon browsing through the library instead of buying books and CDs. Go for a bike ride or jog, rather than paying a membership fee to a workout facility.

4. Talk to your employer. If a job layoff precipitated your financial crisis, retain as much value from your benefits as possible. Some questions to ask your former employer may include: Am I allowed sick leave, vacation or severance pay? What medical benefits am I entitled to? Can I convert my life insurance? What happens to my disability and long-term care insurance? How can I roll over my 401(k)? What are my rights regarding my pension plan? How do I get unemployment benefits, and where do I go for job search help? “If you feel uncomfortable asking these questions, consider giving a limited power of attorney to a trusted financial advisor or family member, and ask that individual to gather the information for you,” advises Mead.

If your financial downfall was caused by something other than your job, it’s still important to take advantage of the employment benefits you have available to you. This also might be the time to ask your employer for an advance on your next paycheck, offer to work overtime or request a promotion, if appropriate, to a position that pays more.

5. Tap into other sources of income. In addition to your day job, brainstorm others way you might be able to generate extra cash. The following are a few ideas:

- Moonlight with a part-time job or business.
- Ask other members of the household to pitch in by getting a job or contributing more of their existing income to the family’s expenses.
- Sell possessions you don’t need, including antiques, electronics or other collectibles.
- Use the cash value of your life insurance policy. If you have a whole or a universal life policy, you may be able to take out a loan against the cash value, or withdraw at least some of it. Keep in mind, however, that the insurance company may charge a fee, and a portion of the cash value may be taxable income.
- Borrow from your retirement plan—but consider this option carefully. Not only will you jeopardize your future retirement, you could be hit with a 10 percent tax penalty for an early withdrawal, plus income tax on the amount withdrawn.
- Take advantage of government assistance. Depending on your situation, you might

qualify for unemployment benefits, utility bills assistance, Social Security disability income, disaster relief payments, food stamps or affordable housing programs.

6. Manage your debt. It is important to prioritize your various bills and debts. For example, paying your rent or mortgage should be a top priority. If needed, your local housing authority may be able to help you with rent assistance. If you own your home, ask your mortgage company about a forbearance agreement, which allows you to postpone payments or make partial payments for a period of time.

Make it a priority to pay off credit card debts with the highest interest rates first. If necessary, call your creditors and ask for more time to pay. “Most creditors will be willing to work with you, especially if you notify them before a payment is due,” Mead says. It’s also a good idea to leave your credit cards at home, so you won’t be tempted to use them.

If you owe money to many businesses, consider consulting with a nonprofit debt counseling service to assist you. However, stay away from credit repair companies that promise to “fix” your credit for a fee, as this may be a scam.

7. Keep your insurance in place. Insurance is a safety net that helps you manage risk, and the last thing you should do during a crisis is put you and your family in more danger by increasing your risk exposure. Make it a top priority to keep your health, life, homeowners and auto insurance premiums paid. If this is difficult to do, call the insurance company and ask about your options, such as raising your deductible or setting up smaller, monthly payments instead of larger, quarterly ones.

8. Plan for the next time. It’s easy to think that after you’ve survived one financial downfall, your hard times are over for good. But you never know when another adversity may be around the corner, so Mead offers these additional tips to stay prepared for a financial crisis:

- Save three to six months’ income and put it into an emergency fund that you can access easily.
- Limit your debts and keep your credit in good shape in case you need to take out a loan to get through an emergency.
- Keep your job skills sharp and have a back-up plan for how you could earn a living if you lost your job or were forced to go back to work.
- Maintain your own credit identity and bank account so you aren’t totally dependent on your spouse, and make sure you actively participate in the family’s finances.

The bottom line is never to assume you are immune from financial hardship. You can’t be

certain that anything you currently depend on will remain stable, from your job and the stock market, to your marriage and your health. Mead says, “The best way to survive a financial downfall is to know it could happen to you and to plan accordingly.”

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