DOES YOUR FINANCIAL SITUATION SCARE YOU?

Taking Practical Steps Forward When You're Feeling Overwhelmed

Emotions run high when you're having trouble making ends meet every month. Financial stress can be overwhelming. It affects your emotional and mental well-being and can even affect your physical health.

What's more, when you're so worried about money that it feels hard to breathe when you think about your finances, it can be tough to take any real action to move forward. You feel stuck, helpless, and hopeless because it feels like nothing you can do will make a difference.

The good news is that there are practical steps you can take to regain control. There are plenty of things in your control that you can fix or focus on to start moving forward. This guide will teach you how to take those small steps that will allow you to build momentum and get back a stable financial outlook.

Before we get started with focusing on practical actions, we recommend reading "Coping with Financial Stress" from this same publication series. It can help you learn ways of dealing with the emotional and mental side of the financial stress that you are feeling. Then this guide will help you deal with the financial side.

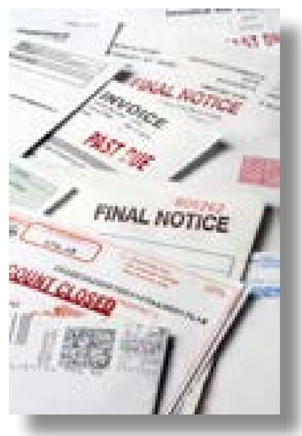
Step 1: Identify the root cause and contributing factors

Living paycheck-to-paycheck and not feeling like you have enough money to cover bills is likely what is scaring you about your situation. However, that's more of a symptom than a source of the issue.

You know that you are in a tough financial spot, but what exactly got you here? Knowing where your financial troubles started can often help you get a clearer view of what you need to do to recover.

Find the root cause of your financial stress

- Are you here because of an unexpected event, such as a divorce or death in the family?
- Did you lose your job or suffer another loss of income?
- Have you had a major life change, such as having a baby or starting to take care of an elderly parent?



Think about the origin of your financial stress and identify the root cause of where the trouble started. This will help you define when your financial troubles began. A defined starting point often makes it easier to recognize that there is an endpoint to your troubles, too.

Identify contributing financial factors

Next, you need to think about what financial factors may have contributed to the situation. These are things that didn't cause the challenges that you're facing, but they may be holding you back from recovering.

- Did you have a written budget in place when the hardship started? Were you following it closely?
- Did you have an emergency fund to fall back on? If so, how

many months did it take for it to run out?

- Were you already carrying credit card debt balances before your financial troubles started?

Answering these types of questions will make it easier to develop a better financial strategy moving forward.

Step 2: Focus on what you can control

Scary financial situations usually come down to one thing – you don't feel like you are in control of your money, debt, and credit. That lack of control can be terrifying, but in truth, there are several key things that you can control even in a tough financial situation where you're living paycheck-to-paycheck.

1. Your income
2. Your expenses
3. Your financial strategy

Finding practical ways to increase your income

There are a few situations where it may not be possible to adjust your income – if you're retired and living on a fixed income or are disabled and receive income through Social Security.

However, in most cases for most people, income is something you can control. If you can't afford to cover your bills and other expenses with your current income, then you can focus on increasing it.

- When was the last time you asked for a pay increase at your primary job?
- If you can't get a raise with your current company, is it time to look for someplace new that will offer better pay?

- Can you or anyone in your household pick up a side-gig, a part-time job, or do freelance or consulting work on the side?

If you haven't gotten a raise recently, make a list of your accomplishments, strengths, and contributions at your job. Then talk to your boss or supervisor to present those and ask for a raise. If they are not willing to offer you more money, then it may be time to move on and find more gainful employment.

And while no one wants to work nonstop, assess your hours and the amount of free time you have. See if there is a side job that you can pick up to boost your income. If you're mentally exhausted from your primary career, find something easy that you can do that give you a paycheck without requiring a lot of brainpower. If you want to be more engaged in what you do, consider if one of your talents or hobbies can be turned into extra income.

In addition to increasing your regular income, you can also explore ways to find one-time boosts in income.

- Are there any items in your house that you can sell?
- Have you checked federal and state directories for unclaimed money you may be owed?

These quick injections of cash may seem small, but they can really add up. With just one sale or finding one unclaimed check, you could pay off a credit card or start rebuilding your emergency savings fund.

If you're selling items, websites like eBay and apps like LetGo (also known as OfferUp) can help you reach a wider audience faster. Local buyers can find your item and you can arrange for pickup. The payment is set up directly through each application.

For unclaimed money, you can search for funds via your state's unclaimed money database through unclaimed.org. If you've lived in multiple states, you may want to conduct a search in each state.

You may also want to check your mailbox. If you have unclaimed money, local legal offices may be sending you offers to make the claims process easy. For a small portion of the funds you will receive, a team will handle all the processing work for you.

Cutting expenses to increase cash flow

The second part of your finances that are in control of is your expenses. While you may not be able to quickly change your mortgage payment (not without a credit check and closing costs), you may be able to adjust other expenses.

Cutting expenses that you don't need and cutting back expenses that you do need but where you could be spending less will increase your cash flow. This will make more money available that you can use to rebuild emergency savings or pay off debt that's causing your stress.

Keep in mind as you're making the cuts that this is temporary. You just need to buckle down while you work your way out of the current situation. Once you do, you can restore expenses that you may have cut. The point is to do what you need to do to get through this current situation.

With that in mind, consider the following:

- **Are you paying for multiple streaming services for movies and TV or music?** If so, cancel all but the one that you use the most.
- **How often are you eating out with the family or while you are at work?** Cooking at home and taking lunches to work can significantly reduce your food costs.
- **Are there services that you pay for that you could do yourself, such as yard work or housework?** If so, cancel the service

temporarily to save that cash.

- **Are there any subscriptions that you can cut**? This could be anything from magazine subscriptions to box delivery service subscriptions for groceries or personal care.

It's also important to recognize that most people have things known as **"spending leaks"** in their budget. These are small incidental expenses that you may not think add up, but they do. They drain more income than you think, and you could be using that income to address your financial challenges instead.

For example, let's say you love the morning latte that your barista makes you. So much so that you spend $4 every to buy it. You're spending $4 seven days a week, that's $120 per month.

This may seem small, but if you were to invest that money every month for 10 years into an account that offers a 10% annual return, you would net $25,000. Maintain that until retirement and in 40 years you'd have more than $765,000. David Bach, author of the book The Automatic Millionaire calls this the **"latte factor."**

With that in mind, find your latte factors – all those spending leaks in your budget that are costing you even a little. Identify as many as possible and closing them will:

1. Increase the cash flow available in your budget
2. That will allow you to stop using credit cards for daily purchases
3. You will also have the cash flow to generate an emergency savings fund
4. Then once you're back on stable financial ground you can decide if you want to add expenses back in.

Reevaluate your financial strategy

The last thing that's within your control to change is your overall approach to your finances. Too often, we get stuck in a negative cycle, even when it's clear that it is not working.

For instance, you keep struggling to make your minimum payments, even though you're not getting any closer to paying off your credit card balances. Or you keep defaulting on your student loans, instead of exploring options that could reduce or even eliminate your payments during a period of financial hardship.

If this sounds familiar, then it's time to start researching other strategies. Solutions like debt consolidation or debt settlement could reduce your payments and finally help you get ahead of your debt.

Here is a quick list of options that you may want to consider for various types of debt that may be contributing to your current situation.

Type of debt	Possible solutions
Credit card debt	• Enroll in a debt management program with the help of a credit counselor • Consolidate your balances with a personal loan • Settle past-due and charged-off accounts for less than you owe with debt settlement

Student loan debt	• Apply for forbearance or deferment • Consolidate federal loans with an income-based repayment plan, which matches your payments to your income • Consolidate federal loans with a pay as you earn plan, which can reduce or even eliminate your payments during a period of hardship • Ask private lenders for hardship-based repayment options
Medical bills	• Set up a payment plan with the hospital or service provider • Use debt settlement to settle medical collections for a fraction of what you owe • Contact a medical advocate if you think you're being overcharged
Tax debt	• Contact a tax resolution company or attorney, who will help you set up a payment plan to repay all or some of what you owe • They can also help you apply for penalty abatement, which can remove penalties to reduce the amount you owe

If your situation is bad enough, it may even be time to talk to a lawyer and consider bankruptcy. Bankruptcy may sound like the end of the world, but it's actually a clearly defined path that can give you a fresh financial start. You could eliminate all or most of your debt obligations in as little as 90-120 days. Then you'd be able to focus on rebuilding.

The best place to start exploring debt relief options is to talk to a certified credit counselor at a nonprofit credit counseling organization. The counselor will provide a free debt and budget evaluation and help you compare debt relief options to find the best fit for your financial situation.

Putting it All Together to Get to a Better Financial Place

Focusing on the three parts of your situation that you can control offers things that you can actively do to change your situation. That alone can help you get out of the emotional and mental deadlock that you may be in where financial fear overwhelms you. You work a little each day to achieve your goal of getting out of the financial hardship you are facing.

Cutting expenses is usually going to be the most immediate thing you can do. You can start reviewing your expenses today to find ways to cut back. Then you can start looking for extra sources of income. Those two together should give you a bit of breathing room, so you can take time to thoroughly research options for debt relief.

Then once you find a solution that fits your needs, you'll be in the best possible position to execute it quickly. Even with debt settlement, you will need funds to make settlement offers to your creditors. So, taking the steps to free up as much cash flow as possible will give you a head start.

Also be aware that new credit card charges are not doing you any favors as you work to improve your situation. Cutting expenses and increasing income should help you stop using credit cards to cover daily expenses. If you still find yourself using plastic, consider removing your credit cards from your wallet or even freezing them in a container of ice so it is physically harder to access your cards.

Setting Yourself Up for Greater Stability in the Future

Once you overcome the challenges that you are currently facing, you can then take steps that will help you establish and maintain financial stability long-term.

Setting up a working budget

Budgeting made sound like a bore, but it’s really empowering. Knowing where your income is going and how it’s allocated gives you greater control. It also makes it much easier to save and pay off debt.

And there are plenty of ways to build a budget. If you’re always on your phone, find an app like Mint or You Need a Budget. These link to your bank account and automatically categorize your expenses. If you prefer spreadsheets but don’t want to build your own, services like Tiller Money offer templates.

There are also more tactile methods, such as the envelope method of budgeting. You physically put cash into envelopes for each expense you'll have in a pay period. There are digital envelope apps, too, that can adapt this method so you can do it electronically if you don't want to carry cash.

Find a budgeting method you like, build your budget, and stick with it. The more often you check in on your spending, the less likely you are to feel that your finances are out of control.

Right-sizing your emergency fund

People often wonder how big their emergency fund needs to be. A good rule of thumb is that you should have enough savings to cover 3-6 months of bills and necessary expenses in your budget. In a bad economy, you want to increase that to 6-12 months.

But if that sounds daunting because you have nothing in savings, then start will a small, achievable goal. First aim to get $100 in savings, then $500 and then $1,000, and then $5,000. Each milestone you hit will give you peace of mind that you will be able to cover emergencies that arise.

Once you get a $5,000 cushion, you will have enough money to cover most major home and car repairs. Then you can focus on building an emergency fund that would help you get through a period of unemployment or no income.

Bear in mind that emergencies will happen along the way and you may need to use some of the funds you've been building. That's okay! The money is there to cover unexpected expenses. Use what you need and then focus on putting it back as quickly as possible.

Being proactive instead of reactive

Once you have a budget and an emergency fund in place, you can start financial planning. People often think that the term only refers to retirement planning. While that is one part of it, financial planning is really about looking forward and planning for any life event.

Want to take a big vacation? Plan for it! Calculate how many paychecks you have between now and when you want to travel. Then determine how much you need to save out of each paycheck so you can cover the trip in cash.

Thinking of adding a member to your family? Whether that's a child or a pet, both are going to need care that will cost money. Research the costs that you'll be facing and start saving accordingly.

Take time to regularly think about your goals and then plan for them. If you have other people in your household, talk about

goals together, and work towards them as a family or as a couple. Goals are easier when everyone in your home is working to achieve them together.

And don't neglect retirement savings! Once you achieve stability, start working to save for retirement. If your employer offers a 401(k) plan and you are not enrolled, talk to your HR department to start contributing.

Make sure to ask what type of match program the employer offers. For example, an employer may give you 50 cents for every dollar you contribute up to 6 percent of your salary. If your company offers matching, try to contribute at least up to that match limit every year.

If you already have a 401(k), talk to your plan advisor to see how your investments are doing and see if you're on track to retire on time. If not, work with them to start investing your money more wisely or consider getting an independent financial advisor, who can help you consider the value of other investment tools, such as an Individual Retirement Account (IRA).

By looking ahead, planning for the future, and saving accordingly, you will foster real financial stability that can weather any storm that may come. That way, you can avoid scary financial situations and be empowered to control your own financial destiny!