LEARNING MADE EASY

2nd Edition

Living Well in a Down Economy

for dummies®
A Wiley Brand

Get the most out of the money you make

Cut your utility, grocery, and insurance costs

Stay afloat and pay down or consolidate debt

The Experts at Dummies

Living Well in a Down Economy

2nd Edition

by the Experts at Dummies

for dummies®
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Published by: **John Wiley & Sons, Inc.,** 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

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Library of Congress Control Number: 2022950998

ISBN 978-1-394-15964-2 (pbk); ISBN 978-1-394-19542-8 (ebk); ISBN 978-1-394-15965-9 (ebk)

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Introduction

Ask an economist what a *recession* is, and you'll likely get the answer "a decline in gross domestic product lasting two or more consecutive quarters." (*Gross domestic product*, or *GDP*, is the total value of goods and services produced in a country.) At the time of this writing, the United States isn't officially in a recession, but the economy is definitely in a downturn.

This isn't good news. Fortunately, you can do more than cross your fingers and hope for good luck. During a downturn, you have the following main objectives:

- **Prepare yourself in case you lose your job.** Companies are always looking for ways to save money. Unfortunately, payroll reduction (read "layoffs and firings") is a way to save. Fortunately, by preparing a resume and seeing this as an opportunity to explore alternative careers and ways to work, you can be proactive in protecting yourself in case you find yourself on the job market.
- **Take control of your finances.** Figure out what you have and what you spend and then make deliberate decisions about ways to rein in your spending. Your goal should be to live within your means (if you're not already), to preserve your long-term financial goals, and to save enough to see you through a period of unemployment in case you lose your job.
- **Continue to live and enjoy your life while maintaining control of your finances.** The key isn't just to scale back but to do so in a way that you don't feel deprived. You can save a lot just by being a savvier consumer and by spending your money a little differently.
- **Have a plan to follow if the worst happens.** In uncertain times, you may find yourself, despite your best efforts, facing a financial catastrophe like a bankruptcy or foreclosure. Even in these circumstances, you still have options — maybe not many, and maybe not pleasant ones, but options that can help you weather even these storms.

Bottom line: In a stumbling economy, you have to tread carefully, but you can still move forward. This book helps you one step at a time.

Within this book, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending as though the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just click the web address to be taken directly to the web page.

About This Book

Living Well in a Down Economy For Dummies, 2nd Edition, contains 175 tips and suggestions to help you through tough economic times. How can you scale back on celebrations without sacrificing the fun? How can you continue to save for retirement when you need all your income to make ends meet now? What do you do when college loans — or tuition — come due and money is tight? How can you save money on household expenses?

This book answers these and other questions for people looking to save money without sacrificing quality of life.

Each part of this book is divided into tips containing information relevant to that part's theme. The great thing about this book is that you decide where to start and what to read. It's a reference you can jump into and out of at will. Thumb through to glance at a variety of tips, or go to the Table of Contents to find the different categories of tips.

Foolish Assumptions

In writing this book, we made some assumptions about you:

- You feel uneasy about the economy and want to get yourself and your family in a better financial position.

- You worry about losing your job, or you've already lost your job, and you need advice on finding work and cutting your expenses.
- You want to know how you can continue to plan for long-term financial goals like retirement and college savings when money's tight.
- You want to be a savvier, more thoughtful consumer so you can continue to enjoy life's pleasures without spending too much.

Icons Used in This Book

Many people, when facing stressful times, become very focused. In addition to myriad tips, this book uses the following icons to highlight information:

REMEMBER

This icon appears beside especially important information: stuff that you absolutely need to know to make informed, wise decisions.

TIP

This icon highlights especially clever advice about living well when the economy is in a downturn.

WARNING

When times are tough and money is tight, mistakes are especially dangerous. This icon warns you about things that may have serious negative consequences.

Beyond the Book

In addition to the material in the print or e-book you're reading right now, this product comes with some access-anywhere goodies on the web. To get this free Cheat Sheet, simply go to `www.dummies.com` and search for "Living Well in a Down Economy For Dummies Cheat Sheet" in the Search box.

Where to Go from Here

Whether you read this book from front to back or jump in and out as the need arises, you're certain to find a variety of ways to cut your expenses and stabilize your finances. Look at the Table of Contents to find general categories of tips, search the index to find specific tips, or just flip through until something catches your eye.

1

Facing Off Against a Recession

IN THIS PART . . .

Take hold of your own finances and your attitude, even amid rising costs, falling income, uncertain employment, and no real idea how long the downturn will last. Harbingers like these can make anyone feel that economic stability is slipping beyond his grasp, but you can control how you respond.

Try out some useful relaxation tips — because everyone deserves a break during stressful times.

#1 Determining Your Net Worth

Your *net worth statement* is simply a listing of all that you *own* and all that you *owe.* The difference between the two is your *net worth.* Your net worth is like a financial report card and reveals a lot about you. One glance at a net worth statement and you have a pretty good idea whether a person has made a lot of financial mistakes, has had terrible misfortune, has been a fantastic money manager, or has been just darn lucky.

TIP

Figure out your net worth now using the following table and update it each and every year, shortly after year-end, because that's when you receive the previous year's year-end statements on your mortgage, retirement accounts, pension, investments, bank accounts, and a slew of tax-related documents. That's an excellent time to update your net worth statement.

REMEMBER

Don't beat yourself up over your current financial situation. It does no good; in fact, it's actually very harmful. You may not like what you see on your net worth statement, but consider this step the beginning of your quest for financial freedom. The only things that matter are the decisions you make in the present and the future. You can't change the past, but you can learn from your successes and failures. Focus on what you can gain from the exercise in the following table and then use that knowledge to help stay on track going forward.

Assets	Value	Liabilities	Balance
Cash Accounts	$ ________	**Home Mortgage**	$ ________
Checking	$ ________		
Savings	$ ________		
Money Market	$ ________		
Cash on Hand	$ ________		
Personal Use Assets	$ ________	**Home Equity Loan/ Line of Credit**	$ ________
Residence	$ ________	**Auto Loans**	$ ________
Personal Property	$ ________		
Auto(s)	$ ________		
Boat(s)	$ ________		
Vacation Home	$ ________		
Other	$ ________		
Investment Assets	$ ________	**Investment Loans**	$ ________
Brokerage Accounts	$ ________	**Margin Account**	$ ________
Mutual Funds	$ ________	**Loans against 401(k), 403(b)**	$ ________
IRAs	$ ________		
401(k), 403(b)	$ ________		
Other retirement plans	$ ________		
Cash Value of Life Insurance Policies	$ ________	**Loans against Life Insurance**	$ ________

Assets	Value	Liabilities	Balance
Loans / Accounts Receivable	$ ____________	**Loans / Accounts Payable**	$ ____________
Deferred Compensation	$ ____________	**Salary Advances**	$ ____________
Total Assets	**$** ___________	**Total Liabilities**	**$** ___________
		Total Assets Minus Total Liabilities = Net Worth	**$** ___________

#2 Calculating Spendable Income

So you make $20,000, $40,000, or even $120,000 per year. Don't be lured into the common misunderstanding that you have $20,000, $40,000, or $120,000 per year to spend any way that you want. After you pay income, Social Security, and Medicare taxes on your gross earnings, your earnings likely decrease by a third or more. Then you need to account for the costs related to earning these wages, such as commuting, dry cleaning, and childcare, just to name a few. You may also eat out more often and take a vacation periodically or treat yourself to regular massage therapy to decompress from the stresses of your job. These are job-related costs, even if they're not deductible as such on your tax return. You wouldn't have these expenses if you didn't have the job.

What you have left after you take out all your must-pays (like taxes) is your *net, net income*, or *spendable income.* To figure out your net income, gather the last month's worth of paycheck stubs and complete the following table with information you take directly from your paycheck stubs.

REMEMBER

Some deductions occur monthly rather than per pay period, so two to four consecutive paychecks should reveal all deductions. For example, if you receive two paychecks per month but your medical insurance deduction is only taken out of the first paycheck of each month, divide this amount by 2 when completing the worksheet.

TIP

The next time you consider making a purchase and you tell yourself, "Ah, it's only 20 bucks," calculate how long you'd have to work to net $20. For example, netting $20 takes nearly three hours of work for some people. Stop and ask yourself whether the purchase is worth three hours of your work life and energy.

1. Gross Income Per Pay Period	**$__________**
Minus:	
Taxes	
Federal	$__________
State	$__________
Local/City	$__________
Social Security (FICA)	$__________
Medicare	$__________
2. Total Taxes Withheld	$__________
Automatic Payroll Deductions	
Medical Insurance	$__________
Life Insurance	$__________
Disability Insurance	$__________
Dental Insurance	$__________
Charitable Contributions	$__________
Retirement Plan 401(k), 403(b), and so on	$__________
Retirement Plan Loan Repayment	$__________
Deferred Compensation Plan	$__________
Employee Stock Purchase Plan	$__________

Flexible Spending Acct FSA (Section 125)	$__________
U.S. Savings Bonds	$__________
Other Automatic Drafts for Investments	$__________
Other Automatic Drafts for Expenses	$__________
3. Total Payroll Deductions (Excluding Taxes)	$__________
4. Net Income Per Pay Period (Line 1 – [Line 2 + Line 3])	$__________
5. How Many Times Are You Paid Per Year?	$__________
a. Weekly = 52	
b. Every Other Week = 26	
c. Twice a Month = 24	
d. Monthly = 12	
6. Multiply Line 4 times Line 5 for Annual Net Income	$__________
7. List Traditional Job-Related Expenses (Annual)	
Expense	**Annual Cost**
Commuting Costs	$__________
Clothing and Clothing Maintenance	$__________
Child Care	$__________
Unreimbursed Business Expenses	$__________
8. List Nontraditional Job-Related Expenses (Annual) You may incur these expenses due to the stress of your job, long hours, or working conditions. Examples include dining out frequently because you're working long hours, going out for lunch instead of preparing them at home, treating yourself to much-needed massage therapy or vacations to help decompress from the stresses of your job, and so on.	

Expense	Annual Cost
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
____	$______________
9. Total Annual Expenses on Lines 7 and 8	$______________
10. Subtract Line 9 from Line 6 for Annual Spendable Income	$______________
11. Divide Line 10 by Number of Hours Worked Per Year (Traditional Full-Time Work Equals 2,000 Hours)	
Equals Your Net Hourly Spendable Income	$______________

#3 Calculating Required Expenses

Your required expenses, or *needs,* must come first. To figure out what your required expenses are, fill out the following table by entering the total amount you're personally responsible for or the total for the household, whichever is easier. (Sorry, your needs don't include cellphones, cable or satellite TV, streaming TV services, or high-speed Internet, unless they're required for employment. These aren't necessary to sustain life, and therefore, you must classify them as wants.)

Shelter:	
Mortgage or rent	$______________
Home maintenance	$______________
Utilities:	
Electric	$______________
Gas	$______________
Water, sewer, and trash pickup	$______________
Basic phone service	$______________