



LIVING FROM PAYCHECK TO NO CHECK

Smart Financial Planning Can Help You Get Through the Transitions

ENGLEWOOD, COLORADO—Have you ever spent a Friday afternoon daydreaming about quitting your steady full-time job to follow a long-forgotten career fantasy? Maybe you've thought about heading back to school, taking a year off to pursue artistic interests, starting your own business or running for office. Probably, your daydream is cut short when you realize that leaving your job also would mean leaving behind a steady income.

However, it is possible to live without a paycheck for an extended period of time—but only if you plan for it.

“Many individuals believe they couldn't possibly relinquish their monthly income without incurring an enormous amount of debt in the process. However, it can be done,” says William L. Anthes, Ph.D., president and CEO of 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.

“The keys to success involve making changes in your daily life that will allow you to save money while you're still receiving a paycheck,” Anthes advises. “The benefits of doing so are twofold: First you'll be prepared to live on less once you stop receiving a consistent income; and second, you will free up cash now that you can save for use later.” Anthes suggests that individuals who know they'll be without income for an extended period of time take the following steps to ensure they don't find themselves financially strapped, or forced to acquire significant debt to make ends meet.

1) Talk about it—Your initial planning should include discussions with your family. Before you make any radical decisions about your career, make sure your spouse and children are on board with your plans. Do they realize the sacrifices they may need to make? Perhaps your spouse will need to work. Your children may need to understand that family vacations or gifts will be less frequent.

You also should talk with your loved ones about how long you'll be living without a consistent monthly income. For example, if you're leaving your current employment to start your own business, what will you do if in a year, or several years, your new company still is not profitable? Think about whether you would choose to return to a job where you

receive a steady income, or stick it out for as long as it takes. Decide on a time frame that works for everyone who would be affected.

2) Begin planning as soon as possible—“In order to live on limited or no income, you must start planning right away,” Anthes says. “As soon as you decide that you will not be receiving a steady paycheck, begin thinking of ways that you can save the money you’re earning now, before you walk away from your job.” Start cutting costs in your daily life *before* you leave. Only by planning ahead will you survive this salary-free lifestyle financially. Making these important, and sometimes drastic, changes in your spending habits may warrant talking with a qualified financial professional. Share your goals and discuss how you might plan for living without a paycheck.

Also, consider setting up a bank account for money that you intend to live off of while you are not receiving a paycheck. Discuss the account’s options with the professionals at your local bank or credit union. You’ll want to earn as much interest on this account as possible while putting the principle at minimal risk.

3) Create a spending plan—Start by calculating how much money you currently make and spend. Next, consider how much money you’ll need to live on when you aren’t receiving a paycheck. Remember that by leaving your current job, you also might be eliminating employment-related expenses, such as dry cleaning, transportation or lunches out. Once you have whittled down your expenses, you can evaluate how much money you absolutely need to get by each month. Multiply this amount by the number of months you expect to be without income, and you’ll know how much you need to have on hand in order to achieve your goal.

“You may find that the amount of money you need to save seems like an unreachable goal,” Anthes says. “However, if it truly is necessary to live without income for a time in order to achieve an important objective, you can make it happen.” As you follow Anthes’ suggestions, periodically return to your initial spending plan and make the necessary changes and recalculations.

4) Simplify your life—Think about areas where you might be able to save or conserve. Can you get rid of cable TV and your cell phone? How much can you cut out of your current entertainment budget? If you can, make other substantial changes that will free up some extra cash now, and decrease your overall expenses while you are living without an income. Ask yourself what services you currently pay others to do that you could complete yourself, such as cutting your children’s hair or changing the oil in your car. Perhaps there are other, more expensive services you typically pay for that could be eliminated. For example, with a new work schedule, you may choose to clean your house or mow your lawn by yourself.

Taking this step requires that you consider how important your goal—whatever is driving

you to relinquish your monthly income—really is. Is it worth eliminating your regular movie night with friends? What about cutting down on the amount of costly foods you eat? Perhaps you could consider selling some of your expensive electronic equipment. Getting rid of belongings you don't really need, and cutting unessential expenses from your budget, can be a painful process. However, doing so also can free up substantial cash to save now, and prepare you to live better in the future.

Anthes says, "Simply evaluating what your true needs are can help you see that you probably require much less income than you think you do."

5) Sell your car— "We often consider cars a necessity—and for many people, they do fit into this category," Anthes says. "However, if you don't truly need a car and have access to other forms of transportation, you could save a substantial amount of money by getting rid of your automobile." Not only would you save on car payments while recouping whatever your car is worth, you also won't have to budget for car insurance, maintenance and gas. You'll need to consider the costs of alternative transportation, of course, such as bus fare; however, these expenses generally are less than those associated with owning a car.

6) Pay down debt while you can—"Make any and all attempts to pay off credit card and loan debt while you still have a consistent income," Anthes advises. "You are putting yourself in a dangerous financial position if you begin living without a salary while trying to pay off debt. You may find that you cannot make your payments and are acquiring even more debt in the process. This could lead to a slippery slope ending in bankruptcy."

If you are able to decide when you will stop receiving a salary, give yourself plenty of time to pay off all debts beforehand. You also should commit to limiting the amount of additional debt you incur now, and as you transition to life without a monthly income.

7) Draw money from your home—For most Americans, their home is their single largest financial asset. If possible, you may want to use the wealth you have accumulated in your property ownership to your advantage.

"Consider moving into a smaller home or a less expensive area," Anthes says. "Not only will your house payments be less, you'll have the extra money from the sale of your previous home to use while you aren't earning an income."

However, before you decide to move, make sure you have accurately evaluated the amount of money you'll save. If you're moving away from friends and family, will flights home increase your travel budget? What about if you're moving to a new climate? How will this affect your food, energy and other living costs?

Anthes also suggests that individuals who are considering a move spend significant time in

the new area. “Make sure you and your family will be able to commit to the new location for as long as necessary. A move probably won’t save you any money if you need to relocate again because the new place isn’t working out,” Anthes says.

On the other hand, if you choose to stay in your current home for the foreseeable future, you may want to consider refinancing, or taking out a new loan on your home to pay off the old one. By doing this, you may be able to lower your monthly house payment by lowering your interest rate, or cashing out some of the equity in your home. These moves could provide you with money to survive without a paycheck. You should, however, consider the drawbacks to this option, such as potentially expensive closing costs.

8) Investigate alternative sources of income—Perhaps you are walking away from a nine-to-five job to pursue your dream of becoming an artist. Or, maybe you want to stay at home to raise your children. Although a typical day job may not be right for you, there may be other ways you can earn money while pursuing your dream. Perhaps you could work part time or for a temp agency. Or maybe you could do freelance work from home. Consider what you might be able to do for a previous employer on a contract or part-time basis. These options will give you more flexibility than a conventional job, while providing you with some amount of income.

9) Penny pinch, but don’t cut too many corners—While you’ll want to save as much as you can, you don’t want to put yourself or your loved ones at serious financial risk in the process. Make sure you and your family members have health insurance, either through your spouse’s employer or an individual plan. You don’t want to skimp on other types of coverage, such as disability income or automobile insurance, either. “Instead of attempting to save money by dropping your insurance plans, consider making changes to reduce the cost of your policies,” Anthes says. For example, perhaps you can raise your deductibles to lower your monthly premium payments. If you do so, just be sure you have enough money saved to cover the amount you’d be expected to pay in an emergency.

Anthes advises that individuals avoid dipping into their retirement savings plans in order to survive without a salary. “Cashing out a retirement savings vehicle, such as a 401(k) plan, usually is a grave financial mistake. The taxes and penalty fees you’ll be forced to pay typically are not worth the amount of money you receive, and the lost earning power of the money in the account can never be recouped.”

Instead, Anthes suggests people continue to pay into a retirement savings plan, to the extent possible, even during periods without consistent income. “Reduce the amount you’re contributing, if necessary, but try to continue committing something to your retirement,” he says.

10) Practice, practice, practice—Whether you find that it makes sense for you to sell your stereo, get rid of your car, move to a smaller home or work part time, Anthes suggests you

practice your chosen method of saving before committing. “Take time before you completely relinquish your monthly income to see what realistically will work for your family. Then, as you learn more about what is and isn’t possible, recalculate your budget. Eventually, you will find a plan that works for you. Once you do, stick to it for some time before leaving your job, if possible.”

Finally, Anthes suggests that families leave the lines of communication open. “Be sure you always know how your spouse or partner and children feel about the situation. Also, recognize how you are feeling. Perhaps the financial struggle is more than you anticipated and not worth the rewards. Conversely, maybe the time you have taken to achieve a life goal is well worth the penny pinching it requires. Either way, be aware of your emotions, and be willing to make changes, if necessary.

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