

Who Gets Paid First?

Christopher T. Sneed, Assistant Professor, Department of Family and Consumer Sciences
Ann A. Berry, Professor, Department of Family and Consumer Sciences



At a glance...

This money management tool can help you set priorities for paying bills and repaying debt when you don't have enough money to pay everything in full.



Money Tools

What this money management tool can do for you...

A money crisis can happen to anyone as a result of a layoff, illness, death of a family member, divorce or overspending. If you're in crisis, you may postpone making hard financial decisions until creditors begin calling. It's easy to feel overwhelmed when a number of creditors are making demands or threats. Setting clear priorities about who gets paid first can help you overcome "debt paralysis" and deal with your finances in a positive way.

Step 1. Stop all unnecessary spending. If you have pre-authorized monthly direct payments or money transfers, decide which you must keep and discontinue the others. This step can be hard, but it is important to free up as much cash as possible.

Step 2. Make a new budget based on your new financial realities. Use UT Extension's My Money Plan to determine your household income and necessary spending.

Step 3. Determine priorities for the money you have available. If you can't pay everything, use the following guidelines to set priorities:

Level 1 Priorities – Household essentials.

Food

- Food expenses can be reduced by smart shopping and not eating out, but you must continue to include money for food in your budget.

Medical essentials

- Medication necessary to control health issues is a top priority.
- Keeping health insurance coverage is especially important if you or someone in your household has a chronic health problem.

Housing and utilities

- If you are a renter, you need to stay current with your rent.
- If you are a homeowner, in addition to making mortgage payments, you'll need to stay current on any home equity loans.
- Condo membership fees and mobile home lot fees are necessary if they apply.
- Make homeowner's insurance a priority if it's not included in your mortgage payment.
- Basic utilities, like electricity and water, are a top priority, but cancel services like cable television, internet and extra phone services.
- Reduce home energy use to lower costs.

Transportation

- Continue payments and insurance on vehicles that you must have to get to work or take care of your household.
- If you can, reduce auto loan and insurance payments by trading for a less expensive vehicle.
- Use lower-cost transportation such as bikes, buses or walking when you can.
- Sell all vehicles you don't absolutely need.
- Save gasoline costs by driving only when necessary and combine trips when possible.

Level 2 Priorities – Legal obligations.

- Child support.
- Student loans.
- Taxes.
- Legal judgments.

Important:

You cannot simply not pay your bills. You must reach out to those you owe money to inform them of your circumstances and set up a payment plan.

Level 3 Priorities – Consumer debt.

- Installment loans for appliances, furniture or electronics.
- Credit card accounts.
- Bills for medical or personal services.

Step 4. Communicate with creditors. After you've determined your payment priorities, contact your creditors to let them know of your situation. It is important that you are proactive and contact your creditors before they contact you. If you can't pay their debt as agreed, propose an alternative. Ask to skip payments and have them added to the end of your payment schedule or reduce payment amounts.

Tip: Contact creditors in writing!

There are several advantages to contacting creditors by letter or email rather than by phone.

- A letter can show that you are making good-faith efforts to pay of the debt.
- Written notice is required for legal protection under the Fair Debt Collections Practices Act. The act allows you to request that creditors not contact you further regarding an account.
- Communicating by letter helps you avoid feeling threatened by a collector's verbal threats.
- Writing provides time to think more carefully before making promises to pay and helps you avoid agreeing to a repayment plan that is not feasible.
- When things are in writing, there is less chance of miscommunication or misunderstanding.

When sending a letter, consider sending it by certified mail and pay for a return receipt so you have a record the collector received it.

What if you can't find the address?

If you don't have the name or address of a representative of the creditor or collection agency, it may be necessary to do Internet or phone research to determine who should receive a letter. Computerized phone menus and automated customer service systems may make this difficult. These suggestions may help:

- Look on any correspondence you received regarding the account for a customer service or collections mailing address.
- If a collector calls, ask for his/her name and address. Tell the collector that you will be writing the company immediately regarding your account and end the phone conversation as soon as possible.
- Look on the company's website or on Internet business listing sites for addresses that may be appropriate.

Hint

If you do make contact by phone to discuss repayment, ask for the name and address of the person representing the creditor and follow up with a letter outlining the repayment plan that has been agreed upon.

Step 5. Evaluate your resources. Generally speaking you do not want to go into more debt in an attempt to pay your bills. Instead, think about what other resources you might have. As you do consider the following:

- If you have an emergency fund (regardless of the amount), now is the time to use that money. You can rebuild your emergency fund at a later date once your income has stabilized.
- Get back any money that is due to you. If you have loaned money to friends or family, now is the time to reach out to them to ask for repayment. Even if they can't repay you all that you have loaned them, any amount will help.
- Sell items that you no longer need. Consider having a yard sale or garage sale to get rid of common household items that you no longer need. You will be surprised at just how much money you might raise. Additionally, consider selling larger items or items of higher value through online listings or through an online auction site.
- Pick up a side job. If time allows, pick up some sort of side work that can help you earn a little extra cash during your money crunch. This does not have to last forever. You can always stop your side job once you are back on your feet financially.

Note: Tapping into your retirement account should be a last resort. Generally withdrawals from accounts like IRAs and 401(k)s come with a big penalty not to mention all the lost future growth you will be losing once you take out those funds.

Note: Pay day loans, title loans and other quick cash options may seem like a good alternative when you are in a money crunch. However, these options are deceptively easy and can become financially costly for you over the long term. Before choosing to take out a payday loan or other form of quick cash, think about the total costs you will pay and how you will pay back the loan.

The authors wish to thank Marci Hethmon, Extension specialist, for her careful review of this publication.



UTIA.TENNESSEE.EDU

Real. Life. Solutions.™