Budgeting for the Sequester: How to Ha a 20% Pay Cut

by Michele Lerner Jul 29th 2013 5:00AM

If you're a federal worker facing the prospect of unpaid furlough days this year, you're probably already worrying about how you'll live with a 20 percent cut in your income. But federal workers aren't the only ones who may have to radically alter their budgets to accommodate a drop in their take-home pay. Civilian employees of government agencies and contractors are also seeing shrinking paychecks these days. And plenty of hourly employees in the private sector have seen their hours trimmed back in recent years as businesses reduced hours, renegotiated contracts, or implemented furloughs of their own.

And of course, a pay cut can be a matter of your own choice: If you're in a two-income family and one spouse to part-time work to take care of the kids, the decline you experience could easily be even steeper than our fur public workers face.

Naturally, those who have robust savings accounts and assets can handle such a pay cut more easily than thos fewer resources. But research from Bankrate.com shows that 27 percent of Americans have no emergency sav and 76 percent don't have enough savings to cover their expenses for six months.

Even if you're in the well-prepared minority, you'll still need to make budget adjustments to accommodate yo reduced income.

Crunching the Numbers

"When a reduction in income takes place, it's important to list out everywhere you regularly spend money eac and then determine if that spending item is a need or want," says Larry Rosenthal, a certified financial planne president of Rosenthal Wealth Management Group in Manassas, Va. "Most people will be able to temporarily some of the 'want' spending each month until their income bounces back."

Bruce McClary, director of media relations for ClearPoint Credit Counseling Solutions in Seattle and a credi counselor for 15 years, says that the average annual household income in the U.S. was $51,404 in March 201 reduction of 20 percent would reduce that to $41,124, which means they would need to reduce their spendin $10,281 per year, or about $857 per month. (That's all before taxes, of course.)

"The average savings rate is 3.2 percent, although that's far less than the recommended minimum of 10 perc McClary. "A household earning $51,404 would be saving $137 per month at the average savings rate. They s continue to save at least that much even after a pay cut."

Rosenthal says federal employees, even if they decide to temporarily reduce their contributions to their retir savings, must make sure they contribute at least 5 percent to their Thrift Savings Plan, because that's the am government matches.

Cost-Cutting Measures

"Start with discretionary variables and some essentials such as your cable TV, cellphone, Internet, magazine subscriptions, groceries, gasoline," says McClary. "It's possible, if you're not already cutting costs to the core, most of your cuts in these categories. Cable TV is prohibitively expensive for people on a shoestring budget, an are plenty of other alternatives. A cable bundle, after removing all of the gimmicky sales promotions and tem discounts, could run as much as $145 per month. Strip the cable and landline phone from that bundle, and In be as low as $35 per month. You just saved $110 per month."

You can also save by switching your phone plans. Kimberly Foss, a certified financial planner, founder and pr Empyrion Wealth Management in Roseville, Calif., recommends disconnecting your landline.

"Moving all my phone use to my unlimited cellphone [plan] saved me an average of $67 per month, which co $804 a year in savings," says Foss. "If you work from home and need a landline, consider a VoIP or cable pho which are considerably less than traditional lines."

McClary says that, depending on your current cellphone contract, you may be able to shop around for a new p

"Cutting a contract plan with a top provider and going with a discount competitor could save you as much as depending on your contract," says McClary. He recently had clients switch from two individual phone plans t total of $160 a month to a pay-as-you-go, bundled family plan that cost $70.

You may also be able to save by shopping around for new car, or life or homeowners insurance, says Rosentha possible to lower your car and homeowners insurance premiums by raising your deductibles, but be sure you cash on hand to pay that deductible in case you end up with a claim.

"You can save money on medical expenses by switching to a high-deductible health insurance plan," says Foss can put the savings from your health insurance premiums into a health savings account and use the HSA to pa doctor bills, that helps reduce your monthly budget. Unlike a Flexible Savings Account, if you don't use all of t in the HSA at the end of the year, you don't lose it: It can stay there until retirement."

Other Items That Eat Up Your Budget

An obvious place to make some immediate changes to your bottom line is to reduce the number of meals and you buy at restaurants, coffee shops, and convenience stores. Even if you spend as little as $5 per day, that co about $150 per month.

"Food accounts for about 12 percent of the average household budget, says McClary. "Let's say our average fa spending $514 per month, and let's figure that coupons are not utilized in this budget. The average coupon us percent per year, so if we were to cut out the fancy brands and use coupons, we could save almost $62 each m

Transportation costs, especially when gas prices are high, make up an average of 16 percent of household bud McClary: The average family spends $685 per month.

"The range of savings here could vary significantly depending on your circumstances and the choices you mak McClary. "Use gas discounts through grocery and retail reward programs, limit driving to necessary trips, and travel with others. If you're able to have one fewer trip to the gas station and a lower insurance premium, you about $100 monthly just for that."

If you're facing a 20 percent pay cut, hopefully you'll find a way to generate additional income for your housel part-time job on your mandatory days off if you can, and ask family members to help by getting a job or doing for cash.

"Create income from a hobby or skill," suggests Anissa Schultz, director of education and enrollment at the Cr Advisors Foundation in Scottsdale, Ariz. "Use social media to advertise your skills or services like dog walking babysitting, tutoring, carpentry, lawn mowing, or pool cleaning."
Until your income recovers, you'll need to aggressively follow a leaner spending plan.

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