5 Telltale Signs Your Spending Is Out of Control

How to spot problem areas and get back on budget

by Lynn Asinof, **AARP**, November 3, 2020 | Comments: 6

In many households, pandemic-related shocks to the financial system have people asking themselves, "How do I know I'm in financial trouble?"

Sometimes it's hard to face up to the precarious state of one's finances. Here are five warning signs. Answering yes to any of these statements suggests that you need to seek help and take action.

1. **You've started using one credit card to pay off another card or are making only the minimum monthly payments.**
2. **Your rainy-day fund is shrinking, and your savings account balance is dropping.**
3. **You've started getting collection notices and past-due bills.**
4. **You're putting off needed home maintenance, health care appointments or car repairs.**
5. **You dread getting the mail, and you're refusing to answer calls you suspect are from creditors.**

“If I want to cut spending, where do I start?"

The 10-minute approach. Pull out your banking and credit card statements from April, advises Anthea Perkinson, a financial planner in Pelham, New York. That's the month when the lockdown hit much of the country and people stopped traveling, eating out and socializing. (If the lockdown didn't hit your area until later, use May or June statements instead.)

Then compare that month's spending to August, when things started to open up. “Look at the difference,” Perkinson says. “All that extra stuff in the August statements — you can probably live without it.”

In addition, look at your recurring charges. Shut down the memberships, subscriptions and services you aren't using now but haven't canceled. Maybe you don't want to re-up at the gym, she says. Given the bare-bones pandemic sports schedule, perhaps you don't need that premium cable sports channel anymore. And if you aren't going anywhere, maybe you can negotiate a discount on your car insurance.

Think hard about all of those pandemic services you started using — like ordering takeout, instead of cooking, or using grocery delivery — and opt for cheaper alternatives.

The long-run solution. "You can't cut back on what you don't know you are spending," says Velma Kyser, program manager at the Financial Empowerment Center in Lansing, Michigan. That's why a basic spending log is a critical tool going forward.

Identify the necessities: housing, utilities, food, transportation and health care. Remember to make adjustments for spending that has changed during the coronavirus pandemic, such as the cost of commuting to work. Then earmark anything left for the things you want but don't necessarily need. One way to enforce discipline is to set up a separate bank account for recurring and necessary bills, such as rent, utilities, car payments and insurance premiums, Kyser says.

"My obligations are overwhelming. What do I do?"

Speak up. If you haven't already, pick up the phone and call your internet provider, gas company, electric company and credit card companies and tell them you need help, says Kristin Pugh, a senior wealth adviser at TrueWealth in Atlanta. Although much of the hardship assistance offered after the onset of the pandemic is being phased out, some might still be available.

Get credit counseling from a nonprofit. The National Foundation for Credit Counseling and the Financial Counseling Association of America can assist with budgeting, debt negotiation and loan consolidation. Financial Empowerment Centers, located in a growing number of cities, offer free credit counseling and financial planning. Almost 100 members of the Financial Planning Association are offering free help. So, too, are professionals belonging to the XY Planning Network (under Select Advisor Specialties, choose Planning Need and then Coronavirus Relief.) AARP's Money Map tool, though not a formal counseling service, can also guide you through your options.

Transfer a card. If your credit card balance is growing — the average interest rate on cards is currently 16 percent — and you still have a decent credit rating, see if you can get a zero percent balance-transfer offer, one that will forgo interest, in some cases for as long as 18 months. You'll have to pay the bill eventually, but the temporary zero percent rate can give you some breathing room.

Transfer to something personal. You may also be able to pay off your credit card debt by taking a personal loan at a much lower rate than your credit cards are charging. Lori Ford, program manager for the Greenville Financial Empowerment Center in South Carolina, suggests talking to credit unions, which often offer attractive rates.

“What about bringing in more income? Are there easy ways to get started?"

You [don't need a full-time job](#). One option is to register on Upwork, Fiverr or other websites that connect freelancers to gig-economy jobs. Teachable helps people create and sell online courses. Etsy caters to those selling handmade goods, art and collectibles. “If you have a car,” says TrueWealth's Pugh, “you might be able to pick up a few extra dollars doing some food delivery.”

And if you don't want to work, you can try Amazon Marketplace, eBay or Craigslist to sell unneeded home goods, tools, sports equipment or kitchen gear.

“I'm really hurting. What free resources are available?"

Food. Apply for SNAP (Supplemental Nutrition Assistance Program) benefits. If you qualify, even a $15 voucher can often translate into a $50 or $60 box of groceries at food programs run by community agencies, Ford points out. Food banks have expanded their operations; Meals on Wheels may be available to seniors.

Other social services. In many states, simply dialing 211 will connect you to a community resource specialist in your area who can put you in touch with local organizations that provide critical services, such as housing assistance. Or you can call your town or county offices and ask for a referral for the services you need. Many local government websites can point you to information to assist you in filing for unemployment and other issues. And AARP has links to local mutual-aid societies at aarpcommunityconnections.org. “There is help out there,” Ford says. “I just hope people reach out for it."

I've cut back my spending since March, and my income has been steady. What do I do with the money I have building up?

Take a bucket approach and prioritize, filling one bucket before you move on to the next, says financial planner Dana Levit of Paragon Financial Advisors in Newton, Massachusetts.

Start with a big cash cushion. “I always fill the cash bucket first,” Levit says, recommending that people have a full year of living expenses, if they can, tucked away in cash. Make sure to include any onetime expenses you see on the horizon, such as a new car. That's a bigger emergency fund than you may have had in the past, but appropriate in today's uncertain economy, she says.

Don't ignore debt. If you've got credit card debt, tackle that after you've built up a three-month emergency fund. Then go back to stockpiling cash, Levit says. Long-term debt, such as a mortgage, student loans and car loans, typically comes with lower interest rates; build those ongoing payments into your regular budget.

Retirement comes next. If you're still working and you're over 50, you can contribute up to $7,000 to a Roth IRA. Your contribution can't be larger than your earned income, and your ability to contribute phases out if your income is over certain amounts: in 2020, $196,000 if you're married and filing jointly, and $124,000 for solo filers. Levit prefers the Roth IRA to other retirement plan options because of its flexibility — for example, you can withdraw contributions tax-free at any time if you need to.

Invest what's left. If you've got less than $100,000 to invest, use a low-cost target-date mutual fund, Levit advises. These diversified funds automatically rebalance over time, shifting to more conservative investments as you age.