

Preparing for cutbacks, layoffs and sequestration.



If you're like most people, you live from paycheck to paycheck. But what happens if your paycheck is suddenly cut by 20% or disappears altogether? If you see sequestration or work cutbacks in your future, here are 10 things you can do to get ready.

1. Review your finances. Do it now.

List your expenses. Don't forget expenses that may not be monthly such as life insurance, tuition, IRS, state or property taxes. Be brutal. List your income sources. Be conservative. Where can you cut back if necessary to save?

2. Cut out the extras.

We all enjoy going out with friends for drinks or dinner, seeing the latest movie or buying something new. But these "extras" cost money you may need in the future. Consider less expensive options – pot luck dinners at home with a rented movie.

3. Don't take on any new debt.

If you've been thinking of a new car or renovating the bathroom, put it off. Your objective now is to save the money you have and defer future expenses as much as possible. If the layoffs or cutbacks happen, you'll need the money later.

4. Don't get additional credit or credit cards.

It's tempting to increase credit limits or take out new credit cards "just in case" before layoffs or sequestration hit. But that also makes it easier to get further in debt when you may not have the income to make the payments.

5. Reduce debt wherever possible.

Do you have two vehicles? Do you really need both? If you sold one you could eliminate the payments. Even if it's paid for, you can save on insurance, gas and maintenance. If you have an expensive vehicle with high payments, consider selling it or trading it in on a lower priced or used vehicle to reduce or even eliminate monthly payments. Where else can you reduce debt?

6. Consider a low cost "staycation."

Instead of traveling to a resort or hotel for a vacation, try some time off at home. You can pack picnics and go on day trips to explore your own area. The money saved can go into your "rainy day" account for when it's needed most.

7. Don't even consider payday or car title loans.

These are very high interest loans which are easy to get but extremely difficult to pay back. Many people get into a cycle where they keep renewing all or part of the loan and the interest keeps on building until it's overwhelming.

8. Don't cash in your retirement.

Keep your 401(k) or other retirement plans intact. If your financial situation worsens and you file for bankruptcy, these plans are usually protected – you can keep them.

9. Get a second job now.

Starting a part time or weekend job now can help you sock away some extra money for a financial cushion as well as provide income when the cutbacks or layoffs take place.

10. Know your financial options.

Even if you've done everything to prepare for financial emergencies, medical bills, divorce, job loss or reduced income can leave you with overwhelming debt. But there are legal solutions for financial problems.

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Richmond 804.355.2057

Interstate Center, 2104 W Laburnum Ave Suite 201, Richmond, VA 23227

Virginia Beach 757.313.3000

Convergence Center III, 272 Bendix Road, Suite 330, Virginia Beach, VA 23452

Hampton 757.825.5577

2 Eaton Street, Suite 106, (Corner of Settlers Landing), Hampton, VA 23669



John R. Bollinger

John Bollinger is the Vice President and Partner in Charge of the Hampton Office. He has been practicing bankruptcy law since 2000 and joined Boleman Law in 2004. He specializes in complex consumer bankruptcy issues.

John is a frequent speaker and panelist on bankruptcy issues at local, regional and national organizations. He has addressed the American Bankruptcy Institute (ABI), J. Sargeant Reynolds Community College, T. C. Williams School of Law, Virginia Bar Association (VBA), Tidewater Bankruptcy Bar Association (TBBA), Virginia Governors Conference on Housing, the National Association of Chapter Thirteen Trustees, Virginia Trial Lawyer's Association, as well a number of civic and business organizations