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Living on an Irregular Income

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People who earn income from seasonal tourism, construction, blogging, commissions, farming and some types of self-employment experience personal income that varies with the season and economic conditions. Paying living expenses with fluctuating income can be overwhelming and frustrating. Dealing with irregular income to pay personal living expenses requires planning and management skills. Planning ahead, prioritizing expenses and living within your income is critical. This helps to avoid overuse of credit and going into debt.

Steps to take when planning for an irregular income

The following are steps to take that help you live with irregular cash flow.

Calculate your income. Estimate your income based upon the minimum monthly amount you can count on. Planning to use your minimum monthly income rather than average monthly income can give you a buffer of safety. When there is more than minimal income, this allows you to afford additional items that may be wanted, not just needed.

Use last year's tax records to help estimate the amount of income to expect. It is better to underestimate income than to overestimate. Finding ways to use extra income is much easier than cutting back.

Create a spending and savings plan based on paying essential living expenses. Spending plans work best when the whole family is involved in making decisions about expenditures. Communicate with each other about individual and family financial goals and how those goals might be achieved with the income that is available.

The spending plan should include categories for savings, monthly, and periodic expenditures. Think of your expenses in three categories: fixed, variable, and periodic.

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Fixed expenses include such things as housing and car payments. These are obligations for which you have signed contractual agreements and must be the highest priority monthly payments. You may have other contractual obligations such as cell phone or finance company contracts. Money for a savings fund should be a fixed expense in order to build reserves for emergencies and to achieve long term goals such as education and retirement.

Variable expenses include utilities, food, insurance, and child care. Other variable expenses are transportation and health care costs. Categories that are even more variable include things such as clothing, entertainment, and gifts that are nice to have, but the amount spent can be adjusted more easily. If there is insufficient income these items can be trimmed from your spending plan.

Periodic expenses are items that occur less frequently and may occur during certain times of the year. Holiday, back-to-school, and other less regular expenses such as some insurance premiums must be a part of each month's plan even though the actual expenditure may be several months away. Car registration and maintenance are items often overlooked in this category, yet still need to be planned for. Use a calendar to map out your periodic expenditures. Set aside a portion of your income each month to prepare for these expenses. For example, take the annual cost of your car registration; divide that amount by twelve. Set aside one-twelfth of the cost each month so that you have the funds available when you must pay the registration fee each year.

Establishing a savings fund, especially an emergency fund, is extra-important for a person living on an irregular income. To achieve this, put money into the fund at the same time you pay your other fixed expenses. This is called 'Paying Yourself First' and should be a priority especially in the months when more than the minimum

Quick Facts

- Plan expenditures around receiving minimal monthly income.
- Prioritize spending according to importance of the item.
- Categorize expenditures into fixed, flexible, and periodic expenses.
- Build an emergency savings fund. This is critical when living on irregular income.
- Use credit cautiously. Don't make financial commitments you cannot keep.
- Put more money into your retirement account in the good months.

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income is received. You will need to cover a minimum of four weeks expenses from this fund. More ideally, work toward building a fund that can support three to six months of living expenses. When you find yourself relying on this savings fund for regular expenses, plan to stretch these dollars as far as possible. This may mean eating out less often, cancelling subscriptions, choosing low or no-cost forms of entertainment, or downgrading cell phone and cable plans. Use of your emergency fund dollars should be for true emergencies. These funds should be accessible, but not too easily obtained.

Manage your spending and saving plan by tracking each expenditure, and recording your expenses against your plan on a daily basis. This helps you identify spending habits that can be revised if necessary. Keeping a record of your expenditures makes it easier to live within your means.

Evaluate the annual cost of items purchased frequently such as sodas, coffee, cigarettes, movies, alcohol, and eating out. By knowing how much you spend each year on these items, you can determine where spending leaks are occurring. Evaluate the importance of spending on these items. Look for less expensive alternatives.

Prioritize your spending according to importance. Which expenses are the highest priorities? Usually housing, utilities, transportation, medical care and food are critical needs. Keeping your housing is an example of an important expense. Any expense for which you have obtained credit and committed collateral, such as your car or home, is a high priority expense. Taking advantage of an unplanned (impulse) sale at a store would fall low on the list of importance. Make a list and focus on the necessities; pay for the important items before spending on the items lower on the list.

Use credit cautiously. Avoid the temptation of using credit to make ends meet. Don't make financial commitments you cannot keep. Charge only what you can afford to pay in full at the end of each month. Avoid unnecessary fees and overdraft charges. Paying late fees, transaction fees, cash advance fees and insufficient fund charges chip away at your income. Track your credit and debit card expenditures so that you know how much you have charged or deducted from your accounts. Any spending needs to fit within your spending and savings plan, whether paying by credit or debit card, cash, or check.

For variable expenses that can easily get out of control, try using cash instead. When the cash is gone, spending on that type of item is discontinued until income is available again. For example, spending on take-out coffee or entertainment would be curtailed once your monthly allocation for those items is used.

Live a frugal lifestyle; trim spending. Look for alternatives for cheap or free entertainment and recreation. Avoid using leisure time to go to places that tempt spending such as malls, bookstores, and coffee shops. If you visit these types of places, leave your credit and debit cards at home so there is less temptation to spend. Before making a purchase consider:

- Do I need this?
- Is it even good for me?
- What would happen if I could not have it?
- Is there an alternative I can accept?
- Is there a better way to use this money?

Resist overspending in the good months when more income is available. Schedule the major periodic expenses that occur less often such as non-emergency dental or medical care and holiday or birthday gifts during months of surplus income. When there is extra income, place a portion of it into savings to be available when there is less than the minimum income. Make a priority of putting excess income into building your education and retirement savings.

Do regular checkups. Re-evaluate your situation at least monthly; adjust your spending and savings plan as necessary. Look for supplemental work to bring in extra income. Continue to trim spending to meet income.

Keep family and business funds in separate accounts. Most people find it easier to keep track of finances and maintain records for tax purposes when they manage these accounts separately.

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