Extension
UNIVERSITY OF WISCONSIN-MADISON
DANE COUNTY
FINANCIAL EDUCATION CENTER

INCREASING YOUR INCOME

An increase in income can come from many sources. Perhaps you have a hobby that can generate income. Improving your job skills may enable you to get a raise or a better paying job. Maybe you can sell items you no longer need. While it is important to look at many options to bring in more income, it is just as important to understand how these decisions can affect your future financial security.

Dropping or Decreasing Benefit Contributions

Look at your paycheck and see if there are any deductions that could be temporarily cut or reduced. Find out from your company's human resource professional to see what payments are under your control.

Keep in Mind:

- **Health Coverage**: There are typically restrictions and enrollment periods surrounding health care plans and supplemental policies that may prevent or postpone you're ability to cancel certain coverage. If you drop a policy and later want to re-enroll, you may be faced with issues around waiting periods.
- **Retirement Savings:** Some pension programs are mandatory, but you might also have voluntary retirement contributions taken out of your paycheck. Cutting back on retirement savings can add more to your monthly budget now, but you'll have less money when you're older which could mean working longer or living on less later.
- **Life and Disability Insurance:** Some policies are mandatory, while others could be cancelled. Dropping certain types of protections could leave you and your family vulnerable to economic disaster. Instead of dropping the coverage entirely, are there options to increase your deductible or waiting period? Just make sure you have the money to cover a larger deductible if something happens.

Changing Tax Allowances and Using Tax Credits

If you typically receive a large tax refund each year, you might look into adjusting the amount taken from your paycheck for federal income tax. By changing the number of allowances on a W-4 form with your employer, you can reduce the amount of federal tax that is withheld from your paycheck. You will have more money to use each month instead of getting a large lump sum at tax time.

Keep in Mind:

- **Do the math:** Be very careful not to increase your allowances too much so that not enough tax is taken out. The last thing you want is to owe money at tax time. The IRS has a withholding calculator tool on its website to help you determine the best way to fill out your W4 form.
- **File taxes even if you don't owe money:** Even though you may not be required to file taxes, it may be in your best interest to do so anyway. Depending on your income and number of family members, you may qualify for refundable tax credits like the Earned Income Tax Credit, Child Tax Credit and the Wisconsin Homestead Credit that will put money in your pocket.
- **To find out more:** Visit the internal Revenue Website at www.irs.gov and the Wisconsin Department of Revenue at www.revenue.wi.gov.

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Selling Assets

Selling items online or at a garage sale can help you come up with cash to put toward your monthly bills. While this can be a good one-time source of cash to pay down debt, it doesn't add to your monthly income to cover future debt payments.

Keep in Mind:

- **You could lose money:** When selling, you typically won't get as much money as you paid for an item. If you plan to replace the item when you get back on solid financial ground, this option could cost you more money in the long run.
- **Are you really willing to sell?** You might own some family heirlooms or items with sentimental value that would be too hard to part with.
- **Do you own it?** You might not be able to sell an item that is being used as collateral for a loan. Sometimes the creditor will give you permission to sell the item, such as an auto, in order to use the money to pay off the balance on the loan.

Withdrawing Retirement Savings

The Internal Revenue Service allows "hardship withdrawals" from certain retirement plans under circumstances that present an immediate and heavy financial need, including foreclosure prevention or eviction. Your withdrawal is limited to the amount of money you paid in and does not include any employer match or interest income. A hardship withdrawal generally does not need to be paid back, but check with your retirement fund manager to verify that your situation qualifies before making the withdrawal.

Keep in Mind:

- **You could owe more taxes:** Withdrawals are taxed as income, plus there's a 10% penalty added on, so you need to figure this amount into how much savings you plan to withdraw. It is extremely important to check with a tax professional about penalties and taxes due if you are considering cashing in a retirement policy. Find out more on the IRS website at www.irs.gov.
- **There are exceptions for withdrawals:** A retirement plan is not required to offer hardship withdrawals. Your options for withdrawing savings also depend on the type of plan you have, such as a 401 (k), 403(b) or IRA.
- **The long-term impact:** A hardship withdrawal permanently lowers your retirement savings since the money can't be paid back once it's taken out. Also, you won't be able to contribute to any retirement account for at least 6 months following a withdrawal.
- **If it comes down to bankruptcy:** Retirement savings are exempt from seizure by your creditors during a bankruptcy. Once you've spent the hardship withdrawal from your retirement savings, what other options do you have for keeping up with your bills? Borrowing from retirement savings may not be the best option if you end up filing for bankruptcy a few months later.