



## How to Recover from a Mid-Life Financial Crisis

A financial crisis can be scary at any age, but this is especially true when you're in your 40s or 50s. Perhaps you're way behind on saving for retirement or have too much debt from unnecessary spending. Or maybe an unexpected challenge, such as a job loss, illness, or break from the workforce for caregiving responsibilities, took a direct hit on your finances. Regardless of how you got to this point, it's important to develop a strategy that will help you re-establish financial stability.

### Regain control

Start by accepting the reality of your situation. This may be easier said than done when you'd rather avoid the anxiety, stress, and guilt that you may feel when you have money issues. It's okay to feel these negative emotions as part of the recovery process. They are likely to pass with time as you come up with a plan to regain control.

### Review your spending

Another step is to create a budget to help establish a positive cash flow. If you're spending more money than you earn, you'll need to cut back on your discretionary spending immediately. If you've made cuts and your monthly income still isn't enough, you'll need to figure out a way to cut your fixed expenses or increase your income.

### Reduce your debt

It's likely that debt is one of the reasons why you're facing a financial crisis. One survey found that people between the ages of 45 and 54 reported the highest amounts of debt overall, totaling \$134,600.<sup>1</sup> To reduce your overall debt, identify the amount and interest rate for each obligation you have. Then tackle it by paying off the debt with the highest interest rate first, then the next highest, and so on. You might also consider restructuring your debt. This involves negotiating new repayment terms with creditors so you can meet your monthly expenses and

pay off your debts within a reasonable amount of time. If you can't afford to hire a professional credit counselor to help you manage or restructure your debt, check with your local Consumer Credit Counseling Service (CCCS) office or another nonprofit credit counseling service to receive assistance at low or no cost. You should also consider other options, such as seeking part-time work for extra income or liquidating assets, that can help you pay off debt more quickly.

### Rebuild your funds

Chances are you've drained your emergency savings fund. If so, you'll need to build it back up. Otherwise, you'll risk racking up credit card debt or dipping into your retirement savings when the next crisis hits. It's okay to start small. Set aside a percentage of your paycheck each pay period to go into your cash reserve. Continue adding money after reaching your goal.

### Revisit your financial relationships

In order to prevent another financial crisis, what changes will you need to make to your current financial relationships? Consider the following.

- **Career.** Do you need to increase your income with a second or a part-time job? Is there room for growth in your current career, or should you consider additional education or training to help boost your earnings?
- **Home.** Do you currently live in an expensive location? Does it make sense to downsize your home or move to a lower-cost area?
- **Family.** If you're financially supporting adult children, can you reduce or discontinue it? Similarly, if you support your elderly parents, can your adult sibling(s) share the financial burden of care?
- **Habits.** Do you overspend to reward yourself? Are you an emotional shopper? Do you buy things you actually want, or are you just trying to keep up with the Joneses?
- **Health.** Can you make a lifestyle change to improve your health to help avoid future issues and potentially reduce medical costs? Some of these changes will require careful research (e.g., moving or changing careers), whereas others can be easier to implement (e.g., avoiding shopping sprees or reducing aid to adult children).

### Reassess your finances periodically

As you get back on the right financial track, it's critical to monitor your progress. Failure to do so in the past might have contributed to your crisis, so make it a habit to periodically review your finances. You might benefit from working with a financial professional who can help you stay on track with your financial goals as your situation changes.

12016 Survey of Consumer Finances, Federal Reserve Board (most recent data available)

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