DEBT MANAGEMENT

How to rebuild your finances after rehab

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Summary

Addiction is an ongoing battle that can drain your finances, but sticking to a financial plan can help

Filed Under: Credit Scores and Reports, Debt Management

Addiction to drugs or alcohol can damage your health and your personal relationships, and it can drain your finances.

A 2014 survey on drug use by the Substance Abuse & Mental Health Services Administration found that 27 million Americans aged 12 or older used an illegal drug in the prior 30 days. And a study by the National Institute on Alcohol Abuse & Alcoholism found that over 15 million American adults suffered from alcohol use disorder.

Anyone with a loved one who has suffered from a drug or alcohol problem, or anyone who has suffered addiction themselves, knows that the cost of addiction is high. It can lead to strained or broken relationships with loved ones, the loss of a job and not enough money to pay the bills.

If you're struggling to stay clean and sober, and also have financial issues weighing on your mind, getting your life back on track may feel impossible. Addiction may be an ongoing battle, but financial recovery doesn't have to be. With a solid plan, you can get your finances under control.

The high financial cost of drug and alcohol abuse

Those suffering from addiction may struggle with money management, spending more than they can afford on their addiction or making frivolous purchases while under the influence. While rehabilitation can be a critical part of turning your life around, the costs of addiction can follow you home from rehab.

Many who suffer addiction experience a financial one-two punch:

1. Reduced income: Absenteeism and lack of productivity at work while under the influence of drugs or alcohol cost many people their jobs. Even addicts who hold onto their jobs can experience reduced income as addiction gets in the way of promotions, raises or bonuses.
2. The cost of addiction: A six-pack of beer can cost $7. Drinking one six-pack a day can quickly add up to over $200 each month. Heavy use of a drug such as heroin can cost as much as $200 a day. That would put a dent in any budget.

Recovering from the impact of addiction on your finances

Enrolling in rehab is a huge step, but the challenges don't end once you've finished the program.

The first thing to remember is that you're not the only one who has made financial mistakes. Taking a deep breath and planning out a road to financial recovery after rehab is an important part of getting back on your feet.

Step 1: Get back into the workforce

Finding a job can be stressful, particularly if there's a gap in your resume due to time spent in rehabilitation or time not working due to addiction. Begin your job search by thinking about what work you enjoy doing. A job you enjoy will motivate you to work hard and help you to look past any of its less attractive aspects.

Keep in mind three factors in job choice that the Addiction Center considers important for people in recovery:

- **Clear and reasonable expectations**: A stressful job or work environment will interfere with your long-term recovery from addiction.
- **A structured work environment and duties**: Many people who have completed recovery find a stable routine makes their lives feel more manageable.
- **Opportunities for growth**: You may need to take a step back in your career to ensure you can handle the work, or you may want to try a new line of work altogether. A job that sets you up for success by letting you grow your skills without having to change employers will be a bonus because you will avoid the stress of a future job search.

Step 2: Create a workable budget

Once you've found a new job and have a steady income, you need to make a budget you can stick to. Major expenses, such as rent, utilities and food should be your first priorities, but make sure you have money left over for savings and discretionary purchases.

Financial experts often suggest using the 50-30-20 method as a starting point for your budget. This budgeting method states that 50 percent of your income should go toward your necessities: rent, utilities, food and other basic bills. The next 30 percent should be dedicated to your wants, such as dinner out with friends, shopping for new clothes and weekend getaways. Finally, 20 percent of your income should go toward reaching your financial goals: paying off debt, setting up an emergency fund or saving for retirement.

At first, you may have to sacrifice some of that 30 percent to pay off larger debts and bills, but make sure you're setting aside time and money each month to socialize and work on your mental health. Rebuilding relationships and spending time on your mental health is an important part of staying sober and thriving in recovery. As you start to get back on your feet financially, your budget can change to fit your lifestyle and your unique needs.

Step 3: Open a savings account and add a small amount of money to it each week.

"Pay yourself first" is an old adage in personal finance, and it means saving. Whether you're building up a rainy day fund to cover unexpected costs such as car trouble, saving for a special trip or planning for retirement, you need to put some money aside from each paycheck – ideally 20 percent.

This can be difficult in the early days of getting back into the job market because you may make less money than you did before your addiction, but it's OK to start small.

Regular paycheck deductions transferred into a savings account can help. Automatic transfers can keep you from occasionally skipping these deductions.

Step 4: Begin to rebuild your credit score.

Damaged credit can make it difficult to get approval for loans, credit cards or even an apartment. If your credit was damaged due to addiction, rebuilding your credit score should be a financial priority.

Why is a good credit score important?

Your credit score helps prospective lenders and card issuers evaluate whether or not you can be trusted to pay your bills on time. Credit reporting agencies such as Equifax, Experian and TransUnion assign these scores based on multiple factors of FICO's traditional formula:

- **Payment history:** Consistently paying your bills on time is the most important component of your credit score. If you have a consistent record of meeting your financial obligations, you're likely to continue to do so in the future.
- **Credit utilization:** High outstanding balances on several credit cards will reduce your credit score. Credit lines drawn to their limits could be seen as a sign that you're not handling debt responsibly.
- **Length of credit history:** A longer track record of responsible credit use will improve your credit score.
- **New credit:** Opening several credit lines at once can be seen as an indication that you're in financial trouble. It can hurt your credit score.
- **Credit mix:** Managing a mix of revolving credit lines (such as credit cards) and installment loans (such as car loans or mortgages) can also improve your credit rating because it shows you are responsible with different types of debt.

Your credit score is important because it can determine your approval for a mortgage, car loan, new credit card or any other type of loan, and how much you'll pay in interest. Renters and landlords may also use your credit score as a way to evaluate your payment trustworthiness.

How to rebuild your credit score after rehab

Experian has outlined 3 things that are critical to improving your credit score:

- Minimize debt
- Don't apply for loans or credit cards you don't need
- Make sure your income covers your spending

Rebuilding damaged credit takes time, but there are a few ways you can boost your credit score:

- **Automate your payments**. Making your payments on time is the most important credit scoring factor. Setting up auto-pay can ensure you never slip up.
- **Pay down cards with a higher utilization first.** Both overall and individual card utilization factor into your credit score. Make it a priority to pay down any cards with high balances relative to their credit limits – especially if they're close to being maxed out.
- **Become an authorized user.** If a friend or family member is willing to add you to their own card account as an authorized user, it can help improve your credit score.

This may seem like a lot to remember, but the most important thing is to make a budget and stick to it. If you have outstanding credit card balances, your budget must include paying them off over time.

What are the best credit cards for rebuilding your finances after rehab?

While it's important to reduce your outstanding debt as you try to improve your finances, certain credit cards offer features that may help with this, or provide rewards that can help offset the cost of bills. These rewards may be cash back on purchases or discounts at stores where you frequently shop.

There are credit cards that fit every lifestyle, but if you're trying to rebuild your credit rating after rehab, consider the following card types:

- **Low interest**: If you're trying to pay down outstanding credit balances, a low-interest credit card is probably your best option. Every time you make a payment, it will first be applied to interest on your outstanding balance and then to the balance itself. A lower interest rate will ensure more of your money is going to balance reduction. With average credit card interest rates higher than 17 percent, a lower rate can make a significant difference in the amount you spend on interest each month.
- **No annual fee**: Annual fees can cost $99, $195 or higher, so a card with no annual fee is a great starter for those wanting to rebuild their credit without going further into debt. But don't look just at the annual fee. Consider the interest rate on the card as well, just in case you find yourself strapped for cash and unable to pay the balance in full at some point.
- **Cash back**: Cash back cards allow you to earn money just by spending with a credit card. The typical cash back rate is 1-2 percent, but some cards offer as much as 3-5 percent back on certain purchases. These rewards can easily be offset by interest charges, so be sure to pay your balance in full.
- **Balance transfer**: A balance transfer card can be a great option if you're looking to consolidate your credit card debt and quickly pay off balances. Some cards offer incentives to transfer outstanding balances from other credit cards. The incentive is usually a 0 percent or lower-than-normal interest rate, allowing you to pay your balances down faster. Just remember that the reduced interest rate will only apply for an intro period (usually around 12-15 months), and balance transfers can come with fees.

If your credit scores are really low, you may have to jumpstart your credit with a secured card or low-credit limit retail card. Whatever type of credit card you choose, make sure you understand all the costs associated with it. The best card will be one that helps you save money, build your credit and improve your finances over time. (See these credit card reviews to find a card that meets your needs.)

Addiction is a lifelong battle, and getting your finances back on track is part of making a full recovery. It can ease your stress and reduce the urge to relapse into drug and alcohol abuse.

While the road to financial recovery can be long and bumpy, resolving to change your financial situation is as critical as the commitment you made to getting clean.

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Rebecca Smith-Allen is a former CreditCards.com personal finance contributor.

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