Preparing for the worst

Staying afloat in stormy waters

Simple financial strategies can keep you buoyant, especially if you're worried about losing your job

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FROM THURSDAY'S GLOBE AND MAIL
MARCH 19, 2009 AT 12:00 AM EDT

With unemployment rising and no end in sight to the economic downturn, Canadian workers are increasingly fretful about their financial security. Suddenly concerns about having enough money for your retirement years may seem unimportant compared with the immediate anxiety about how to pay the bills if your regular paycheque stops coming.

If you work in a field vulnerable to job losses, such as manufacturing or construction, the time to draw up a survival plan is now. And the focus should be on fattening your piggy bank, experts say.

A little preparation can make the difference between a devastating blow to your personal finances or a comfortable coast between jobs. And if a job loss doesn't materialize, the preparatory work should at least provide some peace of mind.

Budget for the worst and cut the fat

When the job market is lean, you may need to trim the fat from your expenses. Now is the time to become intimately familiar with your own balance sheet; know exactly where your money is going, and what you can do without.

Draw up a detailed list of expenses — and get serious about parking the credit card, or at least paying it off. The last thing you want is to accumulate more debt at a time when income is uncertain.

"It really comes down to creating a budget right away, so if that day comes, you know where your money is going," says Kevin Gebert, an independent financial adviser in Surrey, B.C. "Always look at your variable and fixed costs."

The key is to not spend recklessly on things you don't need, and those almost always fit into the variable category.

Howard Wang, a single 32-year-old IT specialist who works for a national computer consulting company in Edmonton, has already put his spending habits on a diet. While there doesn't appear to be any immediate threat of a layoff at his company, that doesn't make him feel entirely secure.

"Nobody knows whether or when or how much they will be hit by the slowdown. The worry comes from the uncertainty," he says.

So Mr. Wang is trimming costs where he can, recently switching to a lower-cost telephone provider, and — in a sign of how even romantic lives are affected by the recession — has switched to a free online dating service instead of using one that charges a fee.

He says a first date these days for a young person such as himself may mean going out for a coffee instead of an expensive dinner. "But for me, I would at least spring for Starbucks instead of a trip to McDonald's for it."

Establish a secure emergency fund

Putting money aside for a rainy-day fund is often easier said than done, and the recent market carnage may be making it even more difficult to come up with cash, given beaten-down stock holdings. Still, where there's a will, there's often a way.

Adrian Mastracci, portfolio manager with KCM Wealth Management Inc. in Vancouver, suggests putting together an emergency fund representing two to six months' worth of current salary.

"Try to squirrel away as much as you can within that framework," Mr. Mastracci says. "You can always do something, even if it's temporary or stop-gap. Maybe you have a stock or two you can convert into cash."

And, even if you think the market may have bottomed, do not put your emergency funds into stocks or any other risky investments.

"Park it into a money market or savings account, or something like cashable GICs, so there really is no market risk," says Mr. Gebert, a certified financial planner.

If you have a loan from a particular financial institution, stash your emergency savings somewhere else, Mr. Mastracci advises. That way, if you run into difficulties paying off the loan, you won't be in danger of the lending institution grabbing hold of your cash without your consent.

"You don't want them taking the cash and applying it to your liabilities, because then it leaves you with fewer options," he explains.

Obtain a line of credit, but don't count on it

If you do become unemployed, you don't want to fall back on borrowing from the bank to make ends meet, but it's reassuring to have the option.

Arrange for a line of credit, or for a larger amount if you already have one, while you are still working, before the pink slips start flying.

However, a line of credit should never be relied upon to get through a period of unemployment, Mr. Mastracci warns. Because once the lending institution gets wind of your job loss, the credit line may be suspended.

"I've seen too many lines of credit in other recessionary periods all of a sudden disappear," he says.

"If a bank representative reads that an employer is cutting jobs, all he or she needs to do is run a database [check] and find who's employed at the company and who's not."

For this reason, if you think it's likely you will need to tap the line of credit, consider drawing from it ahead of an expected layoff. "You may be paying some interest on it, but at least you'll have the peace of mind that the cash is available," Mr. Mastracci says.

Apply for extra benefits before you need them

A layoff not only means a halt to regular paycheques, but often company benefits as well. Heads of households in particular should consider applying for disability and life insurance before a layoff to supplement any group coverage, and to replace it if they lose their job.

"It's a lot easier to get that stuff when you're working as opposed to when you're not," Mr. Mastracci explains.

Securing coverage when your income is at its highest will provide you with the best protection.

AIM TO PRESERVE RETIREMENT FUNDS

If the day arrives that you're suddenly out of a job, don't panic, keep a positive attitude, and focus on strategies that will keep your finances from falling apart, financial advisers say.

Remember that Registered Retirement Savings Plans can also act as rainy-day funds. Making a withdrawal from your RRSP can make a lot of sense if your income in the year of withdrawal is relatively low and subject to minimal taxation. Keep in mind, however, that you won't get the tax-free contribution room back in the future.

Kevin Gebert, an independent financial adviser in Surrey, B.C., suggests that non-registered assets, held outside an RRSP, should be considered first if you decide to cash in investments, because they won't be subject to automatic taxation. Cashing in a security that has lost a lot of value isn't ideal, but at least you can use it as a capital loss to offset any capital gains you may have accumulated over the past three years, or will realize in the future.

For those with a higher income, it might be wiser to borrow from a line of credit and pay the interest, instead of withdrawing money from an RRSP and having to pay the deferred taxes, he says.

Defined contribution pension plans, in which both employers and employees make pre-defined contributions based on a percentage of salary, often allow the worker's contribution to be withdrawn right away after a layoff. (The employer's matching portion often cannot be touched until it is fully vested, which averages two years, Mr. Gebert says.)

But breaking into your pension should be a last-resort move.

"Remember the pension is for the long term. Try your best not to squander it in the short term," says Adrian Mastracci, of KCM Wealth Management Inc. in Vancouver.

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