

Handling debt when facing job insecurity

Worrying about job security is stressful enough without a pile of debt weighing on your mind, too. But chances are, if you're worried about your job, you have to consider debt, as so many Canadians owe money these days.

Canadian insolvencies rose 1.5 per cent between February 2014 and February 2015, according to government insolvency statistics. This is no surprise, especially in Alberta, whose oil industry is suffering due to the drop in oil prices; many oil companies have announced layoffs recently. Albertans -- as well as other Canadians -- are increasingly turning to credit cards to supplement their income, according to a July 2015 CBC report.

But that doesn't mean that's what Canadians want to do. **Barbara Knoblach, an Alberta-based Money Coach with Money Coaches Canada**, says she's recently seen more people asking her firm for help. "Many of those clients are concerned about a downturn in the economy and want to trim their spending to prepare for a reduction in income," she says.

If you suspect a layoff is on the horizon, it's wise to take some steps to prevent further debt, default or insolvency.

Preparing for layoff

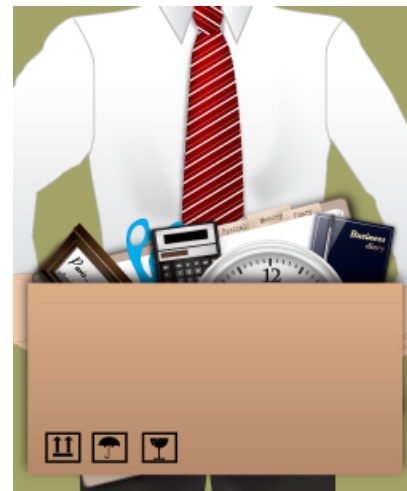
There are a few things you can do while you're still employed: take stock of your finances, curb and cut spending, and establish an emergency fund.

The first key step is understanding your income and expenses, including your debt obligations. Be sure to take all regular expenses into consideration, even variable expenses such as dinners out, if they are a regular part of your lifestyle. Then, determine where you can curb spending and find a solution to hold yourself to your limits.

"Make a list of all ... your fixed bills and then determine how much you [can] spend on more discretionary things such as entertainment or clothing," suggests Knoblach. "Then set [discretionary money] aside in separate accounts -- or envelopes if you prefer to use cash -- and only spend out of these accounts."

Take the money you would normally spend on frivolous things and throw as much as you can toward an emergency fund. It's an important part of staying afloat, Knoblach says, because if you're hit with an unexpected expense, you want to prevent sinking further into debt. And, of course, the fund will likely serve as your "income" if you do lose your job.

Consider consolidating your debt now, before you lose your job, as banks typically won't extend credit to the unemployed, Knoblach says.



Finally, you can also call your creditors and explain your situation, says Brian Betz, a credit counsellor with Money Mentors. However, they may not be particularly helpful -- if you're still employed, they'll expect at least minimum payments.

Handling layoff aftermath

Much of the above advice applies even after you've been laid off -- take stock, cut where you can, get an emergency fund together. The difference is, you'll need to handle the situation with more frugality -- for instance, rather than curbing frivolous spending, you might need to cut it out completely for a while.

You may receive compensation or severance from your employer. If you do, you'll need to decide whether to put it in one of two places: in your emergency fund or toward your highest-interest debt, says Knoblach.

If your emergency fund is scarce or nonexistent, put the extra money there. It may sound counterintuitive to save money when faced with other debt, but this way you have money to live on during your unemployment, she says. If you've budgeted for minimum payments, you'll be able to pay them out of the emergency fund anyway. If your emergency account has enough to cover a few months' worth of bills, it's safe to put the severance funds toward debt.

Once you've lost your job, you may not be able to consolidate your debt. You can again ask creditors for some relief -- and while they're likely to be more responsive than they were when you were employed, try not to ask for a repayment arrangement until you need it.

If you can cover payments with your current savings and separation package for the next six months, there's no need to get in touch, says Betz. That way, you won't add extra interest or mar your good reputation. If your analysis shows you'll be unable to make minimum monthly payments, however, it's time to reach out.

Inform creditors that you're unemployed and on Employment Insurance, and tell them whether or not you received a separation package. Providing proof of your situation, such as a written confirmation, not only makes your request more credible, but makes the financial institution more likely to offer you options to handle your situation, says Betz. Some options could include allowing you to skip a few payments or having lower payments for a while, says Knoblach.

It's also important that, while talking to creditors, you don't overpromise, says Betz.

"All too often, people go into these conversations thinking, 'I'll just tell them what they want to hear,'" Betz says. "If you don't fulfill those promises, then you lose credibility."

Things do happen and banks and financial agencies understand these things. What they want to know is that you are in touch, you're committed to dealing with the situation as best you can and that you are giving them factual information into your situation."

Prepare even if you feel secure

Economic downturns are out of your control, but your personal finances aren't. "You should always assume that your income is at risk," Betz says.

So many things can affect your financial position, he says. You may not know when your job is on the line, when natural disaster will strike or when you're about to face a lot of personal difficulties at once (say, a child heading to university at the same time a tree falls on your roof and your car breathes its last).

"Don't wait for tragedy and misfortune to strike," Betz says. "Be prepared."