Lost a job? Stay brave and face your new financial reality

A financial advisor can help clients get past the shock, sort through options and chart a new course

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As anyone who's ever been out of work can attest, losing a job is hard. It's a blow to the bank account and to the ego.

Seven per cent of Canadians are unemployed and many others are underemployed. Staying focused on the future, networking for contacts, and turning job-hunting itself into a full-time job are a few ways to regain a foothold in the work force.

Dealing with the financial fallout is another must. That's where a financial advisor can help.

"We often say that the best piece of investment advice is to park your emotions at the door, and it's the same thing when it comes to job loss," says Peter Drake, vice-president of retirement and economic research at Fidelity Investments Canada. "It also happens to be one of the hardest pieces of advice to take."

When emotions are running high, people may be inclined to take drastic measures to address money matters. However, short-term solutions aren't necessarily the best fit for long-term security.

"A person who loses their job is going to be feeling a shock to the system," Mr. Drake says. "Some go into panic mode and think about selling their house or selling all their investments. This is where the financial advisor can help the client take a deep breath and look at the big picture."

Nancy Grouni, a certified financial planner with Markham's Objective Financial Partners Inc., recalls working with a client who lost a high-paying media job that he had held for 10 years.

The stakes were high, given that his wife was on maternity leave. Instead of panicking, the couple worked with their financial advisor to draft a comprehensive financial plan. By making some changes to their lifestyle and budget, they realized he could take the time to pursue a new career. The man now works as a self-employed consultant, and earns an income almost on par with his previous job, but with the added benefit of setting his own hours, leaving more time to spend with his young family.

"At the end of the day, they felt far more on top of their financial situation than ever before and had greater peace of mind knowing they had a solid strategy in place," Ms. Grouni says.

Having a trusted financial advisor to consult during an employment rift means having someone look over your shoulder, Mr. Drake says.

"An advisor can help put people back on track to meet their financial and retirement goals," he says. "What makes a financial advisor such a good person to turn to is that they should have good knowledge of their clients' finances, income, spending habits, lifestyle, and propensity to save or not save."

An advisor can also identify what assets can easily be made liquid. "Of course it could be cash or a security you could sell very easily, but it may or may not be a good time to get rid of long-term investments," Mr. Drake says.

It's not uncommon for the newly jobless to consider dipping into their RRSPs. Although the move may be absolutely necessary, it's usually a knee-jerk reaction that comes with its own drawbacks: there is no way to avoid paying tax when withdrawing money from RRSPs.

"This might make sense if income for the year is especially low and therefore the RRSP withdrawal would be taxed at a low rate," says Noel D'Souza, a Toronto-based money coach with Money Coaches Canada. "However, the RRSP room will be lost and the person will not be able to re-contribute the funds at a later time."

Selling mutual funds in particular needs to be considered carefully, because there may be fees to pay the fund manager or other costs. Deferred-sales-charge mutual funds, or "back-end load" funds, for instance, will carry a fee that varies depending on the fund itself and the length of time it has been owned.

RRSP savings could come in handy, however, if one wants to return to school. Through the federal Lifelong Learning Plan, up to $20,000 can be withdrawn, with an annual limit of $10,000, to pay for full-time education or training for an individual or a spouse before the end of the year in which the person reaches the age of 71.

Repayments normally start in the year following the last year of full-time enrolment or in the sixth year after the first withdrawal, if that's earlier.

"The advantage of the LLP is that the withdrawals are not added to your income and there is no withholding tax," Ms. Grouni says. "So the withdrawals are tax-free, assuming you make the required repayments in the future."

By working with a financial advisor, people who have lost a job may be able to lessen their tax load by shifting around their investments.

"Asset location is just as important as asset allocation," Ms. Grouni says. "It often makes sense to maximize your RRSP and TFSA [tax-free savings account] contribution room first before you begin saving in non-registered or taxable accounts."

If a portfolio includes registered and non-registered assets, Ms. Grouni suggests maintaining or shifting interest-bearing investments and U.S. or international stocks to a tax-sheltered account. Ideally, dividends from Canadian companies and capital gains should then be earned within non-registered accounts because they benefit from preferential tax treatment.

Job loss or job change usually calls for simpler steps too, such as cutting spending. An unexpected bump in your career path is also proof of the value of an emergency fund. Financial experts typically suggest having enough money on hand to cover a minimum of three months' expenses.

Looking ahead, people may need to push back retirement or plan on taking on part-time work in early retirement.

"You need to be realistic about how long it's going to take to get another job," Mr. Drake says. "In a perfect world, you're fired on Monday, and on Tuesday you walk into somebody else's office and get hired. I've seen people go through this. Don't count on that."