How to financially navigate the COVID-19 crisis

Personal finance during a pandemic depends on where you find yourself – among the fortunate few, hanging by a thread or suddenly unemployed

BY AARON BROVERMAN APRIL 4, 2020

When it comes to personal finance advice during a global pandemic, all bets are off.

Only a few weeks ago, we would've been told to curb frivolous spending, put money away for the future and chip away at our credit card debt. But COVID-19 has ground the world's economy to a halt. In this environment, what is financial planning?

As we collectively wonder whether we can pay our bills and stay employed, two of Toronto's foremost personal finance experts weigh in on how to move forward financially in these uncertain times.

How you approach your financial reality under COVID-19 depends on where you currently find yourself.

The fortunate few

Not much has changed for this group: you're still employed, you're still getting a paycheque and you're still healthy. Congratulations.

"Keep following the typical personal finance advice: pay your taxes on time, pay your mortgage, pay your rent, keep your savings up and do all the financial management things you'd normally do, within reason," says Kelley Keehn, author of the national bestseller Talk Money To Me, who conducts COVID-19 financial chats every Friday at 3 pm on Facebook (@kelleykeehnbiz).

But if you do get sick and need to self-isolate or you're part of a sudden layoff due to cutbacks, it's important to be prepared for that and save as much money as you can while you still have an income.

“You have to be really aware of where you’re spending your money and what you can get by with at a bare minimum. That being said, normally I would tell clients to cutback on things like Netflix, but in these times, that’s probably one thing you want to keep,” says Noel D’Souza, a Toronto-based coach for Money Coaches Canada.

“Now is also the time to put some money aside in case you do face a drop in income, whether it’s a 25 per cent drop or more,” he adds.

Those hanging by a thread

If you’re unsure of whether you’ll have a job tomorrow or see crisis on the horizon, it’s time to slow down and resist the urge to panic or make snap financial decisions.

“You have to think through your situation, go through all your options and not make snap decisions like cashing in your RRSP or relying on a payday loan,” says Keehn. “Make sure you know all the information on who you can defer payments with, what needs to be paid immediately and what can wait.”

The sad reality is that many people will not qualify for either employment insurance or the Canada Emergency Response Benefit (CERB) and although banks have said they will work with Canadians to help them defer mortgages and payments up to six months, that’s on a case-by-case basis.

“Get all those agreements in writing and make sure they say you’re not defaulting and this is a deferral. You don’t want to hurt your credit score because if it’s not super clear on how it’s being reported, it could [hurt],” says Keehn.

Cashing in your RRSP means you lose that investment room forever and tax will be withheld right away depending on how much you take out. You’ll also likely pay more tax next year since it’s counted as income. Meanwhile, a payday loan can charge up to 600 per cent in annual interest.

“Think about what you can put in place now so when the CERB becomes available on April 6, you’re ready to go. File your 2019 or 2018 tax return. Set up a My CRA Account for direct deposit,” says D’Souza.

The suddenly unemployed

If you find yourself suddenly out of work, D’Souza and Keehn recommend applying for employment insurance immediately, negotiating with creditors and finding out if you’re eligible for recently announced government benefits.

You may be eligible for CERB ($2,000 a month for four months) whether you’re eligible for EI or not, as long as you made at least $5,000 in 2019 or 2018 and have stopped working for at least 14 consecutive days in a four-week period without pay due to COVID-19. You do not qualify for CERB if you’re already receiving EI or sickness benefits.

Still, the CERB or EI may not be enough.

“Make a list of absolutely everything you need to pay in the next few months, get online, get on the phone, see what you can defer and then make a decision about what you’re going to pay and what you’re going to defer,” says Keehn.

You can also try to pivot your skills, but D’Souza cautions against investing too much into new pursuits.

“It’s a valuable thing to consider, but it’s important to do the assessment on how much you will have to invest to get this income stream up and running and what is the time frame over which you can expect payback.”