How advisors can help jobless Canadians avoid financial pitfalls

DEANNE GAGE
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As millions of Canadians' employment situations have been affected by COVID-19, many are turning to their financial advisors for help on how to manage both the short- and long-term financial implications.

"You'll be one of [first] three people your clients will call," says Kurt Rosentreter, senior financial advisor and portfolio manager at Manulife Securities Inc. in Toronto, adding that an employment lawyer and an accountant are the other two professionals facing increasing demand for consultations. "I've sometimes been notified by clients before they've even told their spouses. It's an extremely emotional time."

Barbara Knoblach, financial planner and money coach at Money Coaches Canada in Edmonton, says the number of clients affected by layoffs is larger than anything she has seen before. She's also heard from clients about reduced hours or income – and even from those expecting an imminent layoff.

"It's important for clients to have someone [like us] to talk to during these challenging times," she says. "So many people are experiencing a job loss that this should never be seen as a personal failure and nobody should have to go through it alone."

The main worry for clients, at first, is not having enough income to pay their bills or provide for their families adequately. That uncertainty increases if the person is a single parent or sole breadwinner, Ms. Knoblach says.

As such, she's connecting with clients who have lost their jobs right away to look at their cash flow and identify, reduce and eliminate discretionary expenses. "We also calculate how long the client can get by on a reduced income, and which resources are available to the client," she says.

Ms. Knoblach's priority, though, is preventing clients who have recently lost their jobs from making big financial mistakes and rash decisions that will likely cause setbacks later on. Over the years, she has seen clients cash in their registered retirement savings plans (RRSPs) hastily without consulting anyone or researching other alternatives.

"Withdrawing from investments should only be considered as a last resort," she says. "After all, these funds are intended for the client's future retirement at an age when the client can no longer generate employment income actively. It's better to restructure the client's cash flow and leave their retirement savings intact."

Similarly, Mr. Rosentreter has had senior executive clients come in with incorrect ideas about what to do with their pension plans based on discussions they've had with former colleagues who went through a similar situation.

"You just hope that they haven't done something crazy before you get a chance to talk to them. There's so much bad information out there," he says. "I've seen a few people who have cashed in a defined-benefit (DB) plan and I said, 'Why did you do that?'"

Mr. Rosentreter says employers provide laid-off individuals deadlines to decide what they're going to do with their pension plan assets. As DB pension plans provide a guaranteed monthly payment in retirement for life, in many cases indexed to inflation, his advice to clients depends on the situation.

"You have to look at each option according to the rules of the plan," he says.

In addition to helping clients figure out what to do with pension assets, advisors also have a key role to play in assisting clients who have received a severance from their former employers.

For clients who have received a large severance, one strategy to consider is topping up their RRSPs, says Evelyn Jacks, founder and president of Knowledge Bureau Inc. in Winnipeg. That way, they'll reduce their net income, which has the positive effect of ensuring they'll get the maximum amount in Employment Insurance (EI). That's because EI is clawed back once a person's net income from all sources in a taxation year is more than $67,750.

"Another reason [for contributing a severance payment to an RRSP] is that a reduced net income may allow the household to qualify for more Old Age Security or refundable tax credits like the Canada Child Benefit, Canada Workers Benefit and the quarterly GST/HST Credit," she says.

Advisors who are helping clients who have recently been laid off or at risk of losing their jobs should also consider an insurance review. Ideally, clients would have adequate life and disability insurance independent of their workplaces. For those who don't, Mr. Rosentreter notes that group disability often expires on the day of termination – and clients may find it difficult to purchase another policy until they are employed once again.

He says with some group life insurance policies, employers may give clients the choice to convert them to a private policy.

"If you've had a health issue and you think you'd be uninsurable with new coverage you buy on your own, you may want to stay with the company plan because it may be the only insurance you can ever get," he says.