How to survive the crisis with your finances intact — here's everything you need to know

COMMUNITY Apr 13, 2020 by David Aston Contributing Columnist

If you're one of the millions of Canadians who are experiencing a loss of income due to COVID-19, you're probably focused on just getting by.

But what if you're in the comparatively fortunate group who still holds a job but are on tenterhooks as to whether that will still be the case in the months ahead?

Now is a good time to figure out what you might do to protect yourself in case your situation turns more dire. That includes getting a handle on spending; figuring out the best way to draw from savings; managing your debt in a smart way; getting familiar with government benefits; and preparing yourself for a tougher job market.

You need to get through a period of severely curtailed economic activity in the next few months, with large parts of the economy shut down. When stay-at-home orders start to be lifted the economy should pick up, but economic activity may still be weak for a significant and unknown length of time.

"You're basically trying to build a financial bridge" that at least takes you past the worst of the crisis, is how it was described by Malcolm Hamilton, a retired actuary and personal finance expert.

Get a handle on spending

Now is a good time to spend carefully, avoid non-essential, big-ticket purchases and build up cash savings. The fact that the current lockdown limits opportunities to spend money should help.

But it's also a good idea to prepare "an essential spending plan" to prepare for possible financial challenges ahead, says Liisa Tatem, a Toronto-based certified financial planner with Money Coaches Canada.

"You want to make sure you have a clear picture of all your costs," Tatem says. "Then I would suggest you go through and, very honestly, look at all your costs and say, 'What do I really need to spend?' "

That should involve carefully scrutinizing every item of spending and revenue to find deals or cut back. Think through every category, from the details of your cable and telecom bills to finding an investment savings account that still pays "more than 0.01 per cent interest," she says.

Drawing on savings and investments

If you have savings and investments, some sources are better than others for drawing cash.

If you tap tax-advantaged savings, it is usually better to take the money from a TFSA instead of a RRSP. TFSA withdrawals have no tax consequences and you don't permanently lose the contribution room (although you have to wait at least until next year to put it back).

In contrast, you pay full taxes on any RRSP withdrawals and you lose the contribution room permanently. Some of this tax is taken immediately off the top of the RRSP withdrawal. In Ontario, this "withholding tax" is 10 per cent on RRSP withdrawals up to $5,000, and more on larger amounts. You will usually pay additional taxes when you file your income tax return so that the combined total tax accords with your marginal tax rate.

You have probably heard the advice that you should stay the course with stock market investments and avoid selling off the equity portion of your portfolio at distressed prices. So ideally any withdrawals from your portfolio should come from savings accounts, maturing or cashable GICs, or investment-grade bonds that have largely held their value during the crisis.

Manage debt in a smart way

While your long-term goal is to pay down your debts, your priority in a crisis should instead be to borrow wisely and avoid higher-cost sources of debt.

All the major banks and many other institutions have programs that should allow you to defer your mortgage payments for up to six months if you lose your job. Interest continues to accrue on the deferred amounts, which will eventually result in a modest bump in your payments at the end of the deferral period or when your mortgage renews.

But there's a good chance that downward pressure on interest rates resulting from the crisis will more than offset any eventual bump in payments due to deferral when your mortgage renews. While mortgage deferral means adding modestly to your debt, it is probably one of the better options to get you through tough times if you need it, given that mortgage rates are relatively low.

The banks are also willing to defer credit-card payments for between one and six months. They have agreed to cut interest rates roughly in half on the deferred amounts (but you need a deferral agreement in place to get that concession). But annualized interest rates on unpaid balances still typically amount to 10 or 11 per cent, down from the 20 to 21 per cent that applies in normal circumstances.

So the reduced credit-card interest rate is still very high. Try to avoid running up credit-card debt if you can find other options. If you do find yourself carrying a balance on your credit card, try to use it as a brief stopgap until you can find a better source of funds.

Getting a line of credit (especially one secured on your home equity) is another relatively low-cost source of debt. The best rates for new home equity lines of credit are around “prime,” which is now 2.45 per cent, but some institutions are asking as much as prime plus 2 per cent, which is 4.45 per cent for now. However, the banks expect you to cover interest payments and they reserve the right to cap your credit at any time, so it isn’t an ideal lifeboat in a crisis.

Know your government benefits

Governments are launching an unprecedented series of programs to help people and businesses get through the worst of the crisis. Understand the key features of the most important programs. New programs are in the works and existing ones are adjusted frequently, so stay tuned.

If you do suddenly find yourself out of work, the most important program to know about is the Canada Emergency Response Benefit (CERB). For people who have lost their income due to COVID-19, CERB pays up to $2,000 every four weeks for up to 16 weeks. The program covers the period between March 15 and Oct. 3.

The federal government also introduced an interest-free loan program for small businesses (which began last week) and a wage-subsidy program for hard-hit businesses that covers up to 75% of a wage up to $847 a week (passed by Parliament, the Senate and receiving royal assent over Easter weekend). While these programs provide direct support to businesses not individuals, they should help millions of Canadians keep their jobs.

It is also worth knowing that you have until June 1 to file your 2019 personal taxes and up to September 1 to pay the Canada Revenue Agency if you have an amount owing. Of course it makes sense to file as soon as you can if you are expecting a refund.

Be prepared for a tougher job market

You should understand that we have gone through an abrupt transition from a buoyant job market where openings for good jobs were fairly plentiful to a tougher environment where good jobs are much harder to come by. That’s likely to persist for a while following the worst of the crisis.

That will probably require a different mindset. For now, it makes sense to do what you can to keep your job, which may mean taking reduced hours or accepting temporary reassignment to a less desirable role.

If you are laid off, there may be a good chance of being hired back, although there is bound to be great uncertainty in most workplaces about just who gets hired back and when that might happen. Many employers will bring back some employees but not everyone. You may need to make concessions to get rehired with the same employer, or take a less than ideal job to get your foot in the door somewhere else.

Be prepared to make tough choices

If you do end up losing your job, you will probably have to find the best option to generate money from a limited menu of less-than-perfect choices.

Few people are in the enviable position of having their personal finances in perfect textbook order with loads of emergency cash and plenty of easy-to-access savings.

You may be faced with the prospect of having to sell some of your stocks at less than ideal prices to generate the money you need to cover expenses if you don’t have better choices. As Hamilton says, “I’d rather do that than borrow at 11 per cent on a credit card. If you need the money, you need the money.”

With so much uncertainty about what might happen, what it boils down to is “just be as resourceful as you can,” Hamilton says. “There’s no playbook here.”