

Solutions

FAMILY SERVICES  EMPLOYEE ASSISTANCE PROGRAMS

NEWSLETTER

Issue 47

Managing a Financial Crisis

A financial crisis can hit when you least expect it. Illness, accidents, job strikes and layoffs are unforeseeable events that cause financial setbacks and, in turn, extreme stress. In a perfect world, you will have saved three to six months' worth of living expenses that everyone always talks about. In the real world, you may be living from paycheque to paycheque or have only a small amount of savings.

Knowing the basics of how to deal with an income interruption will help you concentrate your energies where they are most needed, like making a successful recovery from an illness or focusing on obtaining employment.

Consider what sources of income you will have

- Employment Insurance (always apply for this insurance in order to determine your eligibility)
- Employment Insurance Sick Benefits
- Short Term or Long Term Disability Insurance
- Canada Pension Plan Disability
- Severance Pay
- Early access to Company Pension or Canada Pension Plan
- Increase in benefits, such as a Child Tax Credit

Determine your potential financial resources

- Savings
- Canada Savings Bonds or investments
- Life Insurance with a cash value or flexible repayment loan
- RRSPs that are accessible (keeping tax implications in mind)
- Locked-in pension funds that may be accessed under government "hardship" withdrawal

Hope for the Best and Prepare for the Worst...

Start cutting expenses immediately

Your goal is to make the reduced income and financial resources last as long as you can while working towards an improvement in your situation.

Review your household budget and determine the minimum amount of money you can live on for a month. Don't wait until there's no money to decide to curb your spending.

Consider the following:

- Cut phone features. You may only need basic phone and call answering. Keep long distance calls to a minimum or use e-mail as an alternative.
- Reduce Internet costs by switching from an unlimited package to a fixed number of hours per month.
- Go with basic cable TV or satellite.
- Stop eating out and buying takeout. Reduce entertainment and look for free events to attend.

By Mary Huntley, Credit Counsellor, K3C Community Counselling Centres, Kingston, ON

Managing a Financial Crisis (*continued*)

- Put memberships on hold temporarily or cancel them.
- Work at reducing utility costs. Keep heat and air conditioning to a minimum. Be aware of wasteful use of electricity and water.
- Plan vehicle use wisely to cut down on fuel costs.

Protect Your Credit Rating

Before you fall behind on payments, ask your mortgage, loan or credit card company about their policy on deferred payments. Most financial institutions allow a deferred payment once or twice a year so you can skip a payment for a month without damaging your credit history. Interest continues to accrue that month but it may be the break you need to see you through a tight spot without negative consequences. A payment deferral could free up money to pay something else that can't be put on hold. Also, ask if re-amortizing your mortgage or car loan is an option to lower payments.

Review insurance coverage that you may have on your credit products (mortgage, car loan, other loans, lines of credit and credit cards). Some companies will “sell” you income replacement insurance. If available, apply for this insurance now, before you need it.

Make your credit card payments on time, and keep credit spending within affordable limits. If a credit card payment is late, or your card is over the limit, extra fees will be added. In some cases, the additional fees and insurances can add up to more than your minimum payment. This means that when you make the requested payment the balance goes up instead of down!

If you have a student loan, you may be able to apply for interest relief, with no payments due for up to 30 months, provided you reapply every six months. If you can't afford to make your regular payments but can still afford to make a reduced payment, you can request a revision of terms with a full financial disclosure submission.

Set priorities... If you don't have sufficient income to meet all your financial obligations or living expenses, then mortgage or rent, utilities, food and necessary transportation must come first. You can allow house or car insurance to lapse, but be aware that this may result in higher premiums and being required to pay a large amount upfront to re-instate your insurance later. Unsecured debts should be last in line as a priority.

Talk to a credit counsellor about your individual situation. The earlier you can meet with a credit counsellor, the better! They can make suggestions, as well as discuss and help you assess your options. There may be alternatives available that can reduce monthly payments and interest. A credit counsellor can also make you aware of what to expect from creditors if you can't maintain payments and what collection agencies can and can't do. Your EAP benefits may include access to a credit counsellor.

You don't have to wait until you're in trouble to get help.

Useful Web Sites and Resources

- **Credit Counselling Canada:**
www.creditcounsellingcanada.ca
Helps Canadians resolve debt problems and learn to use money and credit wisely.
- **Credit Counselling Service of Toronto:**
www.creditcanada.com/bookshop.asp
Order workbooks like A Survival Guide for Tough Times and Staying on Track for less than \$5 each.
- **Government of Canada's Office of Energy Efficiency web site:**
<http://oe.nrcan.gc.ca>
Energy-saving tips for homeowners.

Family Services Employee Assistance Programs (FSEAP) offers confidential professional assistance on a wide variety of personal and work-related issues. For more information on your EAP, go to www.familyserviceseap.com or call 1-800-668-9920.