

Recovering from a financial setback



Events that negatively affect finances can happen to anyone. Overcoming a challenging situation – whatever form it takes – requires determination, patience and good planning.

IN LIFE, EVERYONE EXPERIENCES SETBACKS. These can run the gamut from losing a job to going through a divorce, to recovering from a serious illness. Then there are the unexpected expenses life throws your way. They happen all the time. A leaky roof, a flooded basement, a car breakdown – any one of these may cost thousands of dollars to fix, with the money required right away.

Sometimes, more than one of these difficult situations occur at once. It goes without saying that challenging circumstances can affect your finances – but just how do you recover and get back on track? Here are some tips.

1. Get professional advice

Whether a financial setback is big or small, a professional perspective can be invaluable. Your advisor can work with you to assess the impact on your short-term and long-term plans, to adjust or create goals, and to develop a plan of action that helps lead to recovery. Getting advice early can help you avoid making rash decisions – for instance, racking up a large credit card balance – that could be difficult to unwind after the fact. Your advisor should make you feel comfortable and offer constructive ideas on how to address your problem.

2. Tighten your budget

Any budget usually has some slack. Whether your income has dropped or your expenses have risen, it's time to eliminate that slack to get your budget back in balance. Take a hard look at your discretionary (or non-essential) costs – everything from entertainment to travel. Are there free or lower-cost alternatives, such as books, magazines and videos from the library, activities in a local park or at a community centre, or a staycation instead of a vacation? You may even be able to negotiate a better deal on certain products and services (think bulk purchases and bundled discounts) without cutting back.

3. Explore big-ticket cost savings

If the financial setback looks as if it could last a long time, and cost a great deal, you may need to make significant lifestyle changes – changes that go beyond trimming. Examine the biggest line items in your budget. Can you

move to a smaller home in your area, or a similar-sized home in a more affordable area? If you have two cars, can you make do with one and sell the other? Such changes are difficult to make, but they may be essential to help protect your future financial well-being.

4. Earn extra income

Can you bring any more money into your household? Perhaps you can sell something of value – art, antiques, collectibles. Or maybe you can work more hours (for example, moving from part-time to full-time) or even take a second job. Of course, if you're caring for children or a family member and would have to make alternative arrangements so you can work more, run the numbers to ensure your after-tax income will more than pay for those costs.

5. Talk to your mortgage provider

If you have a mortgage, you may be able to reduce your monthly costs by negotiating more manageable terms with your mortgage provider. For example, you could switch from accelerated to standard payments, reducing the annual amount you have to pay towards your mortgage. If you were on an accelerated payment schedule, or if you've made lump-sum prepayments in the past, your provider may even be willing to give you a short-term holiday from payments. You may also want to ask about lengthening your mortgage's amortization and adding any payments you've missed to your mortgage balance so you can pay those amounts gradually.

6. Talk to other creditors

Rather than letting bills slide, call your creditors, explain your situation and ask if it's possible to lower your interest rate, reduce your payments or defer your payments for a period of time. This can give you breathing room to get through the worst of a setback and help to protect your credit rating – which will suffer if you simply stop making required payments. Another option to explore with your advisor is debt consolidation, which brings all your debts into one lower-interest-rate account with a single payment due every month.

7. Borrow sensibly

If you can't find ways to spend less or earn more, and you've run through your emergency fund, take the time to research the lowest-cost sources of borrowed money in order to secure some extra funds. For homeowners, this is usually a secured line of credit. In some cases, a personal loan may be a good choice because it requires repayment according to a set schedule – so you know when you'll be free of that particular debt. Your advisor can help you identify the best solution for your personal situation.

Look beyond the immediate problem

Recovering from a financial setback is a journey. It may take many months or even years to return to a place where you're as comfortable financially as you used to be. But, in many cases, it can be done. What it takes is determination, patience and good planning.

As your financial situation starts to improve, try to stick to a streamlined budget so you can put extra money towards your debts. Gradually, start building a substantial emergency fund so you have resources available the next time you run into a financial setback.

Once you are in a stronger position, with more of a surplus, look at other ways to help protect yourself from future shocks to your finances, such as health and dental, critical illness and/or disability insurance.

Set some money aside for the future once you are able to take a longer-term view. That may include saving in a Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), Registered Education Savings Plan (RESP) and/or non-registered account.

When you have enough distance from the event, look back and consider if you might have done anything differently to soften the effects of the setback. Your goal should be to learn from the experience, without assigning blame to either yourself or your partner. What happened, happened. The key is to make sure you're in a stronger financial position in case another difficult situation occurs. ■



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