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Our Insights

It's a call or meeting that we all dread to make or receive, you have gotten laid off or restructured out of your job. Many conflicting feelings arise, shock, anger, even embarrassment. Then the practical kicks in, how will you provide for your family, make mortgage payments, or find another high-paying or meaningful role? 2022 and 2023 have been years of widespread layoffs, and behind every headline about downsizing is a very real situation in which you may be grappling with fears about your financial future. Read more about how to navigate a layoff and remain financially resilient in my Globe & Mail feature article below.

How to remain financially resilient after losing your job

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See the column on The Globe and Mail's website here. (Subscription required)

The moment is one many wealth advisors are increasingly familiar with: the phone rings; on the other end is a distressed client who has just been laid off – a casualty of corporate downsizing. The client is in shock, angry, and gripped by fear about what the future will hold. How will they provide for their family? Will they still be able to manage their mortgage payments?

Amid concerns of a pending recession and corporate downsizing, 2022 was a year of widespread layoffs. This trend has continued with major companies and banks shedding thousands of jobs this year. But behind every headline about downsizing is a very real situation in which a person may be grappling with fears about their financial future.

Advising clients on how to navigate a layoff and remain financially resilient requires years of groundwork, a holistic approach and a personalized strategy, unique to each client's circumstances and needs. But it's also important for advisors to lead with empathy and reassurance when a client is laid off because of the emotional turmoil they may be experiencing.

Boost financial resiliency in good times and in bad

Regardless of whether someone has been laid off, living beyond one's means is never advisable. Often, people simply don't save as much as they should. A Canadian Payroll Association poll shows that 44 per cent of Canadians admit it would be difficult to meet their financial obligations if their pay was late.

It's good practice to advise clients to always maintain an emergency fund of at least six months of living expenses. Having a reserve to rely on can relieve short-term financial pressure in the event of a layoff or unexpected change in circumstances.

If an emergency fund is not readily available or if liquidity is an issue, a client may also want to consider dipping into savings accounts, such as tax-free savings accounts (TFSAs), or a line of credit.

Immediately following a layoff, clients should evaluate their finances quickly and realistically. This includes a line-by-line appraisal of their expenses, reviewing the terms linked to their lines of credit or mortgages and cutting out non-essential costs to create a leaner budget.

A client's own spending habits can contribute to poor financial resiliency and be magnified in times of stress. If a person is accustomed to dining out regularly, planning lavish vacations, or even online shopping, they may need to adjust to a more frugal lifestyle temporarily.

Consider the big picture

When a client is laid off, it's not just the regular income that may be at risk. Advisors should also encourage clients to review the terms of their severance plans and consider what will happen to their benefits package after they're let go. Often, it's worthwhile to try to negotiate an extension of the benefits plan or consider investing in personal insurance.

Depending on the circumstances, it may also be worthwhile to seek the services of a labour lawyer to negotiate the terms of their severance and benefits.

Advisors should encourage clients to pay close attention to tax deductions during their severance. Most employers withhold 30 per cent of taxes on severance pay. However, high-earning clients accustomed to a 54 per cent marginal tax rate should be aware that there may be a significant tax burden on their severance pay come tax time.

Planning to lower this tax bill through registered retirement savings plan (RRSP) contributions, flow-through shares, charitable donations, and balancing cash flow needs is important, but can also cause conflicting feelings. At the very least, clients should be prepared for a tax bill and plan to have the resources to pay it.

Once a client is in search of a new job, those unprepared for a lengthy hiring process leave themselves in a vulnerable position. Interviews, salary and benefits negotiations, and onboarding processes can drag on far longer than people realize.

It can take months or even years to find another high-paying job, not to mention potential relocation. To mitigate these vulnerabilities, it's wise to encourage clients to engage in continuous professional development and education to ensure they're not caught off guard.

Relying on support systems

Family circumstances often influence how clients think about their finances after a layoff.

For example, those living in a dual-income household may be able to rely on a working partner to handle more of the day-to-day expenses. In such cases, it's important to encourage clients to have open discussions about whether any

trade-offs, such as taking on extra responsibilities around the house, are necessary to offset imbalances or pressures between couples and to avoid resentment.

Alternatively, if clients are considering reaching out to friends or family for financial support, terms should be drawn up and signed off on by both parties, even if the agreement is between immediate family members, to avoid unnecessary friction and outline expectations for repayment.

Getting ahead of the curve

Advisors can set themselves apart by supporting clients' preparations for such a crisis before it even happens. With widespread layoffs occurring in all industries in recent years, advisors should encourage clients to consider implementing preventative measures to ensure they remain financially resilient regardless of their circumstances. Here is a list of ways clients can prepare for any eventuality.

- **The golden rule:** Always live within your means. Financial overextension leaves you susceptible to disaster when you lose a stream of income or cannot work.
- **Keep a piggy bank:** Maintain an accessible emergency fund with at least six months' worth of living expenses in a TFSA or liquid and accessible money market security.
- **Be cautious of leverage:** Don't overextend and borrow more than you absolutely must. Pay attention to interest rates.
- **Invest in continuous learning:** Make time to continue your own personal development and education. Business operation practices are advancing at an increasingly rapid pace and those who fail to maintain their status as desirable candidates may eventually find themselves left behind.

Invest and save during the good times to prepare for the bad times: Either save or invest at least 10 per cent of your income if you can afford to. For higher-income earners, it should be substantially more. Advisors should encourage clients to leverage TFSAs and RRSPs wherever possible.

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