

Managing a Budget While Unemployed

It goes without saying that one of the major stressors on an individual or family is the loss of income while unemployed. Even with Employment Insurance payments, most people have difficulty making ends meet during an unemployment period. The difficulty actually starts before unemployment begins.

A lot of the time, people don't really know where their money goes while they are employed. They know they pay so much a month for their mortgage, so much a month for a car payment, so much a month for taxes and so on but beyond that, they do not know how much they spend on food, gas, entertainment, clothing and all the other 'little' expenses. As the saying goes, however, the devil is in the details. It is those little expenses that eat up people income and it is those little expenses that can cause serious difficulties while unemployed. So the first thing we need to do is to track where our money goes. Download the budget worksheet or make up your own and for one month track every penny you spend. Every penny. If it goes out of your bank account, know where it goes. (You will notice on the downloaded budget worksheet there is no 'Miscellaneous' category. If you are not sure what category to put an expense in, create a new category. If you spent \$5 on lottery tickets, create a lottery tickets category, for example. It is impossible to manage a miscellaneous category). Ideally, this exercise should be done before you become unemployed so you have a bench mark for normal spending.

Once you know where your money is going (and you may be surprised) you can begin to look at where you make changes. The relatively easy areas to change are things like clothing, entertainment, and those items you were tempted to put in a miscellaneous category. You may say cutting back \$25 here or \$50 there is nice but look at what you were making and what Employment Insurance is giving you and say 'I need to save buckets of money, not drops in the bucket'. In this situation, everything counts. I have seen people cash in RRSP's, run up lines of credit and lose homes because of unemployment. The time to start saving money is not after severance and EI has run out. The time is when you become unemployed. You never know how long it will take to get the next job so as the saying goes, 'plan for the worst, work for the best'.

So other than not buying lottery tickets and putting off the purchase of new clothes, where can you look to save. Here are some suggestions:

1. Entertainment: In this category you might have dinners out, movies, plays and other social events. Look at cutting this category back but don't cut it out all together. Saving money is not the only goal while unemployed. Unemployment 9 times out of 10 puts stress on relationships and families and it is important to try to maintain some balance there. So do plan on dinner and a movie occasionally but instead of dinner at the fancy restaurant and a movie in a theatre, try Swiss Chalet and renting a movie.

2. Cars: In our society today with two working parents, it is more and more the norm for people to have two cars. Can you get by on one. It means dropping the kids off at school, your spouse off at work and picking them up at the end of the day. It is more work and less convenient, but also can save you a ton of money. Look at what you spent on gas, insurance and repairs. By simply using only one car and cancelling the insurance, temporarily on the other, you can save significantly.

3. Food: Don't panic, you still need to eat. But look at what you buy. With two parents working it is natural for people to buy pre-made, quick prep, throw in the microwave or oven dinners. You can make your own for less. Again, it takes more time and planning, but it is cheaper (and healthier). Look at the snacks you buy. Ice Cream, Chips, cookies? Can you live without these for a while or change them to carrots and celery?

4. Cable TV? Now this is a suggestion you may not like but truthfully, employed or not, getting rid of TV may do more for you than just save 40 bucks a month. It is tough at first but once it is out of your system, you will be amazed at how much more time you have. You may become bored and have to read a book, do some job search related research, or talk more with your family. But are these bad things? This is not just a budget saving item; it is a lifestyle change that I guarantee your family will not like. But in the end, it is probably not a bad thing. I have not had cable for a year. I don't miss it. When I am at someone's house and flip on the TV I am amazed at the trash there is. Do we really care who wins the next survivor or if Paris Hilton will 'survive' farm life? Not me. Now to be honest, I do still watch CBC Saturday night with an antenna for hockey games. But it is an indulgence, once a week if that.

5. High Speed Internet access? Again, a convenience thing. Dial up is slow and takes more time, but it sends emails just the same. If you are going to do a lot of internet work on a particular day, go to your local HRDC office, Library, or community resource centre where they provide such a service, usually for free.

6. RRSP's, RESP's. This is a tough one. If you are going to make changes to these while unemployed, talk with an accountant or financial advisor first. But a couple of guidelines to think about. Firstly, consider reducing, but not eliminating. For most people saving is a habit and if you stop doing it all together, it will be tough to start again when you get back to work. Secondly, weigh the tax advantage loss with the person that does your taxes. It may be beneficial to continuing contributing at your current level and get a larger tax refund in the new year versus stopping all together. You will still have less in your bank account, but have helped to save your retirement plans. Thirdly, if you are unemployed for a good portion of the year, it will effect your maximum allowable contribution. You don't want to (and can't without penalty) over contribute. So you may have to stop or reduce your contributions. The best advice is to talk with your accountant and financial advisor to determine the best course of action for you.

7. Mortgage. What can we possibly do with your mortgage that sucks \$1000 or \$1500 out of your bank account every month? Read your mortgage papers carefully. If you got a mortgage 3 or 4 years ago when interest rates were 6% or 7%, it may be worth breaking

the mortgage and get a new one at a lower rate, depending on the penalties for breaking the mortgage. Next, look for a clause that is not that uncommon whereby you are allowed to miss three mortgage payments without penalty other than accrued interest. If you are paying weekly this means three weeks, if you are paying monthly, this means three months. So, call your lender and get them to change your payments to monthly if they are not and then if you do need to miss a payment or two you have a month or two, not a week or two.

8. Second Mortgage? This is usually the best of the worst options if you can swing it with your bank. It will have the lowest interest rate of any loan you can get. Consider this before cashing in RRSP's or using that line of credit. Lines of credit come with relatively hefty interest rates, and cashing in RRSP's have hefty taxes and damages your future retirement plans.

These are just some suggestions. The thing to remember is that when it comes to your budget there are no sacred cows. Every item in your budget must be examined for possible savings. Remember these are temporary measures although it may not feel like it when you are unemployed. When you get back to work, redo your budget and look back for the positives. Most people after a period of unemployment are more acutely aware of their financial situation and are better at budget planning and management.

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