

Credit Canada

Living in an age of uncertainty

Inflation is at a 40-year high. Interest rates have risen dramatically. And there's talk of a potential recession. It is no wonder that many Canadians are feeling worried about the future. Many of us are just not as prepared as we feel we should be and don't know where to start.

Thankfully, there is a helpful metaphor in your cupboards at home – items you likely have in case of a kitchen mishap (band-aids), a power failure (a flashlight), or a snowstorm (tuna and pasta, ready to go). Most of us have a “Readiness Kit” for household emergencies, so how can you apply that thinking to your money?

Introducing Credit Canada's *Financial Readiness Kit*: A tool to help you prepare for uncertain times.

Life happens

In addition to all of the things going on in the world that can affect our finances, changes at home can also knock us off balance. For example:

- Physical and Mental Health Challenges
- A Marital Breakdown
- Accidents
- Big, unexpected expenses for home or the car

So, even if you are unaffected by inflation, interest rates, or the recession risk, it is still critical for you to assemble your **Financial Readiness Kit**.



Getting Started

At Credit Canada, we understand that it can be challenging to know where to begin. We use something called The Priority Pyramid to help you focus on the areas of your finances that are most important to you right now. It is a riff off of Maslow's Hierarchy of Needs, so if you ever took a class in psychology it might feel familiar. The Pyramid will help you to identify the financial equivalent of candles and tuna. For a sneak peek, see the sidebar.

Essential Items for your Financial Readiness Kit:

- **Cash:** ATMs and credit card terminals can go offline. Have \$100 stashed somewhere.
- **Passwords:** Strong, secure passwords stored where you can access them in an emergency.
- **Emergency savings:** If you were to lose your job you will need money to cover your rent or mortgage. This should be tucked away somewhere that you won't see or touch unless you really need to.
- **Access to low-cost credit:** Ideally this is a secured line of credit, only to be used when you really need it. But it could also be an unsecured line, or some room on a credit card. You want to avoid having to take on a high-cost loan.
- **Insurance:** Proper home and auto coverage is critical. And, if you have dependents, you need a term life insurance policy.
- **Record of contents:** Grab your phone and walk to your bedroom. Start recording a video and do a thorough walk-through of your entire house, narrating any details about the contents. Should you need to make a claim, this record will come in handy.
- **Will:** This kit is about protecting you and your family from risk. Of course you hope you won't have to use any of these things, but a simple will is key.



Youth

You're fresh out of university — it's time to find a job and move out of your parent's house. But searching for both a job and affordable rental can be challenging. So, you might rely on your credit card or line of credit to live your best life. As your debt increases, you might miss a few payment due dates. Plus, employers and landlords may need to see your credit score. You'll need to focus on cash flow, debt, and savings to prepare for tough times.

If you work a contract job and that contract ends, an emergency fund can help you stay afloat until you land the next job.

Additionally, keeping your high school part-time job can help you avoid relying on your credit card as you start your career. If your balance is less than 30% of your available credit and you're consistently making at least the minimum payment, your credit score will also be in good shape.

Lastly, you could be eligible for student tax credits if you graduated recently. File your taxes to ensure you receive the tax benefits you're entitled to.



Questions to ask yourself:

- Are there ways that I can increase my income?
- Can I reduce any of my expenses?
- How much can I put away for savings every month?
- Am I making my credit card payments on time every month?
- Do I know whom I can go to for financial advice?
- Are my taxes up to date?





Be Like Dani

Dani finished university two years ago. They just got hired for a full-time permanent nursing position at a hospital in another city. What a relief after only being hired for six-month contracts. Contract work meant that Dani had to keep their part-time job at a restaurant, adding up to a lot of hours to keep up with.

Looking back, it was all worth it.

Other than student loans, Dani has a small credit card balance they can pay off with their first nursing paycheck. They used the credit card to pay for gas between nursing jobs, and part-time job funds to keep up with car lease payments.

Now, the car will come in handy for work in another city. Dani will start their first full-time job with no debt and a solid savings plan. They will also be able to work just one job. It was tough hanging on to the part-time job while starting their career, but it was worth it for consistent income during tough times.

Resources:

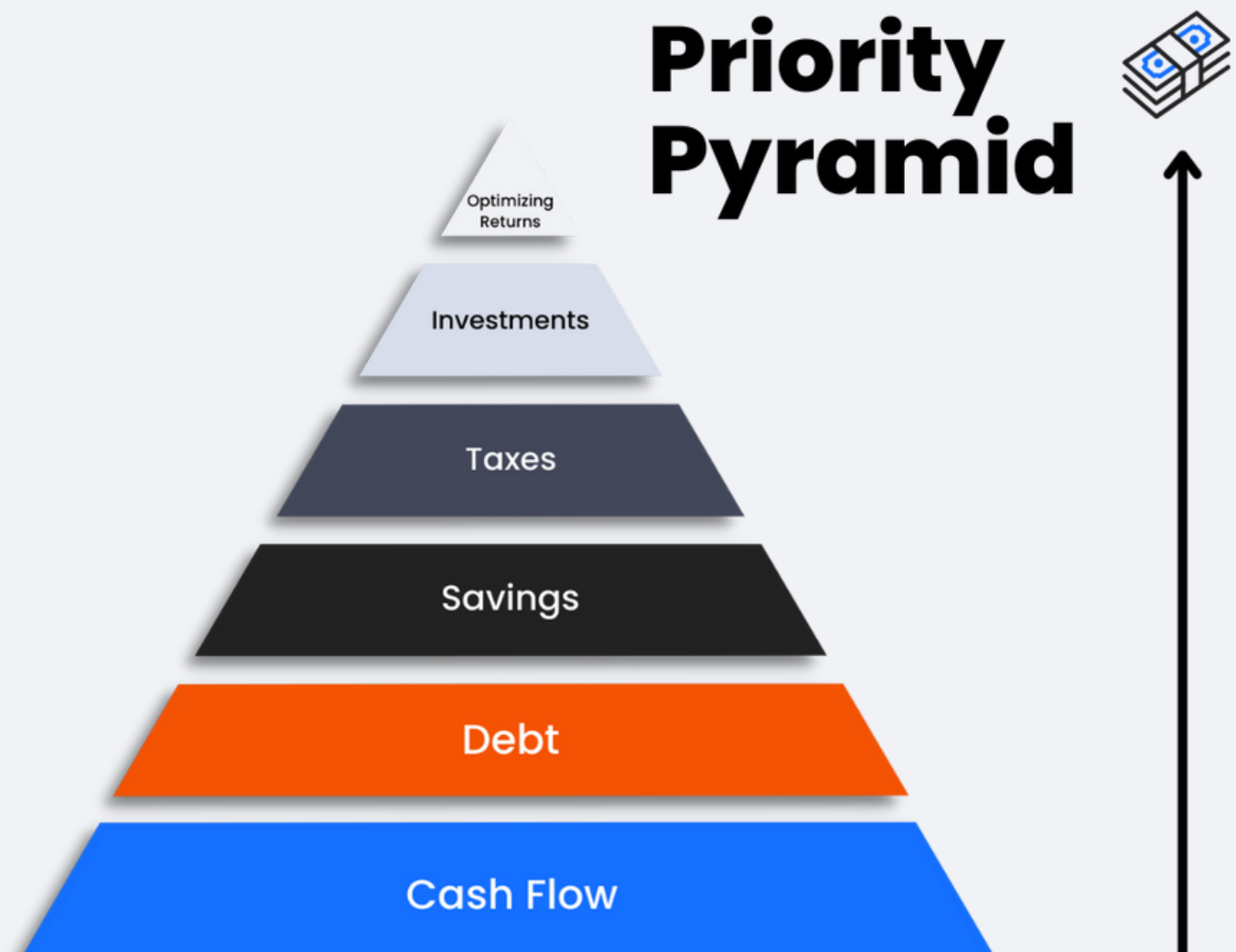
- [Managing your Money](#)
- [Repaying your Loan](#)



The Priority Pyramid

The Pyramid prioritizes your areas of financial focus, starting from the bottom. It is crucial that your most immediate needs are managed first. If you have an issue with your cash flow, you are not going to be able to manage your debt. And if you have unmanageable debt, you can't put away any savings. You need to build the base before you work on investments, for example. The idea is to reduce any feelings of overwhelm, and allow you to focus on what matters most. We are going to go through each level of the Priority Pyramid from Cash Flow to Taxes and ask you a question:

If your answer is "Yes", you move up to the next level. And if your answer is "No", you know precisely where to focus your efforts.



Source: Moolala: Why Smart People Do Dumb Things with Money (and what you can do about it)

Cash Flow: Does your income exceed your expenses?

In uncertain times, you need to have a clear answer to the following question: Does income exceed expenses? Or, said another way, *Am I living within my means?* If you have even \$1 of outstanding credit card debt that you can't get rid of, the answer is no. So, your financial focus will be to work on how to increase income, and/or cut expenses such that you can change that answer to a yes. To understand your cash flow, you need to calculate your total monthly income and subtract your total monthly expenses. You can use Credit Canada's free [Budget Planner](#) to complete the task. Even if you are in a cash flow surplus (income exceeds expenses), it is still worthwhile to see what can be improved. If you are in a deficit, the task is clear: You need to increase income and/or cut expenses. This is also the time in which you get organized on other basics: Having cash on hand, and ensuring you have online account access and passwords that are safe, secure, and accessible.



Questions to ask yourself about cash flow:

- What options do I have to increase my income?
- What expenses can I reduce?
- Are my taxes up to date, so I am receiving all benefits available to me?
- Do I have actual cash on hand in case ATMs and credit card machines go down?
- Do I have access to all my accounts online?
- Are all of my account passwords secure?



Emergency car repair leads to high-cost loan

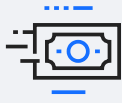
Our credit counsellors have spoken with hundreds of thousands of individuals over our 54 years, and each one has their own unique situation, including issues related to cash flow. We look at four broad aspects – income; “fixed” expenses that occur on a daily, weekly or monthly; (variable” expenses; and ‘irregular’ expenses, like car repairs or gifts. Let’s look at a case study from each of these.

Diane works in an office, doing clerical work and has an income that’s very close to the Canadian average. . She thinks she is OK with money now, but has missed payments on bills in the past. She manages her day-to-day expenses well enough, but like many Canadians, she has nothing saved for the proverbial rainy day.

Recently, Diane was hit with a hefty repair bill for her car. The transmission needed to be rebuilt. She didn't have the money to buy a new car, and she needed this one to get to work. Diane's credit score was not so great and she knew the bank wouldn't lend her any money. However, she had heard of a financial company in her hometown that advertised easy to get loans for thousands of dollars. Diane took out a loan, and used that money to pay for her new transmission. Now she is realizing how long it will take to pay off the loan, and how much interest she'll pay. She is horrified to learn that the interest rate on this loan is higher than 30% per year.

Diane has decided, after speaking with a credit counsellor, that she is going to work very hard to pay off this debt as quickly as possible. She is also going to stay on a budget and make sure that she has some emergency savings so that this situation won't happen again.





Cashflow Resources

- Credit Canada's [Budget Planner and Expense Tracker](#)
- [FCAC's Budget Planner](#)
- [15 Ways to Stay on Track of your Monthly Budget](#)
- For people who find staying on track very difficult, we sometimes suggest returning to a cash budget for a while – for Gen Z people, we recommend Tiktok #cashstuffing.

Debt: Have you eliminated high interest debt?

If you're living beyond your means, you're likely carrying debt month to month. In uncertain times, it may feel like that debt is standing in the way of being able to get ahead. This is the time to get out of it. That could mean making spending changes on your own or talking to an expert. It will almost certainly mean restricting your use of credit for a while. To start, you'll need to take a 'financial photograph' of your assets minus all of your liabilities, also known as your net worth. This will also give you a chance to see if what you "own" can help to get rid of what you "owe". If your assets can't help to get you out of debt, use a debt calculator to determine when your payments will make you debt free.

This is the level of the Priority Pyramid when you try to get access to lower cost credit. If you carry debt on credit cards, a move to a low rate card or a secured line of credit will make a big difference. However, for your application to be successful, you may need to work on improving your credit score. The lower a risk you appear to be to the lender, the lower the rate you'll pay.

Check out our free [Debt Calculator](#).



Questions to ask yourself about debt

- Am I making my monthly payments, on time, every time?
- How can I pay more than the minimum balance?
- Which repayment method is best for me? [The Debt Snowball or Debt Avalanche?](#)
- Have I inquired if my lender can reduce my interest rates?
- I am behind on my payments or in collections. Have I called a non-profit credit counsellor to review my options?



Hard knocks in life led to \$60,000 in credit

Jasmeet contacted Credit Canada to see what could be done about his debt situation. He informed his credit counsellor that he has a good job and a stable income now but various things happened over the years which led to unmanageable debt: He had been unemployed for quite some time, and he had also separated from his partner.

Jasmeet had used credit cards and a line of credit to survive during this period. He opened up one card after the other and accumulated a balance of \$60,000. He also had a sloppy payment history for a while, and a banker had informed him that his credit was not good enough for the bank to consider him for a consolidation loan to clear off all of his debts. Jasmeet was adamant with the credit counsellor that he was not going to “go bankrupt” and wanted to know what other options would be available to him.

Fortunately, the credit counsellor was able to help Jasmeet figure out a [Debt Consolidation Program](#) that was affordable to him, acceptable to his creditors, and would allow him to become completely debt-free in a reasonable period of time.

Debt Resources

- [Credit Canada Debt Calculator](#)
- [How to Manage Your Debt](#)
- [FCAC's Credit Card Comparison Tool](#)
- [The 5 best balance transfer credit cards in Canada for 2022](#)





Savings: Are you saving for what's important to you?

If your cash flow is in a surplus and you have a handle on your debt, it's time to focus on savings. In uncertain times, an emergency fund can be a lifesaver. Having money available also prevents the need for you to take on debt should your income fall, or when a big expense comes up. Let's face it, not all big expenses are unexpected. If you have a car, you know you'll need to pay for repairs. If you have a furnace, you know you may need to replace it at some point.



Questions to ask yourself about savings

- Have I opened up a separate emergency savings account?
- Do I have a plan to save money in that account?

Paying yourself first

Tamara was in her late 20's and wanted to feel that she "wasn't a child anymore" when it came to handling her own money. She had an upwardly mobile job with good pay, and her credit score appeared to be pretty good – so good that the bank was always offering her a higher limit on her credit card and a line of credit. However, she never seemed to have any money in the bank, and always carried a balance on her credit card.

Something was always happening. Most recently, a big vet bill for her dog messed up her finances again. A relative convinced her to make sure that she had some money put aside to handle expenses like this ... to have an emergency savings account in place. So, she spoke to her bank, and the banker gave her a couple of suggestions for "paying yourself first".

The banker pointed out that many people have a part of their paycheque automatically withdrawn from their chequing account every payday, and deposited into a savings account. Other people take advantage of incremental savings systems that round up the amount on debit card purchases and drop the electronic change into a savings account. The banker called this “a 21st-century coin jar”. Tamara has decided to adopt these ideas, and build a cash buffer for the next time life decides to throw a curveball.

Savings Resources

- [Why You Need an Emergency Savings Fund](#)
- [Automated Savings Transfers](#)
- [Moka](#), a smartphone app that banks the change from debit card purchases





Taxes: Are you taking advantage of government vehicles?

If you owe taxes, it is the law that you have to pay them. And even if you don't owe, you could be missing out on tax credits or other benefits that could help your cash flow, debt repayment, or savings. This includes things like the Disability Tax Credit or the Canada Child Benefit. Filing your taxes can help you to understand if you should be contributing any surplus in your cash flow to a registered savings plan such as an RRSP or TFSA. Also, you want to make sure you keep your records organized so that you're able to respond quickly should you encounter an audit from the Canada Revenue Agency.



Questions to ask yourself about taxes:

- Are my taxes up to date?
- Do I have a system to store my tax receipts for this year?
- Do I know where my most recent Notice of Assessment is?

Sometimes the CRA owes you!

Matt works with his hands and has had many jobs in his life so far, never staying with one employer for very long. He had never filed a tax return in his entire life, and assumed that he was in hot water with the Canada Revenue Agency, as he was a "tax evader". He had received T4 slips from his various employers, but had ignored them every year.

One summer, Matt received a Demand to File a Tax Return from the CRA for the previous year and was absolutely panicking. He felt that he had now been caught, and would be in a great deal of trouble. He looked around for tax clinics, and was fortunate to find one that operated year-round, and would help with prior years' tax returns. The tax preparer determined that Matt owed a small amount of money for the previous year and that the CRA's computer had sent the Demand to File because it recognized that there was an amount owing.

The tax preparer also went over Matt's tax forms for several prior years in which he had never filed and realized that the CRA owed him several thousands of dollars in refunds and tax credits. When all the forms were sent to the CRA, the end result was that the tax refund greatly exceeded the small sum owing, and a very happy Matt received a large payment from the CRA.



Taxes Resources

- [CRA Tax Clinic Locator](#)
- [Year-round Tax Clinic](#)

Beyond the Priority Pyramid

There are other areas of your finances, outside of the Priority Pyramid, that are important to manage as a part of your Financial Readiness Kit: Caring for your credit score, getting the proper insurance, and completing a basic estate plan should also be considered in uncertain times. And, so is your mental and physical health.





Credit Score: How does your number affect you?

You probably know that your credit score affects your ability to qualify for a loan, and the rate of interest you will be charged. But it also can affect your finances in other ways. If you're renewing your mortgage, moving from one rental apartment to another, or looking for a new job, your credit score will need to be in good shape. A weak score could put your mortgage in peril, lower your chances of finding a rental to live in, or miss out on a job opportunity.

[Pulling your credit report](#) once a year is a good practice to ensure that all information is up-to-date and accurate. You can go directly to the credit bureaus, Equifax and Transunion, or you can get your credit score for free online. Your score will be somewhere in the range of 300 (low) to 900 (perfect), and is a reflection of your payment history (on time!), credit history (long-standing credit a plus), utilization (under 30%), and inquiries (not too many).



Questions to ask yourself about credit:

- Have I pulled my credit report within the last 12 months?
- Is all the information on my credit report accurate?
- If I have debt, am I making your minimum payments, on time, every month?
- What percentage of my available credit am I using?

Identity theft could cause dip in credit score

Daniya has always believed that her usage of credit was rational and prudent. She has always had just one credit card, and she has been careful to pay off the balance on the card on a regular basis. She strongly believed in paying debt before the due date and that paying no interest was the best policy.



However, Daniya was horrified to learn recently that her credit score had dropped dramatically. She ordered her credit report for the first time, and quickly discovered that she had been a victim of identity theft! The thief had used Daniya's identity to apply for 7 new credit cards, all within the same month (and very possibly all done on the same day). It was the net result of these 7 "hard hit" inquiries that had hit Daniya's credit score. She spoke with a credit counsellor to learn what she would need to do in order to dispute these inquiries and have them removed from her credit report.



Resources

- [How to Read Your Credit Report](#)
- [How to Dispute Information on Your Equifax Credit Report](#)
- [Credit Report Disputes](#)





Insurance: Do you have the coverage you need?

Insurance is one of the most important components of your Financial Readiness Kit. It isn't enough just to renew your policy every year. You need to check to ensure that the coverage you have is appropriate and that you are getting the best value for the price you're paying. In uncertain times, you'll also want to make 100% sure that you're able to keep up with your insurance payments.

One of our clients recounted an error they made with their home insurance. As inflation climbed they had a hard time making ends meet. So they thought they could cut spending a little by eliminating their home insurance policy. The insurance company reported that to their lender, putting their mortgage contract at risk. They immediately reinstated their home insurance and learned that insurance is not the place to cut corners.

This is the time to check all your insurance policies and to make a record of the contents of your home.



Questions to ask yourself about insurance:

- Do I have the insurance I need and is it up to date?
- Have I checked in the last year to ensure that I'm getting the best value for what I'm paying for insurance?
- Do I know if my credit cards/lines of credit have insurance on them and how best to use that coverage?
- What action do I need to take now so that I am ready to submit a claim if I need to?

The importance of having insurance during unforeseen circumstances

Natasha and Maria are a middle-aged, middle-class couple with a daughter, Jessica, a Great Dane, and two Tuxedo cats. Natasha is an executive assistant, and Maria is a hairstylist. They have avoided debt problems throughout their lives – their parents stressed the importance of staying out of debt. They bought their first home back in the 1990s, and have moved twice in the last 20 years. They have been working hard at paying off their mortgage and would have been completely mortgage free within the next couple of years.

Last year, a disaster struck. There was a fire in their house, which occurred while they were away for the weekend and the pets were at a friend's house. By the time the fire was noticed by a neighbour, and the fire department arrived, the house couldn't be saved and burned to the ground. Thankfully, Natasha and Maria's parents had also lectured their children on the importance of carrying ample insurance and they were able to get a catastrophe claims advisor on-scene promptly. While money can't completely make up for this terrible event, at least the loss of their number one asset will not impoverish the couple.

Resources

- [Insurance – Why You May Need It and More](#)





Estate Planning: Are your affairs in order?

Estate planning can save you and your loved ones from financial consequences and family discord. Despite how important this step is, only 50% of Canadian adults have an up to date will. Thousands of dollars can be lost in litigation or to the state if you haven't prepared your estate to be disbursed as you wish. It's important that you are specific about what you want when you are of sound mind.



Questions to ask yourself about your estate:

- Is my will up to date?
- Is my power of attorney for finances and personal care up to date?
- Does my executor know where my will is stored?

Not having a will, cost Ali's family peace of mind

Ali had spent the better part of his adult life thinking that he would “get around to doing a will eventually”. He felt that it was something that only older people need to think about, and Ali was healthy and felt great. However, his view about mortality was shaken recently when his cousin, Jamar, who was only 2 years older than Ali, was diagnosed with an aggressive form of pancreatic cancer. Sadly, Jamar passed away only a few weeks after the diagnosis. Jamar didn't have a will, and his cancer progressed so quickly that it wasn't taken care of in time. Now, his widow Sara is dealing with a situation where Jamar passed “intestate”, which is the term for not having a will.

Sara is having a terrible time dealing with the situation. Ali has resolved not to ever have Lisa, his wife, deal with the same situation and so he has made an appointment with a lawyer to have a will and a power of attorney done for both himself and for Lisa.

Resources

- [Split your estate evenly between your children](#)
- [How to leave money to your grandkids](#)



Your Mental and Physical Health: Am I taking care of myself?

Every area of your finances involve you. If you're not well, it may be difficult to take on full-time work to boost your income or to decide where to make cuts in your spending. If your relationship needs some work, you could be missing out on the opportunity to benefit from shared solutions. In uncertain times, it's important to check-in with yourself and your mental and physical health. Being financially ready for uncertain times requires you to be realistic and live within your means. This includes taking stock of your mental and physical capacity to do so.



Questions to ask yourself:

- Am I within the range of what I consider to be 'physically healthy'?
- Am I within the range of what I consider to be 'mentally healthy'?
- Do I have any financial messes or secrets that I need help with?
- If with a partner, are we focused on the same financial goals?

Why Mental and Physical Health is as important as Financial Health

"You're stressed" said Dr. Kim. "Isn't everybody?" thought Sebastian. "I'm recommending that you take a six month stress leave" – What??

Sebastian booked a doctor's appointment because he was suffering from insomnia and had a nagging pain in his lower back. He was otherwise considered healthy and played squash on the weekends. He even started jogging with his fiancée, Mika, their wedding three months away.

His job as an account manager at a marketing firm was exciting and fulfilling. He struggled with the idea of taking a leave. He just bought a two-bedroom condo, he had a lease on a new vehicle, and then there's the wedding. What will he do for money? Reluctantly, he took his doctor's advice and got in touch with his company's HR department. Luckily he was eligible for long-term disability insurance, it kept some money coming in.

Sebastien and his fiancée sat down and created a spending plan. They had to reduce some expenses and stop reaching for their credit cards to make purchases. For the sake of Sebastien's health, they made sure to stay within budget for their wedding. They automated payments to their existing debts and relied on Mika's savings to cover any shortfalls.

Six months later, Sebastien returned to work – feeling better and ready to get back to life. He and Mika had a beautiful wedding and he was now able to sleep through the night. A sound focus on cash flow, utilizing insurance and open communication with his partner helped them both to prevent financial calamity. Your health comes first and being financially ready can help you to support your well-being.

Resources

- [Estate Planning Toolkit](#)





For excellent resources at your fingertips, visit:
creditcanada.com

For free debt help, call:
1.800.267.2272

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