



These Rainy Days Aren't About the Weather

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The last year or so has been a very rude awakening for many. Too many people today are so busy living a lifestyle, they forget that emergencies may need to be dealt with. It's all too easy to take one's cash flow for granted and get lulled into the belief that it will go on uninterrupted. Those who are best able to handle the financial rainy days that inevitably come along are in the habit of living well below their means and paying themselves first.

The news these days seems to be filled with stories of mortgage payment stress, jumping bankruptcy rates and rising credit card delinquencies. What can be done to get through these challenging times?

Glenn is in sales. He is still working the same number of hours per week, but his income has dropped by about 35%. Fortunately, Glenn and his wife had financed very little of their lifestyle, so they simply made changes to their discretionary spending habits. For example, instead of going out for restaurant meals three or four times per week, they now only go out once or twice per month.

Jim and Karen, on the other hand, were carrying a large amount of debt on some of their lifestyle spending. When Jim's hours were cut at work, he lost the overtime income they had counted on. This put a serious strain on their monthly budget. They came to realize that it made more sense for Karen to stay home with their two children during the day to avoid day care costs. With Jim's shorter hours, he now looks after the kids while Karen works an evening shift. He also works a part-time job on weekends.

Wayne and Linda had been in the habit of living below their means and setting aside a certain portion of every pay cheque. When Wayne and his coworkers took a temporary pay cut to keep the company going, they used their rainy day savings to get through the income drop.

Brent and Darlene really enjoy their toys, and their lifestyle. Like many, they were carrying a credit card balance from month to month. The credit charges and payments became an even bigger burden when Brent was laid off for a few months. He cashed in \$40,000 worth of RRSPs to pay off some of the debt. Brent, age 35, realized too late that by doing this, he gave up almost \$244,000 of future RRSP value at age 60 (assumes 7.5% compound annual return) to pay off about \$26,000 of debt today.

Many others have over extended themselves to the point that they have had no other choice but to lose vehicles, recreational toys and over-sized houses to get their cash flow under control. As much as we'd like to believe otherwise, business cycles do happen and unprepared people will get hurt financially.

Brent recalled a conversation he'd overheard while waiting in line for an expensive coffee a couple of years ago. The barista, who was serving a regular customer in front of Brent, said that she hadn't seen him in a while. He replied that he and some friends had flown to Australia for a few days of golf.

It's never a bad time to take control of lifestyle expenses and set up a rainy day account.

Want help with your rainy day savings?

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