



How to tide over pay cuts and layoffs amid covid-19

1. Cutting your discretionary spends and managing liabilities can help you sail through
2. You may be tempted to take a loan to tide over the situation temporarily, but that could pose a problem later

Bengaluru-based Deepayan Mallick, 27, finds himself in a tight spot due to the ongoing covid-19 crisis. He was forced to take a 20% salary cut, effective March, which means he got a lower salary at the beginning of April. With 60% of his salary going towards education loan and other EMIs, and fixed expenses such as rent, he is using his savings to bridge the gap in his cash flows, but he fears his savings may run out soon. "I don't want to defer paying my EMIs because that will be more expensive in the long term. I think I'll have to fall back on my family if things don't normalize soon," said Mallick, an account manager at a content marketing firm.

Mallick's situation may be uncertain, but Delhi-based Krishan Bedi, 29, is worse off. He is among the 800 employees who were handed a termination letter at the start of April by their travel and tourism company. Bedi is serving notice currently, but the job loss is going to dent his finances significantly. "The travel industry is the worst hit and I am clueless about what to do next. I have five dependants, a personal loan and credit card dues. All this without any emergency corpus or savings to fall back on," said Bedi.

Employees across most industries are experiencing one of the three situations— indefinite leave without pay, deep pay cuts or layoffs. Salary cuts and job loss definitely means changing the way you live and spend, but you need to play smart to tide over the situation with minimum pain. We tell you how to deal with the two situations.

Curb your spends

The lockdown may have helped you realize that basic living expenses aren't very high. It's the discretionary expenses such as eating out, travel and leisure, and buying luxury goods that burn a hole in your pocket. "Now that you know what the real and basic expenses are, cut down on all other spends. If possible, to the extent of the pay cut," said Deepali Sen, founder partner, Srujan Financial Advisers, a financial planning firm. If you're new into the workforce and spend a major chunk of your salary on rent and utilities, consider moving to a cheaper accommodation. Arnav Pandya, founder, Moneyeduschool, a financial literacy initiative, said, "All the income or money received should be used to pay for essentials and discharging high interest loans."

Say no to new loans

You may be tempted to take a loan to tide over the situation temporarily, but that could pose a problem later. "Don't opt for loans to fund your goals or discretionary spends because the future is uncertain," said Shweta Jain, CEO, Investography, a financial planning firm.

For existing loans, you could opt for the moratorium but only if you have no other option. "This is not an EMI waiver. You will still have to service it after a few months (with additional accrued interest). If you think you won't be able to repay the EMIs even after the moratorium, liquidate some of your investments but stay away from new loans," said Dev Ashish, founder, StableInvestor.com, and Sebi-registered investment adviser.

You could also dip into your Employees' Provident fund (EPF). In the wake of the pandemic, you are allowed to withdraw up to 75% of the balance or up to three months of your basic salary plus dearness allowance (whichever is lower) from your EPF account. "It is not advisable to dip into your retirement savings such as PF but this is better than paying exorbitant rates on loans. Also, if you're young, you'll have enough time to increase your PF contribution later," said Shalini Dhawan, co-founder Plan Ahead Wealth Advisors.

If you're in a dire situation, consider asking your family and friends for help. "We generally don't advise this but these are unprecedented times. Without an income, one may not even get a loan," said Pandya.

Look at other income

If a pay cut or job loss has made it difficult for you to remain afloat, you may want to monetize on your skills and hobbies to generate additional income. Giving online tuitions, conducting hobby classes or teaching a foreign language are some examples. "During stressful times like these, taking up something that pays you as well as helps you keep positive is definitely a bonus," said Jain.

"If you are the sole breadwinner in the family, you should look for job opportunities in allied industries," said Pandya. You can also encourage some of your financial dependants, like your spouse to contribute to the family's income. "This generally requires a shift in mindset, but if the breadwinner is in an industry where job prospects are bleak, the family should provide a helping hand," said Dhawan.

Arrange for liquidity

With pay cuts or a job loss, you may find it difficult to service your monthly investments. If your short-term goals are related to discretionary spends, try and delay them. "The more you save at this point, the more secure you'll feel," said Jain. Even for investments related to long-term goals such as retirement, you can hit a pause button to have more liquidity in your hands. You can increase investments for your long-term goals later.

If you think you can manage your current liabilities and expenses even with a pay cut, try and build an emergency fund. If you already have one, add to it. Sen said your first priority should be to have an emergency fund in place. Have at least six months' worth of expenses in your emergency fund.

Revisit your insurance requirements. "Do you have a personal health insurance cover or are you dependant on the cover provided by your employer? Review your insurance needs and buy an independent cover immediately," said Jain. If you're the breadwinner of the family and haven't bought a life insurance policy yet, now is the time to get a term plan with adequate sum assured. It's important to think straight in such times. So organize your finances to sail through this crisis.