

# Managing your Personal Finances through Covid-19

by Brenda Clerkin

**Every single one of us have been impacted by the recent pandemic that has hit our nation in one way or another – be it being unable to work, working from home, working reduced hours, coping without childcare, adjusting schedules and routines but most of all the biggest impact will be to our personal finances.**

However, as we emerge from lockdown and life returns to a new normal what considerations do we need to give to managing our personal finances? In this article I explore a three-stage process to managing your finances at this unprecedented time. It involves the following stages – REACT, RESET and REVIEW. This is to be applied on a short, medium- and long-term basis for the duration of the pandemic. Your personal finances have two elements, income and expenses, and adjustments may be required on both sides.

## REACT (Short term)

Following the initial impact of the pandemic back in March 2020, many people have had to react quickly to changes in their circumstances – decisions were made without much thought as a natural instinct to protect their personal finances.

Looking at income, perhaps the most uncontrollable element for many, people were forced not to work or work reduced hours thus having a significant impact on finance. The government introduced the furlough scheme for employees and the self-employed which was their reaction to the need to protect the income of the nation in the short term. People gave consideration to monthly spending and reduced it where possible, perhaps taking advantage of the mortgage and financing holidays offered by the financial institutions.

This may have been coupled with a reduction in discretionary spending, either taken voluntarily, for example by reducing spending

on TV subscriptions or those that were imposed on us, for example, restaurants and gyms being closed. All these actions were reactions in the short term to protect our personal finances for both the immediate and longer-term impact of the pandemic.

## RESET (Medium term)

Now that the initial impact has been experienced and things are beginning to settle down, new norms emerge. The way we work, where we work, how we get there – all changing. How we shop, how often we shop and where we shop – all changing. Our childcare options, our children's education – all changing, our ability to socialise in groups big and small – all changing. Our new lives are now a shadow of what we were used to, at least in the medium term. So, what does this stage entail for our personal finances? This medium-term phase could last for 9-12 months so to make life feel normal we'll need to reverse some of the initial steps we took in the react phase.

On incomes, with workplaces reopening, people will have seen a balance return to their wages/salaries – perhaps this balance won't be at the levels of income we experienced pre the pandemic but it will provide a new base on which we will reset our personal finances. We now reflect on our spending, if this new life is to continue people are adjusting and, rather than cutting back on spending as mentioned in the first stage, people are resetting, increasing their spending as they crave some form of normality and rightly so.

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The heavy hitters on our expenses will emerge again when holidays from mortgages and other financing arrangements are retracted but with our incomes relatively stable, we will hopefully cope with these payments.

Other household costs (e.g. utility and food) are returning to levels we are familiar with, scenes of stock piling gone as people stabilise and adjust. Discretionary spending is on the increase too as people seek to kick start life again – returning to leisure centres & gyms, restaurants, bars etc as the lockdown eases.

The medium-term phase may bring job losses and indeed when the government furlough scheme is retracted this could be a reality for some. This would be an unfortunate position for people but hopefully that will not last long term as economies emerge and growth begins again. We will see some industries suffer more than others e.g. hospitality and the airline industry but when one door closes another may open.

It may lead people to think about reskilling themselves to provide the best chance of gaining employment, potentially moving into an industry they have no experience in. With travel expected to decrease in the medium term will that open up new opportunities for local people where previously jobs had been completed by those from other countries? Covid-19 will rear its head at various points, parts of countries/cities/towns could be in lock down both at home and abroad as localised outbreaks emerge.



This could have a significant impact on a supply chain for a given company, will these companies look to other sources of supply? Potentially some more local suppliers or could some of the supplies required be made in house? – this could create opportunities where we don't necessarily expect them. Being open and flexible will mean people will have the best chance of retaining or gaining new employment in an

effort to balance their incomes.

In the meantime people who find themselves in this category will need to reset their finances for the medium term, working within their new income levels through whatever form of support is available, stabilising to a new norm with their expenditure and looking out for green shoots of opportunity.

This medium-term phase could be a bumpy road as the Covid-19 pandemic develops, this will impact on household finances and could lead to monetary up and downs. I mentioned localised outbreaks; indeed we have seen many examples of this to date, and the impact of this will need to be considered on our finances too. If our area is in lockdown for 4 or 5 weeks or longer, or our child's school needs to close in response to an outbreak, or our workplaces, how we manage our finances will need to be considered carefully. This will depend on whether our income is impacted – are we able to work from home to protect our income? If not, how do we ensure we can meet our necessary monthly expenses? Will the government provide further support? Will financial institutions offer ad-hoc payment holidays? We may find ourselves back in the react phase – making quick instinctive decisions to protect finances, albeit this time hopefully on a shorter-term basis.

#### REVIEW (Long term)

As we emerge from the pandemic in the longer term, in whatever form that may take, people need to review where they are with their finances to ensure what they have embarked upon in the reset stage is appropriate to continue, or perhaps adjustments may need to be made.

Longer term decisions (like buying a new car, a house or having a child) may need to be put on hold while we assess the overall impact that Covid-19 has had on our finances. What will have a huge impact on these decisions is the state of the economy – will we have a 'bounce back' economy or are we going to be left with a more gradual come back like we did after the financial crisis in

2008? What will be useful for many of us however will be the experience we gained from the financial crisis, the know-how we gained on our ability to manage our finances through a time that presented us with such upheaval.

The government too will have a part to play in trying to increase public confidence in the economy to encourage people to make these longer-term decisions earlier in an effort to stabilise and grow the economy. As a result of all the government involvement in responding to the pandemic, we also must expect some form of 'backlash' on society to repay the billions invested by the government, this must also be considered as we manage our personal finances.

As time moves on, the longer-term implication on both our personal finances and indeed those on the nation will be under scrutiny and we will be in a constant state of reacting, resetting and reviewing as things change. The key is to be adaptable and flexible, recognising what stage you are in and making the necessary adjustments.

**"The key is to be adaptable and flexible."**



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