ALASKA HIGHWAY NEWS

Brad Brain: No such thing as free lunch

Brad Brain / Alaska Highway News
JANUARY 5, 2021 10:55 AM
Smart Money

Brad Brain: "British Columbia is $73 billion in debt. The federal debt is approaching $1 trillion. Numbers this large are hard to fully appreciate."
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Recently I had someone take exception to something I said. I was letting clients know about the BC Recovery Benefit, and in reply he said, “This is not free money. Taxpayers will be repaying with interest and/or reduced services.”

This is, of course, absolutely true. There is no free lunch.

Even before 2020, our federal and provincial governments have been spending a lot of money. And I mean a lot. Then the pandemic economic response spending started, and the taps have been wide open.

The Province of British Columbia is $73 billion in debt. That figure was recently estimated as growing by $12 million a day. Your share of that debt is more than $14,000 — and getting larger.

But provincial spending is only part of the picture. The federal debt is at approaching $1 trillion. Your share of that debt is about $26,000. And the amounts are growing daily.

Numbers this large are hard to fully appreciate. It’s like asking how many drops of water are in the ocean. Except when it comes to government debt, those drops of water need to be repaid, with interest.

Recently Finance Minister Chrystia Freeland spoke about “unlocking the pre-loaded stimulus” to drive the recovery. She was referring to household savings, and some people are interpreting this as a call for some sort of wealth tax.

It remains to be seen what kind of tax hikes will be implemented, but it would be dreadfully naïve to think that somehow Canadians will not be paying more and receiving less.

The question is, what to do about all this?

Well, one thing is to seek to make informed decisions based on fact. I can’t see how this is the time to take radical action based on conjecture and alarmism. I have fielded some calls that involved social media conspiracy theories and, even with the severity of the situation, that’s a little too much.

From a practical standpoint though, we can turn to some time-tested wisdom: Set up an emergency fund.

A rule of thumb is to have easy access to three to six months income. Just in case. Maybe it is an emergency that comes up, but it could also be an opportunity that you want to take advantage of.

The key part is that the money is accessible. It should not be locked in, or exposed to market volatility, or trigger a large tax burden to access the funds.

A classic example is a high daily interest savings account. Sure, the return of your savings will be virtually zero in these times of low interest rates, but more importantly, the money will be there for you. After all, this is your emergency fund. The last thing we want in a time of an emergency is to discover that the timing did not work out on when you can get your hands on your money.

The point of an emergency fund is that you don't want to find yourself getting caught short in time of need. This money could be used if you suddenly need to replace a hot water heater, or if you lose your job, or if you get sick. Maybe it could even be used to take advantage of a market volatility and buy some high-quality investments the next time they go on sale.

And who knows? You just might need that emergency fund to pay your tax bill when it is time for all this government spending to be reconciled.

After all, there is no free lunch.

Brad Brain, CFP, R.F.P., CIM, TEP is a Certified Financial Planner in Fort St John, BC. This material is prepared for general circulation and may not reflect your individual financial circumstances. Brad can be reached at www.bradbrainfinancial.com.