When Covid Costs You a Pay Cut: How to deal with it

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The impact of coronavirus on our jobs, industries, and pockets has been a sad tale. If you are lucky enough to currently be employed or are looking forward to resuming work after the pandemic, one thing you should brace yourself for is an altered way of work-life. Everything from the nature of work to the way of running operations to competitive pay packages in a given industry, lots has changed already.
An economictimes.com survey conducted recently found out that 15% of respondents are facing a salary cut of more than 25%. Despite the pay cuts, 43% of the respondents will continue with the same jobs. A salary cut is one of these unpleasant changes brought about by Covid.

If you have recently experienced a pay cut, you are likely trying to make sense of what this means for you and your career. It directly affects your salary, but it may also affect other benefits, such as your insurance eligibility and retirement savings, as well as your larger career goals.

In times of recession or industry downturns, it is relatively common for companies to implement pay cuts as a strategy to keep the business alive. In these cases, it may be best to hang on and understand that it is a temporary stress everyone at your company is experiencing. Here's how you can deal with this situation:

Budgeting

Adjusting your budget is going to be the first step in securing your financial foothold. With a new salary, you should calculate exactly how much money will be deposited after taxes and other reductions. This way you can accurately calculate your payments, savings, and spending money each month, and even prepare automated transfers to your savings account.

Once you know how much you have, you may need to decide where you are cutting your spending. A popular ratio tool is the 50/30/20 budget, where 50 percent of your income goes to necessities, 30 percent to lifestyle choices, and 20 percent to debt and savings. It is also generally recommended that 30 percent goes to housing, leaving the remaining 20 percent on necessities for groceries, car maintenance, and the likes.

Adjusting your lifestyle

You likely built your lifestyle around your previous income, meaning necessities are more than 50 percent of your income and you cannot exactly change that. Your best bet is to reduce some of your lifestyle choices, which can be difficult. To help you decide, list out all of your unnecessary expenses and prioritise them in three groups. Once you have a list of top priorities, add up the prices and decide if you can add a few more, or you need to remove some.

Save

Your pay cut will not prevent you from paying into your various savings accounts. If you were not already saving, then now is the perfect time to begin — especially if you are now looking to change careers.

As mentioned earlier, 20 percent of your income should be going toward savings. These can be retirement accounts, emergency funds, or accounts for future purchases like a down payment on a house. Depending on how much your salary dropped, you may have to lower your payments across the board or choose one account to continue paying into.

Generally, you will want to prioritise your retirement and emergency funds. A new car is great, but retirement is better. You are already making large financial adjustments, so unless you can guarantee your salary will return to what it was, you will want to continue padding out your emergency fund for when you need it. You do not want to stop saving unless you have to.

Plan Your Next Move

Now that you have done what you can to secure your current situation, it is time to look forward to your next move. Ideally, you expect how long your current salary rate will last at your company — if it is indefinite, it is probably time to move on and look for something new. If your company has outlined strategies to improve and provided a reasonable timeline, then you may choose to stay and lend a hand.

If you stay at your company, you have the opportunity to negotiate for retroactive payment or a salary increase based on your proven value. To make a solid case you will want to track your efforts in the coming months and recall ways you have excelled throughout your career. Try to quantify your contributions to the company with things like sales numbers and positive client surveys. It is also important that you're consistently a hard worker and continuously delivers on your core responsibilities.

Switching jobs

You need to find out whether your job altogether is at risk, in other words, if your employer’s business will continue to suffer. If yes, begin a job hunt immediately. When you seek a new role, always consider the stability of the next employer, and if that still does not pan out suitably, where you will go next.

Going the extra mile

Taking up additional responsibilities and roles with a commitment to deliver measurable outcomes will increase your value in your employer's eyes. Identify projects and tasks that will directly increase the revenue or decrease costs for your firm. Make a business case for your suggestion where the costs are a salary increase/performance pay for you and the benefits are tangible and much higher for the firm. If the company benefits from your suggestions, you stand to benefit too.

Permission to supplement income

You are, obviously, contractually bound by your employer which prohibits you from moonlighting or having a second source of income. But it might be worth your effort to honestly share with your higher-ups the need for additional income in such trying times. Seek permission to earn more by taking up secondary work opportunities such as consulting, designing, coding, writing, or helping a start-up. You can take out time out for this during weekends or post-work hours, without impacting your current role.

Contractual service

If you are in the taxable bracket and are willing to take the risk, request to be moved out of permanent employment into a contract-based role. Being on contract means that you can expense out costs of work-related travel, stay, food, or training from your income tax return, thus increasing your take-home salary, without increasing the cost to the company.

According to Allison Kade, from forbes.com, when evaluating a job, there are many different factors you need to consider in addition to the salary. There is the job itself, your level of responsibility, your title, and the potential for future growth.

Here are times to consider taking a pay cut:

1. **When making a career change**

It may be worth a cut in pay "to gain a new set of skills and experiences that will broaden your skillset" says HR expert, Trellis Usher of T.R Ellis Group. It is unwise to expect a big salary when you move to a job you have little or no experience in.

David Bakke of MoneyCrashers.com remembers when he took a pay cut because he wanted to get out of the restaurant industry. He was tired of working long hours and working on weekends. He changed careers and got his salary cut by about 10%. However, this afforded him time to spend with his friends and family. At the end of the day, you cannot expect one industry to meet the salary expectations of a different field.

1. **When there is something you want more**

Base pay is only one component of an employee’s total compensation. At times it is advantageous for an individual to take less base pay and ‘sweeten the deal’ in other ways. Bakke suggests that these other ways may include pay equivalents such as signing bonuses, annual performance bonuses, paid leave, or tuition reimbursement.

1. **When leaving on your own**

Perhaps you have always dreamed of doing your own thing. Self-employment always comes with some risk, often including a short term pay cut while you get your new company off the ground.

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