



How to Survive Financially after a Job Loss

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Don't panic and make hasty financial decisions

You may have joined—or are about to join—the ranks of the unemployed. Now what?

First, don't panic. Job loss is a fact of working life in America, even in the best of times. Take a deep breath. You'll get through this, though it may appear pretty gloomy at the moment. In fact, losing a job may actually turn out to be an opportunity to land a better job or a new career.

Don't make any hasty financial decisions.

In times of such stress, it's easy to make hasty financial decisions that turn out poorly. So in the immediate wake of your job loss, don't cash in your retirement plan, sell off long-term investments or move until you've worked out a realistic plan for dealing with your reduced income. A CERTIFIED FINANCIAL PLANNER™ professional can help you sort out your alternatives while structuring a plan around your short and long-term goals.

Putting a plan into place

Early key moves and decisions can make the difference between surviving financially until you're successfully employed again—perhaps even surviving comfortably—and making financial mistakes that could jeopardize your financial well-being for years to come.

Start looking for work immediately. Many newly unemployed assume they'll find a job quickly and decide to take a little vacation before initiating their job search. As appealing as it sounds, this is probably a bad idea. You may be misjudging the job market and your ability to secure a comparable position, especially when unemployment is high and the economy is struggling to recover from a downturn. If that is not enough to convince you to consider pounding the pavement instead of hitting the beach, experts warn that potential employers may not be impressed with a six-month gap in your employment history.

Additionally, while you're soaking up the sun, you are draining precious financial resources, such as an emergency fund or severance pay, which you could put to better use.

Reassess your career. A job loss may be a good opportunity to reassess your career. However, before launching into a new career during a time of unemployment, answer honestly the following questions.

- Is it realistic to make a change? It can be costly to abandon a career in which you have years of experience in order to tackle a career for which you may have little or no experience.
- Are you qualified for this new career?
- Are your job skills and education up-to-date?
- Can you afford to invest the time and money to upgrade or learn new skills?
- Do you have the money to live on while you make the transition? For example, some financial planners recommend having at least two year's worth of living expenses available if you plan to start your own business or consulting firm, and that's not including any investment needed to start the business.

Where to look for work. Now is no time to be shy or embarrassed about your job loss. Announce it to everyone you know: friends, colleagues, family, old high school chums. Network with people in your field. Join or make use of a trade association membership to circulate your résumé and learn about jobs.

Other job sources include the newspaper want ads, online sites, professional job search services, government employment agencies, job fairs, and job-hunting services offered by your former employer. Your former employer may even have openings in other departments or divisions.

Financial steps to take while looking for work

Promptly file for unemployment insurance.

Not all workers are entitled to unemployment insurance. To help qualify, you'll want your employer to confirm that you were laid off instead of resigning or being fired for cause.

Handle severance package with care. Your employer may offer a severance package, probably before you are dismissed. This package typically extends salary and perhaps benefits for a certain dollar amount or period of time.

Don't sign on the dotted line until you take it home. Most experts recommend that you get any offer in writing and don't sign it immediately. Take it home and review it closely.

Consult with your CFP professional or perhaps a benefits attorney about issues you don't understand. Keep in mind, this is a legally binding contract.

Review your employee handbook. See what benefits are promised to departing employees. Make sure the company pays you for unused vacation or compensation time, and perhaps a pro-rated year-end bonus, especially if you're near the end of the calendar or fiscal year. Learn what fellow laid-off employees have been offered.

Negotiate the severance package. You may have more leverage than you realize. Did you recently move across country to take the job? Did you make the company money because of your special skills or a particular project you headed? Put forward anything that individualizes your situation.

Talk with the person who extends the package, or go to their superior if you remain dissatisfied with the response. Some workers even hire an attorney.

However, be careful not to say anything you'll regret. Burning bridges will hurt any possibilities of being rehired and lessen your bargaining power for a severance package or a strong letter of recommendation.

Negotiating Points. For example, if the company offers two weeks of severance for each year worked, ask for three weeks or a month for each year you worked.

You may need to choose whether to collect the severance pay over time or in a lump sum. Taking it over time may extend valuable employee benefits such as health care coverage and retirement plan funding that might otherwise end immediately. Spreading out the payments also could keep you from jumping into a higher income-tax bracket for the year.

On the other hand, taking the pay in a lump sum avoids the risk that the company might go bankrupt and not be able to make extended payments. You also might want the lump sum if you plan to put the money into finding another job or launching your own business.

Negotiate continuation of company-paid health benefits when possible.

Typically, if you leave before vesting your pension benefits or stock options, you lose the benefits. However, if you're close to vesting, you might persuade the company to keep you on the payroll until then, even if it means losing some pay from your severance package.

If federal stock option or pension rules forbid your request, ask for a cash settlement in lieu of the outright benefits.

Bargain for years of work credit that will make you eligible for early or full retirement benefits.

Vested stock options might need to be exercised within a certain time, such as 90 days, or you lose them. You may be able to negotiate an extension. However, review carefully with your financial adviser whether it's wise to delay the exercise and sale of stock options, particularly if the company is in financial difficulties.

Negotiate for the best references you can get, not merely a verification of your employment dates and salary. This may be more important than anything else, because your future work may hinge on good references.

Bargain for outplacement services—anything from counseling to an office and a phone for job hunting. However, it may be more valuable to ask for cash in lieu of the service and target that cash for outside professional services and your own job hunting.

Review any non-compete clauses with an attorney before signing anything.

Maintain health insurance. Incurring major medical bills without insurance would be financially disastrous. Consider these options:

- See if your former employer will continue coverage for you.
- Convert benefits under the employers' group plan to coverage under an individual policy.
- Switch to a working spouse's plan. Typically, you have 30 days to make this change because loss of job is considered a "qualifying event" that allows the change outside of open enrollment period.
- Obtain regular private coverage.
- Continue employer group coverage through COBRA.

COBRA is a federal program that may allow you to continue group-plan coverage for up to 18 months and in some situations as long as 36 months. However, you must pay the full premiums, and often a small administrative fee.

You may find it less expensive to buy a short-term health plan or high-deductible catastrophic policy on your own.

Continue life and disability insurance. You may be able to convert a group term life insurance or disability policy at work to individual coverage. You'll have to pay the premiums but it's important to continue these types of insurance. Conversion is especially useful for disability, because you won't be able to get it on your own without a job.

Develop an emergency spending plan.

Establish a spending plan or revise an existing plan.

Start with sources of income. What can you realistically count on for the coming months? Sources might include severance pay, unemployment benefits (which are taxable), funds from a cash emergency account, a working spouse's income, or perhaps temporary work.

Consider taking early Social Security benefits if you are 62 or older. However, first visit a financial planner to determine if this is the best financial move, given your individual situation.

Do you have mortgage unemployment insurance that might cover house payments for the next six months, or credit card insurance that will make payments while you're laid off?

Can you rent out a room in your home or take in a roommate? Or more drastically, move in with relatives or a friend and rent out your home or sublet your apartment, if the lease allows that.

You might borrow from a cash-value life insurance policy or from an existing home equity line of credit (you probably won't be able to get one once you're unemployed). But again, avoid borrowing if you can.

Avoid dipping into your retirement funds. A job loss usually is temporary, while your eventual retirement may last 20 or even 30 years. Pulling out tax-deferred funds to pay for today's bills is shortsighted for several reasons unless you've exhausted all reasonable alternatives.

First, you're losing the opportunity to earn tax-deferred money on withdrawn funds. Furthermore, you probably won't end up with as much cash as you might think because you'll need to pay income taxes on the withdrawal, and possibly a ten percent penalty tax if you're younger than 59 1/2. Taxpayers in higher tax brackets could lose as much as four to five dollars in taxes and penalties out of every ten dollars withdrawn.

List expenses. List expenses in order of priority: mortgage or rent, groceries, utilities, car payments, transportation, insurance premiums, clothing and so on, down to the least important discretionary items.

Don't forget to include expenses such as résumé preparation, job-hunting transportation, education or retraining, and so on. On the other hand, you may be able to temporarily reduce some expenses such as childcare and transportation because you're home.

Subtract expenses from your income. If you still need to cut more to balance expenses with income, consider such strategies as deferring any major purchases you were planning, refinancing your mortgage, shopping for less expensive insurance premiums, reducing eating out, swapping child care services with friends, and talking to creditors about delaying or stretching out payments.

Reduce or stop contributions to retirement plans temporarily, if absolutely necessary, but do not withdraw funds already in your retirement accounts.

Talk to your family. Tell any children or other family members who depend on you financially how the job loss will affect family spending. Ask them for budgeting suggestions. This can help ease anxiety they may have, especially if you have to make a major change such as moving.

Consider government or private assistance.

After reducing expenses, you may find that you still don't have enough financial resources for subsistence. You may qualify for help from government or private agencies to tide you over until you find sufficient work.

Make retirement plan decisions. Losing a job will likely force you to make some crucial decisions regarding any retirement account you had at your former employer, such as a 401(k) plan, 403(b) or other qualified plan.

Typically, you will have four choices: cash out, roll the funds over into a new employer's account, roll the funds over into an individual retirement account (IRA), or leave it in your former employer's plan. Check the options with your employer. For example, some plans don't allow participants to leave funds in the plan once employment is terminated.

Which action should you take?

Cash out. You may need to cash out some or all of your funds to help pay for living expenses during this difficult time. But as noted earlier, taxes and penalties could reduce much of that withdrawal, and you're draining your future nest egg.

Another drawback is that you will likely have to pay back, say within 90 days, any outstanding plan loans. If you can't pay it back, you may face income taxes and possibly penalties on the outstanding balance.

Roll it over. If you can't stay in the existing plan, consider rolling the assets into an IRA to prevent taxation and allow continued tax-deferred earning. You can later roll the assets into a new employer's plan if so desired.

Rolling over into an IRA also will likely force prompt payback of plan loans.

A direct rollover from custodian to custodian is often best, because it eliminates the risk of violating the 60-day rollover and requires no tax withholding.

Stay in the plan. You won't be able to contribute to the plan any longer, but you won't face any income taxes or penalties on withdrawals. Second, you may not need to immediately pay off any outstanding loans, though most companies will probably still require it. Third, plan assets are protected from creditors under federal law, while not all states fully protect IRA assets from creditors.

Avoid short-term investment decisions. In tough times, the temptation is to become more conservative with investments. Some movement into more liquid assets and cash may be called for. This certainly isn't the time to take fliers on some hot stock in the hopes of generating a quick profit to help make up for lost income.

However, investing should be for the long term, while your unemployment, hopefully, will be only short term. Consequently, try to avoid selling stock in a panic. Often this results in selling during a down market at a loss, and perhaps incurring taxes on capital gains that you can't afford to pay or that eat away at spendable cash. An exception to selling might be your former employer's stock if you are concerned about the company suffering financial reversals or even bankruptcy.

When debt becomes a burden. You may find debts accumulating faster than you can pay them off, particularly if you are out of work for an extended time. Here are some steps to help alleviate that burden:


- Try to further reduce expenses.
- Don't accumulate any additional debt if possible. Minimize or avoid using credit cards.
- Contact creditors to see if you can reduce or defer payments briefly, extend the payment period, or refinance.
- Sell collateral such as a car or boat to pay off the loan (be sure selling it pays off the debt).
- Consolidate debts—carefully. Don't transfer lower-interest debt to a higher-interest consolidation loan. Be sure your consolidated payments are smaller than the total of all your payments *over the same time period*.
- Consider tapping the equity in your home to pay off credit cards and cars, since the rates may be lower and the interest paid is usually deductible. However, you are putting your home at risk if you can't pay back the loan.
- Work with a credit counseling service. They may be able to work with your creditors if you can't.
- Avoid filing for bankruptcy. Filing for bankruptcy should be viewed as a last resort. Beyond the emotional issues of filing, it will stain your credit for years to come. Exhaust all other alternatives first.

See a financial planner

A qualified financial planner, such as a CFP professional, can help you assess your unemployment situation, suggest strategies for conserving your financial resources, and perhaps most importantly, help you avoid costly mistakes that could harm your personal finances and your ability to find a good job.

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CHECKLIST

- Don't panic
- Don't make any hasty financial decisions
- Start looking for work soon
- Reassess your career
- Tap everyone you know for job leads
- File for unemployment insurance
- Handle severance package offer with care
- Maintain health insurance
- Continue life and disability insurance
- Start an emergency spending plan
- Talk to your family
- Consider government or private assistance
- Make retirement plan decisions
- Avoid ill-advised short-term investment decisions
- Minimize debt burden
- Avoid filing for bankruptcy
- See a financial planner

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