Money and You: Losing your job - what to do now!

by Carrie_Schwab_Pomerantz

As our economy experiences one of its most dramatic downturns in decades, the American worker is bearing much of the pain. According to the United States Bureau of Labor Statistics, 4.1 million people joined the ranks of the unemployed in the last year. That brought the national unemployment rate up to 7.6 percent â€” and of course that number is much higher in many parts of the country. If you're one of the people who has lost their job â€”or whose job is in jeopardy â€” the key is to take action. Here are some things you can do to help ease the financial pain.

Review your severance package before you sign. If you are lucky enough to be offered a severance package, don't sign without reading. According to Federal law, you have 21 days to sign a severance deal (and seven days after that to change your mind). You may be able to negotiate a better deal, particularly if you're an experienced manager or an executive level employee. And be sure you understand the terms. Are you giving up any rights? Are you signing a non-compete clause? Look online for some guidance, or talk with an attorney.

Apply for unemployment. Almost all wage and salaried workers are covered by the federal-state unemployment compensation program. Chances are good that if you find yourself out of work through no fault of your own, you qualify. Eligibility and benefits vary from state to state, so contact your state for details. Typically, your benefit depends on your recent earnings; in California, for example, unemployment benefits range from $40 to $450 per week for up to 26 weeks (though federal legislation has extended that duration for some workers).

Take advantage of your COBRA rights. Most workers can continue to be covered under their employer's health insurance plan for up to 18 months after being laid off, thanks to the COBRA legislation of 1985 (and most states have mandated an extension of that; California allows you to continue coverage for an additional 18 months). And Congress has just sweetened the deal by way of the recent economic-stimulus plan: If you lose your job between Sept. 1, 2008 and Jan. 1, 2010, the federal government will subsidize 65 percent of your COBRA premium. Of course you might be able to afford doctor visits and medication without insurance, but a serious accident or illness could be a financial disaster. It's critical to stay insured!

Roll over your 401(k) account. When it comes to preserving your retirement savings, you've got some choices. First, you can make a direct transfer to what is known as a Rollover IRA (the human resources department at your employer will have the forms and any broker-dealer can help you with the transfer). I like this option because your entire account balance will transfer tax-free. Or, if you instead opt to get a check from your former employer, you have 60 days to roll it over to an IRA. In general this is not a good idea because your employer will be forced to withhold 20 percent for prepayment of federal income taxes. Also, if you miss the 60 days and you are under 59 1/2, you will be tagged with a 10 percent penalty (state income taxes and penalties may also apply). A third choice is to leave your money with your former employer. Although this may not be ideal because you will be tied to the investment choices in your former employer's plan, it does spare you having to pay taxes or penalties. And finally, if you just "cash out," you'll owe taxes on the entire amount, plus potential penalties. And you'll be raiding your retirement account. So for the sake of your retirement, go with one of the other choices.

Create a budget, and cut your spending. One of your first tasks should be to figure out what you're going to live on while you look for a new job. You might have a few months of severance pay. Your spouse might have an income. You might be eligible for unemployment benefits (as described above). And you may have an emergency fund, other savings or a home equity line of credit. You might also be able to work part time while you look for a full-time job. Now take a good hard look at your spending. Some expenses you can't cut, or at least not easily, like your rent or mortgage, utilities, insurance, etc. But you'll probably find plenty of opportunities to reduce your outflows while you're searching for a new job.

See if you qualify for other forms of assistance. There are several tax benefits that might be available to you, from the new "recovery rebate credit" (for people who didn't receive a stimulus payment in 2008 but are now eligible because of changed economic circumstances) to the 0 percent capital gains and qualified dividends rate (if your income is low enough). Check with a tax professional or the IRS to find out more.

Look for a job! It may seem obvious to say, "Look for work." But losing your livelihood can be depressing, and given the current economic outlook, it's easy enough to put off the search until the situation improves. My advice is to start your job search right away. If your industry is severely depressed, work on applying your skills and experience to another one. Take a part-time job. Go freelance for a while if that's an option. The more initiative you take, the greater your chances of finding a new job.

Losing your job is undoubtedly traumatic, and none of these suggestions can eliminate the psychological pain of unemployment. But you can certainly ease the fiscal pain of this ordeal by being disciplined about spending, by making sure you're getting the benefits you're entitled to, and by being active and open-minded in your search for a new job.

Carrie Schwab Pomerantz is Chief Strategist, Consumer Education, Charles Schwab & Co., Inc., Member SIPC. You can e-mail Carrie at askcarrie@schwab.com.

Copyright 2009 Creators Syndicate Inc.

Money and You: Losing your job - what to do now! by Carrie_Schwab_Pomerantz