Money and You: How to prepare for a layoff

by Carrie_Schwab_Pomerantz

Market volatility and economic uncertainty often go hand in hand. When the markets are roiling and the future of the economy is less than clear, financial insecurity can take root. Are you worried about your job? Fearful about downsizing or layoffs?

Here are a few concrete steps you can take now to help you deal with the potential loss of a paycheck.

BULK UP YOUR EMERGENCY FUND

Conventional wisdom holds that you should keep enough money to cover your basic living expenses for three to six months in something safe and liquid. An example is an interest-bearing checking account; an emergency fund to help you deal with an unforeseen crisis. But if you're worried you might lose your job, your emergency fund should probably be even larger.

How much is enough? That will depend on your situation, of course, in particular how long you expect to be out of the work force. But now's the time to take stock of all your sources of liquidity: cash on hand, stocks and mutual funds in taxable accounts. Not your 401(k) or other tax-advantaged retirement accounts - you don't want to tap into those assets, except as a last resort.

Obviously, you don't want to go into debt while you're not working, but if you own a home, now would be a good time to establish a home equity line of credit - just as an extra layer of protection. It's easy and inexpensive to set it up. And if you need it, the fees and interest rate will probably be considerably lower than if you use a credit card.

SLIM DOWN YOUR SPENDING

You know that your ability to spend is going to take a hit if you stop working, but don't wait until that day to put your spending on a diet. Take a look at your budget now and see where you can cut discretionary expenses, then divert those savings into your emergency fund. It's fairly easy and relatively painless to cut nonessential purchases. Naturally, you'll avoid large purchases, like a new car or an expensive vacation.

UNDERSTAND YOUR BENEFITS

Another step to take now is to look into government-provided unemployment insurance benefits, which in general are available to workers who are unemployed through no fault of their own; for example, when a company lays off people because of a recession. You should also understand your company's severance policies. If you're laid off, you may be eligible for some sort of package that would help tide you over to your next job.

MAINTAIN YOUR INSURANCE

A lot of people do without health insurance when they're between jobs, but this is a potentially catastrophic mistake, even for young people in excellent health. An unexpected illness or an accident can be devastatingly expensive.

Most workers can take advantage of the COBRA law (part of a massive budget bill passed back in 1986) to continue your health insurance coverage for 18 months if you're laid off or you no longer qualify for your employer's plan, which happens sometimes when a worker's hours are reduced. You have to pay for the coverage, but it's typically cheaper than paying for an individual plan.

Your company's health plan is required to give you 60 days notice about your options, but check with your HR or benefits department so you'll be prepared. You might also investigate private health insurance coverage in your area. Note that some very small companies, federal agencies and some church-related organizations are not covered by COBRA.

LOOK FOR WORK

Of course you're going to look for work if you lose your job, but now may be an even better time to start your search. Somehow it always seems easier to get a new position while you're still employed. Also consider part-time or freelance opportunities if that makes sense in your industry. Some income is better than no income, and those jobs often lead to full-time work.

DO NOT CASH OUT YOUR 401(k)

If you do lose your job, you'll have to make a decision about your 401(k) plan assets, and you may be tempted to use the money for current living expenses. Here's my advice: Don't do it unless your personal situation is incredibly dire. Transfer those assets in their entirety to a Rollover IRA. If you don't roll it over and instead take possession of those assets, assuming you're under the age of 59, you'll have to pay income tax on the entire sum plus a 10 percent early withdrawal penalty. And you'll be crippling your own retirement planning. So make sure you set up the Rollover IRA and keep those assets working for your long-term future.

The prospect of losing your job is a difficult, frightening feeling. But you'll sleep better at night if you think about what you can do today to prepare yourself for tomorrow.

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