

Five Key Steps After a Layoff

By KAREN BLUMENTHAL

One of the worst parts of being laid off is coping with fear and confusion about what's ahead. You may not be able to control your exit. But you can make decisions about your money and how it will get you through the transition.

So what do you do? Take a deep breath; don't rush to pull the kids out of piano lessons or soccer. Instead, start working on a new financial plan. The new stimulus package, which extends unemployment benefits and helps subsidize health-insurance costs, should help. Then consider these five elements that your plan should include:

Stay covered. Unexpected medical costs are the last thing you need when you're out of work. The Consolidated Omnibus Reconciliation Act, known as Cobra, lets many employees maintain their health insurance for 18 months if they pay 102% of the premium. That can be prohibitively expensive, but under the new stimulus law, unemployed workers who qualify pay 35% of the Cobra premium for the first nine months, with the government subsidizing the rest.

If Cobra is still too pricey, if it's unavailable, or if your spouse doesn't have access to a plan you can join, check trade organizations, business groups, unions or other affiliations -- like church groups -- to see if you qualify for a group policy.

Most large health-insurance companies also offer individual policies, though the coverage will likely be less extensive than your company offered. At the least, you should look for a catastrophic medical policy, which may have very high deductibles but covers major medical expenses. In addition, six-month policies can bridge your coverage if you'll be starting a job on a set date or attending a university that offers student policies.

Figure out your minimum expenses. How much do you need to pay the rent or mortgage, buy groceries, pay for insurance and keep the lights on?

What can you trim back or do without? Experts advise that you sit down with your spouse or partner to go over your expenses. Talk to your kids, too, if they're in middle school or older, so they'll understand, say, why you're canceling a spring-break trip. You may want to consider different budget tiers -- what has to go now, what could go if the search went past three or six months, and what you'd do after that.

At the same time, try to keep home life as normal as possible, says Melvin J. Scales, vice president of career-transition services at Right Management, a Philadelphia-based employment-consulting firm. "I encourage people who are married to still have a date night," he says.

Count your cash. Know what you have on hand and what will be coming in. Three to six months of living expenses is a decent cushion to start with -- but that still may not be enough in this tough economy.

If you have a job but are worried about your prospects, you should be building your cash reserves.

You may be lucky enough to get several months of severance. If the money is paid in a lump sum, put it in your bank or brokerage firm's best money-market account or in an online savings account that is insured by the Federal Deposit Insurance Corp. and pay yourself a "paycheck," taking out a set amount biweekly or monthly.

If you land a new job quickly or your severance is paid in the second half of the year, estimate your income taxes. You may need to set aside extra cash if the severance money kicks you into a higher tax bracket.

If your company pays your severance over time, save some of every check for later, says Geri Eisenman Pell, an Ameriprise financial adviser in Rye Brook, N.Y. A working spouse may also want to make changes, she says, such as temporarily suspending 401(k) contributions to free up more cash.

Look for other income. Apply for state unemployment benefits right away because they can take three or four weeks to kick in. While payments may max out at about \$400 a week, depending on your state, they can help cover some expenses. With extended emergency benefits, it may be possible to receive unemployment payments for a full year or a little longer. The first \$2,400 will be exempt from income taxes.

You may also want to look for temporary jobs or consulting work or help out a nonprofit. While earning money will cut into your unemployment benefits, the work can expand your skills and keep your résumé fresh. "Five years ago, I would have advised against temporary work or contract positions," says Terry Ebert, managing director of career-transition services at Ayers Group, a New York-based human-resources consulting firm. "But now, given the market we have, it's much more viable."

If one of your family is still working and you have equity in a home, some advisers recommend lining up a home-equity line of credit or a personal credit line. Many banks are tightening credit, and it might be harder to get a loan later if the family's finances worsen. You might even want to draw down some of the credit line and put it in a savings account just in case.

If all these options still leave you short, you will need to consider more drastic actions, like talking to your landlord or mortgage lender about getting a temporary break from payments or borrowing from relatives.

Manage your 401(k). Tapping your retirement account for cash should be a last resort. You'll pay income taxes and penalties on the money, you'll cash out in a rotten market, and you'll shortchange your future.

A tougher call is whether to leave the account at your company until you find a new job or roll it over to an individual retirement account. There's no rush. If you have \$5,000 or more, you can move the money at any time. (Often, smaller accounts are automatically rolled over to an IRA.) But if your 401(k) choices are poor or the expenses are high, you may want to make a change sooner rather than later.

Norman Boone, president of Mosaic Financial Partners in San Francisco, recommends rolling over your account if your company is small or in financial trouble. Your money will be safe no matter what happens to the company, he says, but sometimes it can take months to find the right people to sign rollover paperwork after you're gone.