

What to Do If You Lose Your Job

With recent announcements of increases in the unemployment rate to 9.5%, you may be wondering what you would do if you should lose your job. Losing your job is a tumultuous experience. You need to make important financial decisions right away that impact your financial future and make significant adjustments to your day-to-day finances. Here are some immediate steps to take for dealing with your job loss.

Make the Most of Your Employee Benefits

- **Retirement Savings.** Decide what to do with your 401(k) or other workplace savings. You most likely have several options: leave the money in your existing plan; roll it over into your new employer's plan; or transfer it to a rollover IRA. These options are usually far better than cashing out. You'll pay significant taxes with a cash out - regular income taxes and a penalty tax (if you're under 59 ½) -- greatly eating into your savings.
- **Health Insurance Coverage.** Decide how you will obtain health insurance. Individual insurance is expensive so check if you are eligible for coverage under a spouse's plan or any other group you belong to, such as a fraternal or professional organization.
- **COBRA.** The Consolidated Omnibus Budget Reconciliation Act (COBRA) is a federal law that helps you keep your group health insurance longer. You will have to pay your premiums plus what your employer paid but it may be less than private insurance. Get more information about COBRA at www.aarp.org/health/insurance/articles/cobra.html
Check out Medicaid and Medicare. If you are over 65, or under 65 and disabled, with low income and few resources, you may be eligible for Medicaid. Of course, if you are over 65, you may be eligible for Medicare.
- **Severance pay.** Consider investing severance pay so it lasts as long possible while you're unemployed, while still giving you enough access to pay bills and living expenses.
- **Other Compensation.** Collect any unpaid vacation leave, bonuses, commissions, or outstanding expense reimbursements. You may be able to use any accrued vacation time to extend your termination date. This could give you some extra time to become covered by your new employer's health insurance.
- **Unemployment Benefits.** File for unemployment even if you don't expect to be out of work for long. The sooner you apply, the sooner you'll have some extra money to slow the drain on your savings.

Get Your Finances in Order

- **Spending Plan.** Create an income and spending plan. It doesn't need to be fancy but list all sources of income so you know where you stand. Divide your expenses into what you have to spend each month (rent, utilities, food, and gas) and what you can do without.
- **Debt.** Hold off on adding more debt to your credit cards. It's better to cut expenses as much as you can than to live on your credit cards. Even if you can't pay the entire balance, pay as much as you can over the minimum payment. Get that payment in on time to avoid late charges that just add to your debt. Let your credit card, mortgage and car loan companies know of your circumstances. Find out if your creditors offer grace periods that allow you to defer payments until later.
- **Savings.** Tap savings strategically. Pull from the account that earns the lowest interest first. Keep in mind that early withdrawals from certificates of deposit and retirement accounts trigger penalties.

Figure out how to reshape your money life if you lose your job at www.aarp.org/realrelief, where you will also find other tools and resources to cut costs and stay financially secure in these turbulent times.