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## Preparing for Joblessness: An Action Plan

*Wall Street Journal Sunday's **Anna Prior** writes:*

Ugh. The unemployment numbers for February, [released this morning](#), paint a grim picture: The jobless rate increased to 8.1% from 7.6%, with 12.5 million people out of work.

Couple those numbers with [the Fed's forecast of a possible 8.8% unemployment rate](#) before the end of the year, and things look even worse.



Getty Images

A long bout of unemployment can wreak havoc on your finances, so here are some things to keep in mind:

Stockpiling for leaner times.

-While you still have a job, start saving more and see if you can double your emergency fund. Six months' worth of living expenses might not cut it anymore, as the number of people experiencing joblessness for more than six months continues to rise, growing to more than 2.9 million people in February.

-Consider downsizing your living quarters. For example, after business began to slow at Saxon Anderson's teeth-whitening kiosk at a Los Angeles area mall, the 26-year-old downgraded from his own apartment to a house with five roommates to save on rent and other expenses.

-Since it's easier to get credit while you're employed, look into opening up another credit card or a home equity line of credit as a precaution in case you lose your job and money becomes hard to access, suggests June Walbert, a financial planner with USAA. Use this credit only as a last resort, of course.

-If you're handed a pink slip, file for unemployment benefits immediately, says Linda Robertson, a senior financial planner with financial education firm Financial Finesse. A severance package from your employer could delay your eligibility, but "so many of the unemployment offices are overwhelmed right now and are behind," she says.

-Call your landlord or mortgage lender if your layoff results in immediate financial instability. Ask about deferred-payment plans for rent or find out if your lender offers programs to restructure loans, says Robertson.

If you're financially stable, you may still want to alert your landlord or lender to your employment situation in case you have trouble making future payments.

-Health insurance should also be at the top of your priority list. The government has made it easier to extend your employer-based coverage [through changes in the Cobra law](#), but it still may not be the most-affordable option. If you're young and healthy, a low-cost, high-deductible plan might be the better choice.

-During your first six months of unemployment, develop a bare-bones budget—and stick to it—so your severance package and/or emergency fund last as long as possible.

-You should also consider prioritizing your debts. When the bills come, pay the big ones, such as rent or

mortgage, utilities and car payments before making minimum payments on your credit cards, suggest Ms. Robertson.

-If money starts getting tight, consider further downsizing your home or selling any non-essential cars, electronics, jewelry or other valuables, says Dan Houston, president of retirement and investor services at the Principal Financial Group.

-If your unemployment stint stretches beyond six months and you've run out of emergency savings, it may be time to de-invest. Start by liquidating any nonretirement brokerage accounts. "If they've got a capital loss, they can write that off against any other gains," says Robertson. "Or they can write off up to \$3,000 of a capital loss against any other income."

Then tap your Roth IRA. Money grows tax-free in these retirement savings accounts, and you can usually withdraw funds with no tax liability. "But that should be one of your measures of last resort because we want that money to remain in that tax shelter," says Walbert.

-Keep your hands off other retirement savings accounts, such as your traditional IRA or 401(k), until the very last possible moment.

"You'll not only have to pay taxes on those withdrawals, but you'll also pay penalties," says Houston. "You'll lose all of the compounding interest and yield off of those assets. Plus, the probability of you replacing those dollars down the road is pretty remote since the tendency for most is to spend instead of replace."

**Wallet readers**, are you worried about facing a long spell of unemployment? What have you done to prepare for the possibility?

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