What Should I Do If I'm Laid Off?

By: Exchange Capital Management

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The thought of losing a steady income fill many of us with dread. For those who recently lost their job or fear it will happen in the near future, the best way to fight financial anxiety is by developing a plan to get through the hardship.

1. Review Your Budget

After being laid off, it's important to take a step back and assess your financial situation. Review your cash flow and evaluate how long your emergency funds will sustain your lifestyle. If money seems tight, consider contacting your creditors to see if you can defer or reduce payments during this time of financial uncertainty. We also recommend reevaluating any recurring payments and canceling any unnecessary subscriptions or memberships.

Layoffs are tough, but unemployment benefits are available for these situations. If you're eligible, the government will provide benefits determined by your state of residence and personal situation. Regardless of unemployment benefits, it's best to cut back spending wherever possible.

Consider finding a part-time job or freelancing to bring in some extra cash. Keep an open mind because temporary jobs may lead to permanent career opportunities. However, taking a part-time job can reduce the amount you earn through unemployment benefits.

If you're age 62 or older, you may be eligible for Social Security benefits. However, claiming any time before your Full Retirement Age (FRA) will permanently affect your benefit amount. If you plan to go back to work full-time, we often recommend using this as a last resort.

2. Assess Other Income Sources

Home Equity Loan: A home equity loan allows you to borrow money using your home's equity as collateral and usually has a lower interest rate than a credit card. This option only makes sense if you apply for it before unemployment since you'll need to verify your income to be approved. If you are approved, you can use this loan at any point in the future (regardless of your employment status).

Roth IRA: If you have contributed to a Roth Individual Retirement Account (IRA), you can withdraw contributions penalty-free to supplement your cash flow. This is often not advised as the first line of defense, as once the dollars are withdrawn it is very difficult to grow that account again.

Annuities/Life Insurance: If you have an annuity and/or life insurance, you may be able to use these for additional income streams. Life insurance specifically may have loan options that could be favorable in a time of need.

3. Explore Health Insurance Options

As you're searching for a new job, you may be wondering if there is a temporary health insurance policy you can buy in the interim. Here are four options to consider:

Continuation of Health Coverage (COBRA): If your previous company had 20 or more employees, you may be eligible for COBRA. This allows you to stay on your employer's health plan for around 18 months, potentially longer depending on your circumstances. You have 60 days to sign up for COBRA starting the day your employer-provided health insurance ends.

Spouse's Insurance: If you're married and your spouse has access to a health insurance policy, consider jumping on their plan for now.

Health Insurance Marketplace: The Marketplace is a federally operated insurance market where you can compare and purchase health insurance policies. You have 60 days to search for and enroll in a policy through the Marketplace once your employer-provided health insurance ends.

Medicare: If you are over age 65, you may be eligible to sign up for Medicare. The Special Enrollment Period for Part A and B is an eight-month window after you've lost your job or when your employer-provided health insurance ends.

4. Consider Your Tax Strategies

Being laid off often means a considerable drop in income. While that may bring financial anxiety, a low-income year could give you more flexibility with your tax strategies.

If you aren't strapped for cash, consider doing a Roth conversion while in a low-income year. Roth conversions allow you to move money from a Traditional IRA to a Roth IRA, paying taxes on the converted amount. The less income you have, the more favorable the tax bracket. Depending on how much your income dropped, you may be eligible to contribute to a Roth IRA directly or make a deductible Traditional IRA contribution.

Another consideration is capital gains tax. If you have taxable investments and sell them for more than you bought them for, you may pay a more favorable capital gains tax with less income (sometimes, even no tax).

5. Evaluate Your Company Benefits

If you have stock options with your previous company, you need to review how being laid off affects these assets. Unvested stock options are stocks employees don't own yet, set aside for the future when they meet certain conditions. For instance, a company may offer you unvested stock with a five-year vesting period.

If you lose your job before the stocks are vested (meaning you have the right to buy or exercise them), you will likely forfeit some or all of the stock options. If you've met certain requirements and have vested stock options, review your post-termination exercise period. This is how long you have to buy or exercise the options after you are laid off (most companies give you 90 days). If you don't do anything with the stock, it will disappear forever.

Another asset to consider is your 401(k). Once you leave a company, you must decide what to do with your retirement plan. If you currently have a 401(k) loan, you need to review loan repayment plans. Often, the loan on a 401(k) balance must be paid back by the due date of your tax return for the year you leave your employer.

The Bottom Line

Getting laid off can be a tough and overwhelming experience, but it's important to try and stay positive and keep an open mind as you move forward. Who knows, this may open up new doors to better opportunities that you may find even more fulfilling than your previous job. Of course, financial concerns are bound to arise, but try not to panic. By sticking to a solid financial plan, you can get back on track sooner than you might think.