HOME ECONOMICS GUIDE

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What To Do If You're Faced With Unemployment

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Losing a job can be a traumatic experience, both psychologically and financially. But, there are ways you and your family can deal with the situation in a constructive manner.

First, don't panic. Give yourself time to get over the initial shock and then start making plans. Don't blame yourself or anyone else. Just set your mind to dealing with the situation. Recognize that your life will be different, at least for a while, but you and your family are still in control of your financial affairs. Start making adjustments immediately.

Give full attention to the feelings of others. Be especially sensitive to your children's interpretation of the situation. Don't try to keep it secret, but don't let it consume all conversation either. Help children understand that although unemployment is a serious problem, it does not change the importance of any individual in the family. Everyone is still the same person that he or she was before unemployment.

Remember, your whole family is probably upset. Make every effort to maintain positive family relationships and not allow financial pressures to destroy those bonds. Recognize that the family's income will be reduced and that expenditures will most likely have to be reduced.

First Things First

Look at Your Income

Be realistic about what income you will have. Write down all of the income you expect to continue so you know exactly what to plan on. Unemployment benefits will help in many cases, but to get these benefits you must file for them. Go to the employment office nearest your home on the first day you're not working. Be sure to take your Social Security card.

Other earners in the family may help in this dilemma. Is there another earner already contributing to the family's income? Can the contribution be increased? Can a non-employed family member get a temporary job?

Use savings or take out a loan if you can get one. If you have followed the principles of good money management while fully employed, you have the equivalent of several months' salary accumulated in liquid savings. Whether you use your savings or take out a loan depends on your circumstances, but there are some disadvantages either way.

If you take money from savings, you no longer earn interest on it; but if you take out a loan you must pay interest on that loan, thus increasing your expenditures. If you decide to take money from savings, use regular passbook savings first. If you are thinking about cashing in a certificate of deposit (CD), and it has not yet matured, talk with the financial institution where you purchased the CD to determine how much interest you will lose by cashing it in before maturity. It might be less expensive to obtain a short term loan, using your CD as security. In either case, remember, a loan must be paid back and money taken from savings should be replenished.

Examine Your Expenditures

Your expenditures hold the key to how well you do during your period of unemployment. It is essential that all family members participate in decisions about expenditures. Decide what the family needs next week, next month, next two months. Postpone buying what the family would like, but does not need now. All fixed expense such as rent or mortgage payments, installment payments, insurance payments, and any other payment due on a specific date, must be paid. Flexible expenses such as food, clothing, vacations and recreation are areas in which the family can make choices. Be creative about how to cut expenditures. Most clothing purchases can be postponed, at least for a while. It's a good time to clean out closets to see if any clothes no longer worn are recyclable, or can be traded or sold to someone else. While looking in closets, check your food storage cabinets, too, for a surplus of canned goods that might be used to help out the food budget. Use your imagination on how to cut down on expenditures and still survive comfortably.

Set up a budget if you don't already have one. Determine how much your family will have to spend for each category in the budget. Try to stay within the limit set, but be flexible and modify the budget if necessary. If your family doesn't have a clear picture of where the money is going, write down every item on which money is spent for 2 or 3 weeks. Then make up your budget.

To find areas where money might be saved, have each person write down everything purchased in the

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last several weeks, then check which purchases would have been eliminated if he/she would have had half as much money to spend. This should give some clue on where to cut expenditures.

Make a shopping list and weigh the importance of each item. Reduce the number of shopping trips. Agree within your family that every purchase over a certain amount will be discussed by the family before a purchase decision is made.

Debts and Other Obligations

Don't ignore those monthly payments on outstanding loans. The largest payment for many families would be the mortgage payment. If such is the case in your family, is the payment too much to handle? If so, go to your lender and ask the officer in charge of mortgages if some adjustment could be made in your monthly payment to reduce the amount you have to pay. This may be anything from postponing one or two payments until you can get on your feet, to paying only the interest for a short period of time. If yours is a high interest rate mortgage (over 10%), the monthly payment may not be reduced much by just paying interest; however, every little bit helps so don't ignore that possibility.

For other debts, contact your creditors immediately and explain your situation. Where possible, it's best to make an appointment and talk to the person in charge personally. You might work out one of several plans. You might make smaller payments for a short period. Then when your income increases, go back to the regular payment schedule. This will slightly increase the total amount you must pay for the debt, but it may help ease the burden of a decreased income for a time.

You might refinance the loan—that is, make another contract for smaller payments over a longer period of time. New payments will be smaller in size, but the overall cost for the loan will be larger.

A consolidation loan might also be considered, but only as a last resort. If you take out a consolidation loan, you pay off all bills at once, and then make just one payment each month for the large loan. That payment will be smaller than the total of payments on your small loans, but you will be paying over a longer period of time and frequently at a higher interest rate. Your total cost on a consolidation loan is almost always substantially higher than what you would pay if you maintained the individual debts.

If, after assessing your financial situation, you determine that you can continue the monthly payment on some of your debts, but not all of them, try to keep up with those on which you are paying the highest interest rate (annual percentage rate—APR). Try to renegotiate an extended payment period with your creditor that has the lowest APR. If you do not know the APR of a loan, check the contract because it must be written in the contract.

Don't Overlook Insurance

In times of unemployment, it is especially important to maintain insurance coverage for your family even though it may be difficult to come up with the money to pay the premium. Failure to have adequate insurance could result in a financial catastrophe from which it would take years for the family to recover.

Check your existing life insurance policy or call your agent. If you have life insurance with a savings element, your policy may allow you to pay any premiums due by borrowing on the cash value of your policy. The face value of the policy will decrease accordingly unless the amount borrowed is paid back, but you will be keeping the policy in force.

Chances are that you are insured under your employer's group health insurance plan. In most cases, your group policy will allow a 30-day grace period after you leave the company. You may be able to reapply within this period for an individual policy without the necessity of a medical examination. However, the premium for the same coverage on an individual policy will be higher than on a group policy. If there is a second earner in the family, investigate the possibility of health insurance through that person's employment. If there is no opportunity for coverage through a second earner, and if you cannot reapply for coverage on your current policy, check with several companies that can provide your family with temporary insurance until you are employed again. Be sure your family is covered by health insurance; high medical bills could ruin all hopes of getting your financial matters back in order.

Five C's To Survival

If you lose your job, remember the five "C's".

Control—Don't panic and don't waste energy blaming yourself or others.

Claim—File for unemployment insurance benefits right away. Check your eligibility for other assistance programs also.

Communicate—Analyze your situation as a family unit and plan accordingly.

Confer—Don't default on payments to creditors. Make every effort to work out a mutually acceptable repayment schedule.

Change—Be prepared to change your level of living, at least temporarily, so you don't give up essentials.

When You're Employed Again

When the period of unemployment is over, be extremely careful not to follow the urge to overspend in order to "catch up" for the things you have put off buying and doing. Again, the family needs to decide carefully which purchases that were delayed will need to be made first. Remember that there may be new debts that need to be paid and/or an emergency fund in savings that needs to be restored.

References

"What to Do When You Lose Your Job," A Northeast Management/Consumer Education Guide, Cooperative Extension Services

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