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UNCERTAINTIES IN THE LABOR MARKET

Planning for a Potential (or Real) Job Loss

When 2008 came to a close, investors hoped the nightmare had ended and some sense of normalcy would return to the economy and investment markets. Unfortunately, the recession is now quickly closing in on 18-months in duration (with no end in sight); few signs of a rebound seem imminent; and folks across diverse industries remain worried about where that next paycheck might come from (unless they received retention bonuses from **Merrill Lynch** or **AIG**).

In March 2009, another 663,000 jobs were lost from the economy and the unemployment rate surged to 8.5%, its highest level since November 1982. Since the recession began in December 2007, over five million jobs have been slashed, the vast majority in the past five months. Virtually no industry was spared the labor hardships in March: manufacturing (-161,000 jobs), construction (-126,000), professional services (-133,000), retail (-40,000), financial services (-40,000). Since the beginning of the year, Corporate America has engaged in all kind of cost-cutting measures from layoffs to plant closings to dividend reductions to (forced) bonus restrictions in attempts to improve their overall results (or merely survive this dire downturn).

While boardroom discussions involve any and all ideas to improve profitability (or limit losses), the water cooler dialogues are filled with rumors and concerns about the next round of pink slips and steps employees should be taking in case that inevitable day arrives. Their worries are many and causing great angst to these hard-working folks who make up the lifeblood of the domestic economy:

- How will we be able to pay our bills?
- What will a prolonged layoff do to our plans for retirement?
- How will we obtain the benefits needed to care for our families?
- What allocation changes should we make to our investment portfolios?

As difficult as it sounds, now is not the time for these individuals to panic and make potentially irrational decisions that come back to haunt them. However, now IS the time to perform some careful financial planning in preparation of a layoff and take certain necessary steps to limit the hardships that may accompany those "rainy days."

Cash Management:

Employees should always keep a nice cushion in cash reserves in case such difficult times arise. As a good rule of thumb, a savings that amounts to three to six months worth of expenses could help soften the blow of an unanticipated layoff (closer to the longer duration these days, if possible). Some employees may be fortunate to receive a nice severance package that provides crucial resources while they search for that next opportunity. Others may need to go through that family budget with a fine tooth comb and differentiate between those necessities and luxuries of life.

Perhaps the paid cable channels (that no one watches) can be canceled; the must-have theater/sporting event tickets can be put on hold for now; and the name-brand items can be replaced with generics in the shopping basket. Individuals would be well-advised not to begin accumulating more debt by maxing out credit cards just to maintain similar lifestyles. Instead, they should make the necessary budgetary adjustments and minimize any additional borrowings that may hinder their financial situations should the challenging times last longer than expected.

Retirement:

For many, cash management and retirement planning decisions may overlap during these periods of unemployment. If at all possible, do not cash out any of the personal or work-related retirement plans. Those moneys are growing (hopefully) on a tax-deferred basis and early withdrawals before (59.5 years of age) will probably result in income taxes and penalties that will limit the expected cash proceeds. If times are tight, individuals may choose to cease (temporarily) contributions to their personal plans, though, bear in mind, such decisions could lengthen the required working years until retirement.

With regards to the old employers' retirement plan, fortunately, an ex-worker does not need to act in haste in determining what to do with those balances. While they can roll them over into personal IRAs to obtain greater control and flexibility, they can wait until landing new positions until making such formal decisions. Once that time arises, they can…

- cash out (not-advisable if under 59.5 as noted above);
- roll into a personal IRA;
- leave in the old 401(k) plan;
- roll into the new company 401(k) plan, if eligible.

Other Benefits:

Maintaining health insurance remains among the most crucial considerations for a newly unemployed individual in the aftermath of a layoff. Unforeseen (and expensive) medical bills could prove devastating to anyone, especially if insurance does not cover all the necessary expenses. COBRA (Consolidated Omnibus Budget Reconciliation Act) is an option for most as the government allows employees to continue with their same coverage at the same group rates for up to 18-months, but with a catch. They now have to fit the bill and often the premiums are quite expensive. Switching to a spouse's health plan is typically another option as most company plans allow such changes outside the open enrollment period since a job loss is considered a "qualifying event." The individual must make this decision within 30 days of the termination.

Some companies offer other benefits like pensions, stock ownership plans, stock options, and deferred comp. In such cases, individuals should meet with their human resources professionals to discuss the specific terms of these benefits and the various options they have to maximize their financial resources. Additionally, they should inquire about unused vacations and determine whether they are eligible for some additional time off in advance of the layoff date or perhaps they can be paid for this time (which may result in a taxable event) to help address the cash management situation.

Asset Allocation:

An announced or anticipated layoff could represent an effective time to review investment goals and make reallocation or rebalancing changes to the portfolios. However, individuals should be careful not to become too conservative during a period that will, most likely, be short-term in duration. The markets have dropped considerably over the past two years so any panic selling could result in ill-timed transactions, particularly, if raising cash is not imperative and the liquidated securities still fit within the individual's overall investment goals. Instead, the employment situation should be considered in conjunction with the investor's tolerance for risk and many other life issues: children's educational needs, expected years to retirement, etc.

Call to Action…A trusted financial advisor should be among the first phone calls made by an individual encountering a layoff. These professionals can help advise about crucial financial decisions concerning cash management, retirement, benefits, and investments, particularly at a time when an independent (and less panicked) opinion should be well-received. Often, these folks are well-versed in company benefits packages and can shed insight on key company decisions that must be made as termination date approaches.