‘Don’t Panic,’ Jobless Are Advised

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Financial planner thinks those laid off at Agere, elsewhere should take inventory, not make quick decisions.

Hundreds of employees at Agere Systems have lost their jobs, or will soon. For many, it’s not only their careers that hang in the balance, it’s also their financial lives.

Financial advisers say the best advice for laid-off employees is to take stock of everything from their retirement plans to their insurance plans – and not make any rash decisions.

“I would say just don’t panic,” said financial planner Rick Frable of Lehigh Valley Wealth Management in Fogelsville.

“Don’t make any hasty decisions until you know where your next employment is going to be.”

Agere Systems recently laid off 1,300 people in the region and will lay off 2,500 more in the area. Meanwhile, other local companies are issuing pink slips in smaller numbers.

What are the financial do’s and don’ts when you’re laid off? While the financial situations of individuals vary, there are some universal themes, financial experts say:

- **Unemployment:** Find out if you qualify for unemployment benefits. This isn’t welfare. You paid into it through your payroll taxes and have a right to claim it.
- **Take inventory:** “Most people at Agere or elsewhere are a little fuzzy as to where they stand financially,” Frable said.

Among the first things to do is take inventory of your financial life. Then list living expenses and prepare a spending plan, experts say.

- **Severance:** Laid-off employees often get lump-sum severance packages. In the case of Agere, employees will generally get a week’s pay for each year they worked there, up to 30 years, company spokesman Jack Molets said.

Financial advisers say it’s best to keep that money in a safe, easily accessed account if it will be used for living expenses.

Money market mutual funds often offer the best combination of interest income and liquidity, said Christopher Jones of Keystone Financial Planning in Palmer Township.

“In terms of investing, don’t invest in anything but liquid investments,” Jones said. “Even a CD [certificate of deposit] would be too illiquid.”

- **Tap cash:** If a laid-off employee followed conventional financial wisdom and has three to six months of savings on hand, that’s the first money to use Jones said. After that, the person might want to liquidate taxable investment accounts, he said.
- **Bills:** “You have to prioritize how to use your money when you have no more coming in,” said Steve Rhode, president and co-founder of Myvesta.org, formerly Debt Counselors of America.

“It’s a lot drier sleeping under a roof than a tower of credit cards.”

So your mortgage payment should be a priority, even if credit card companies give you the biggest hassle about late payments.

“Don’t react to the person who screams the loudest,” Rhode said. “The mortgage company doesn’t have to scream; they just take your house.”

And be careful about overpromising what you can pay to creditors, he said. Give preference to food and shelter – and heat in the winter.

- **Cut expenses:** When you're laid off, you don't need premium cable TV, dinners out, mobile phones or even a second car, experts say.

Usually what happens is a family's lifestyle doesn't gear down as fast as its income when a breadwinner loses a job, Rhode said.

"I see people do that all the time – 'I'm unemployed, let's go on vacation,'" he said.

And it may seem obvious, but those who are laid off should avoid going on buying binges to compensate for being stressed out, he said. "Sometimes people spend to make themselves feel better," he said.

- **Retirement:** Most people's biggest retirement nest egg sits in an employer plan, such as a 401(k). When you lose your job, your best choices are to leave the 401(k) money where it is, roll it into an individual retirement account, or roll it into a new employer's 401(k), experts say.

Whatever you do, don't withdraw this money, a move that is taxes as income and subject to a 10 percent penalty if you're younger than 59 ½, Frable said. So a person in the 28 percent income tax bracket loses 38 percent of the money off the top.

"I rarely see people who take the money out of the 401(k)," Frable said. "You'd have to be quite foolish."

Rolling money into an IRA, which is tax-free, might make sense if you want different investment choices, Frable said.

For example, Agere's plan has limited offerings of stock mutual funds, with six funds from Fidelity to choose from, said Frable, who has worked with current and former Agere employees.

"It's not the best 401(k) plan out there, as far as the availability of choices," Frable said. "If you roll it into an IRA, you have endless possibilities."

The downside is you can't take a loan against an IRA, like you can with a 401(k). Also, you already have a loan from your 401(k), you may be required to repay it when you're laid off, or face stiff taxes and penalties.

TIPS

- Apply for unemployment benefits.
- Cut expenses and prepare a spending plan.
- Avoid credit.
- Raise money by selling items at a yard sale or Internet auction sites.
- Consider shifting investments to more conservative ones.
- Make a job – eight hours a day – of getting a job.

RESOURCES

- Myvesta.org, formerly Debt Counselors of America, can be reached at 1-800-680-3328 or at its Web site, which offers a free, 14-page publication, "How to Survive a Job Loss."
- Consumer Credit Counseling Service of Lehigh valley, 1-800-220-2733.
- The Department of Labor offers a brochure on the COBRA insurance plan at www.dol.gov/dol/pwba/public/pubs/cobra99.pdf

Source: Myvesta.org and Morning Call research

And don't become a stock day-trader with the money, Frable said.

"You could take it to Schwab and bet on $2 dot-coms with the money, but that's an example of what not to do," he said. "It's not advisable to play the market with your retirement money."

The best decision might be to leave the money where it is in the near term.

"You never have to make a decision the day you walk out the door," Frable said.

- **Insurances:** A major concern should be continuing health insurance. Sometimes extended benefits are part of a severance package, but your employer must allow you to continue medical coverage for at least 18 months under federal legislation called COBRA.

Frable said many Agere employees have a group life insurance policy that they could convert and take with them. But that will be costly, he said. It will depend on the individual whether it's worth maintaining that policy or shopping for a new one.

But some of your other insurances may be areas to cut back, such as auto, renter's and homeowner's insurances.

Myvesta.org advises people to consider raising deductibles to lower the payments and free up cash.

- **Credit:** "Contrary to what some people believe, credit is not a solution for funding household expenses during a period of unemployment," says a brochure, "How to Survive a Job Loss," by Myvesta.org.

Many advisers say that steering clear of credit, especially use of credit cards, is wise.

So, do you need a credit counselor or financial planner to help sort out your finances when you're laid off?

"They should go seek professional help if they have any anxiety about what to do," Frable said. "If they're asking co-workers what to do, they need to see someone."

If there's a silver lining to getting laid off, Frable offers his observation.

"What I see typically in people who change jobs is they end up with better positions. It's the 'you-can't-keep-a-good-man-down principle,'" he said.

"Sometimes getting laid off or pink-slipped is a blessing in disguise. Usually they end up with a job that pays more money and has better job satisfaction."