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FIVE SMART STEPS TO TAKE IF YOU'RE LAID OFF

BRENTWOOD, Tenn. – In a troubled economy, many companies are cutting back on jobs. But if you are laid off, there's no need to panic, according to the Tennessee Society of CPAs. Here are some strategies for keeping your finances in order even if you lose your job.

PLAN AHEAD

When a company is having financial problems, most employees can see the signs long before a layoff or bankruptcy occurs. If you think your job is in jeopardy, now's the time to set up an emergency saving fund. Simply open a special savings account and deposit as much as you can each week. A severance package and unemployment benefits are unlikely to cover all your costs, so this nest egg will come in handy if you need it. If you are quite certain you are going to be laid off, you might also consider changing your income tax withholding to have less tax taken out of each paycheck. If you do lose your job and don't find a new one immediately, your income will be lower this year. That means you should owe less tax. However, keep in mind that you will end up owing tax next April if you lower your withholding and your income level does not change.

ASK FOR SEVERANCE

Companies are not legally required to give employees a severance package, but they are often willing to offer one to someone with a good track record, especially if that person has been with the business a long time. So, be sure to try to negotiate a package. Ask, too, about receiving pay for any unused vacation days you may have accumulated.

FILE FOR UNEMPLOYMENT INSURANCE

The sooner you file for this benefit, the sooner you will start receiving checks. Remember that you are eligible for unemployment insurance even if you have received a severance package or buyout. The Economic Policy Institute Web site (www.epi.org) provides a calculator to help you determine how much you would receive. At their site, click on “Online Calculators,” then go to “Unemployment Insurance (weekly benefit allowance) Calculator.” Find out now how much you are eligible to receive so that you can better calculate how much you will need in your emergency fund.

GET HEALTH INSURANCE COVERAGE

Most people receive health insurance through their employer, so this benefit could be a significant loss if you are laid off. However, it’s very likely that you will be able to retain employer coverage for a certain period of time, but you will have to pay the premium yourself. If you are married and your spouse works, you may also be able to pay extra to receive coverage under your spouse’s plan. Find out what options are open to you and compare their costs so you can make the best choice.

DON’T PANIC

Many people drift into bad financial habits in an emergency, including dipping into their retirement accounts or running up high credit card balances. If you withdraw money from a retirement account before retirement age, not only will you have to pay taxes on the distribution, you may also be hit with an early distribution penalty of 10 percent, which means that a good chunk of your withdrawal will go to the IRS. At the same time, the interest rates on credit cards tend to be very high, so this should be your borrowing option of last resort. Financial institutions are also tightening up their credit card limits - even for their best customers - so you may find that this option is not even available to you.

About Money Management

Money Management is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

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