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A Financial Plan for the Newly Rehired

By BRETT ARENDS

So you've finally got a job—after months of looking.

Congratulations. Savor the moment. Getting a job in this economy is a real achievement. Around 15 million people are officially unemployed—and that's not even counting those who have given up looking. That figure includes more than 6 million who have been out of work for more than half a year.

But when it comes to getting your finances back on track, getting back to work is just the first step. You may have blown through your savings, piled up debts and left your last financial plan in the dust.

How do you start rebuilding? Try this:

• Confront your debts.

It's human nature to try to avoid bad news. But as Michelle Fait, a financial planner in Seattle, observes, "the best way to make a strong transition back to financial self-sufficiency" is to take the tough steps to address "the unpleasant, scary repercussions of a personal financial downturn" rather than just hoping they will resolve themselves.

If you are behind on debt payments, you should talk to your lenders and discuss the situation. You may be able to negotiate with them a reasonable catch-up plan. Remember: Your mortgage lender needs to come first, because that debt is secured against your home.

If you are so deeply in the hole on your credit cards and other unsecured debts that you cannot see a way out, you should talk to a credit counselor or bankruptcy attorney and consider filing for personal bankruptcy. This is an ugly truth that people need to consider. (Indeed, you may be better off exploring this before you get back into work, as in some cases having an income may limit your options.) Filing for bankruptcy will stop those creditors from taking action on your debts, and may lead to them being discharged so you can start with a clean record.

Reuters

• Get yourself insured again.

If you had let any critical insurance lapse while you were unemployed, this is the moment to look into getting yourself covered again. That may include signing up for health insurance at your new workplace, as well as purchasing life and disability coverage.

Make sure you make a trip to the benefits office soon after starting your new job. You may have an early window to sign up

Job hunters wait in line to enter the NYCHires Job Fair in New York last month.

for health insurance, though you may have to wait months to join the 401(k) plan. Make sure you understand what's available, and when you are eligible, so you don't miss out.

• Stay frugal.

Adam Leavitt, a financial planner in Tulsa, Okla., puts it simply: "The best way to rebuild after unemployment is to act like you still are."

In other words: Keep those expenses low.

Your newly frugal—or at least simplified—lifestyle is the most valuable asset you accumulated during those long months out of work. And you earned it the hard way, too. Don't throw it away lightly.

Everybody knows spending has a habit of expanding with our incomes. Some studies suggest we miraculously "need" to spend an extra 50 cents for each dollar we make. Clearly, a lot of it is just wasteful. I'll bet when you were unemployed you axed a lot of things that you found you could do without. You can do yourself a big favor right now by keeping it that way.

• Pay off those credit cards.

You're probably paying 20% or even 30% interest on your card balances. Paying these off as fast as you can is the single best thing you can do to help your financial recovery. Eat noodles till they're paid off. You don't like noodles? Have soup.

There are two schools of thought regarding credit-card debt. Some argue you should pay off the debt with the highest interest first. The second, usually associated with money guru Dave Ramsey, says you should pay off the smallest bills first. That creates psychological momentum and a so-called snowball effect. Math supports the first approach. Take your pick, but I have to say I'm with Mr. Ramsey. Zapping a bill—and destroying the card—is a great feeling. The sooner you begin, the better.

• Rebuild your emergency funds.

You hardly need reminding why you need to have a cushion for the future. If you have maxed out your credit cards, it may actually make sense to build up some cash savings even before paying off all those cards, in case you are suddenly hit with another crisis.

"While it may be tempting to throw as much money as possible at credit-card and other debt," says Milo Benningfield, a financial planner in San Francisco, "it's usually better to strike a balance between paying down debt and accumulating new cash."

How much do you need? Some planners argue you need to build up six months' or even a year's worth of expenses and keep the money in cash or short-term CDs. It sounds great in theory. But do the math. The typical American family spends about $40,000 a year. Keeping $20,000 to $40,000 in cash—earning virtually nothing after taxes and inflation—is going to be a poor strategy for many people. No, there isn't a perfect solution. You certainly want to build up a few months' expenses in cash. But you may want to consider other investments and lifelines—like some bonds and stocks—as part of your emergency cushion.

You can include your Roth IRA as part of that cushion, too. Barbara Camaglia, a financial planner in Beachwood, Ohio, notes that you can withdraw your Roth contributions at any point without tax or penalty.

• Refinance!

To someone trying to avoid foreclosure, this may seem a distant dream, but don't dismiss it completely. Once you've repaid your toxic debts, banked some paychecks and rebuilt your credit score, you may have a chance to refinance your mortgage. Take it. Rates are low right now. According to Bankrate.com, you can still find a 30-year fixed rate loan at 5% or even less. Tim Brown, a financial planner in Eden Prairie, Minn., suggests refinancing if you can cut your rate by at least 1.5%. You may even want to make the move for less, depending on your circumstances. Cutting your rate by just a percentage point on a $200,000 loan, for example, will save you about $1,500 a year in mortgage payments.

• Replot your course.

So you've been blown off course. The sooner you get out the financial compass and map and take a look, the sooner you can start getting back to where you want to. The period out of work has cost you money and time. Both are key elements of a financial plan. The road back, obviously, is probably going to involve saving even more money (see "Stay Frugal," above). You may also want to look at adjusting, or delaying, your goals. Putting off retirement for a year or two changes the numbers dramatically.

• Shelter your assets.

Too many people have lost everything in the last couple of years because they didn't take advantage of simple protections that were available to them.

Your Individual Retirement Account, 401(k) and college-savings 529 plans can shelter your money against your creditors as well as from taxes. Depending on your state, so, too, can some other types of assets, such as life insurance. You may also be able to protect your home either by filing for so-called homestead protection, or, if you are married, by retitling as a "tenancy by the entirety."

In the case of IRAs, you still have till April 15 to use up your 2009 allowance—$5,000 for an individual, $10,000 for a married couple and $12,000 if the couple is over 50.

Timothy Parker, a financial planner in Ridgewood, N.J., notes that even if you take a hardship withdrawal from your IRA, you can avoid penalties if you can pay it back within 60 days. You "won't be taxed or penalized for this withdrawal, because it was 'rolled over' as if it was never taken," he says. One caveat: You only get one such rollover per year.

I don't know whether this economic recovery is going to be "V"-shaped (fast), "U"-shaped (slower), a "W" (double -dip) or an "L" (nonexistent). Nor do you, and nor does anybody else— though that won't stop them pretending otherwise.

What can you do about it? Be prepared, Boy Scouts. Shelter your assets, so even if you have to go without a job again, your retirement savings, your home and your children's college educations are not in danger.

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