Credit and loans

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Return of the boomerang children

July 2008

Expecting the unexpected

Keep your finances on track by anticipating bumps in the road

Long-term planning, we re often told, is the means to achieving our financial goals. But even the most assiduous planner can be waylaid by certain calamities. No, you can t anticipate the unexpected. But good preparation, once again, can help you get back on course sooner after confronting one of life s roadblocks.

Following is a look at three situations job loss, divorce, and disability that can wreak havoc with long-term financial plans. We ll show you how to bounce back and move on, perhaps with a bit of wisdom gained.

You lose your job

Don t assume you re safe from cutbacks. Job losses totaled 240,000 in the first quarter of 2008, according to the U.S. Bureau of Labor Statistics. Many businesses are struggling in the current economic slowdown, and workers are feeling increasingly insecure about their jobs. No matter how happy you may be at your job, uncertainty is always around the corner, says Cathy Pareto, a certified financial planner and president of Cathy Pareto & Associates in Coral Gables, Fla.

In this climate, it makes sense to keep your r sum current so that you can start a job search immediately if necessary. The worst time to prepare a comprehensive and competent r sum is when you are desperate, Pareto says. Make sure your interview clothes are good to go as well.

Also stay marketable by keeping your skills up-to-date and perhaps develop some new ones. That way, you ll be qualified to do a variety of jobs or even change careers, says Barbara Shapiro, a certified financial planner with HMS Financial in Dedham, Mass.

You will need to call on all your resources should you lose your job. Attend industry events and maintain relationships with former colleagues. Follow industry developments and monitor what s happening at your own company.

If the industry is healthy but your company is having problems, this should sound alarms, says Howard Pinson of Pinson Wealth Management in Baltimore. If your company is healthy but the industry is shrinking, you should also look closely at the long-term picture. If new technology is making your job obsolete, you might want to explore moving into a different field and getting whatever training you ll need to do so.

Stockpile some cash. Ideally, you should have an emergency fund of at least 3 to 6 months of living expenses in an accessible account, and 9 months worth if you re the sole wage earner for your family. While employed, consider getting a home-equity line of credit to draw on if absolutely necessary. You ll have a hard time qualifying for that safety net if you re unemployed.

If you think your job is in jeopardy, shore up your reserves by cutting back on spending. Wean yourself from credit cards. Involve the entire family in scaling back on the household budget and pitching in, Shapiro advises.

Deal with it. If the dreaded pink slip arrives, try to negotiate with your employer on severance pay, outplacement services, and medical insurance options, advises Adele Brady Bolson, a certified public accountant in Bellevue, Wash. File for unemployment benefits as soon as possible. And if you haven t already started looking for a new job, now s the time.

Figure out how long your emergency fund will last once your unemployment benefits and severance package, if you have one, are gone. If money gets tight, do not stop paying your bills. If you can t afford to keep up payments, call your creditors to negotiate a payment plan or seek help from a reputable credit-counseling program. In some instances you might be able to defer payments, especially for debts like student loans.

Avoid the temptation to touch your 401(k) money. If you do, you ll have to pay income tax on whatever you take out and perhaps a 10 percent penalty if you re not yet 59 . Instead, roll over the money to an IRA. Consider selling depreciating nonessential assets.

Lastly, says Pareto, don t let this misfortune set you back permanently. Grieve, but you can t afford to get distracted, she says. Buck up and keep moving forward.

Your marriage ends

Protect yourself. A divorce can be one of the most difficult situations you ll face, emotionally and financially. A prenuptual agreement may not seem romantic, but it will seem smart if your marriage crumbles. This document is drafted and negotiated before marriage and lays out who gets what in a divorce. With a prenuptial agreement, there are fewer surprises down the road, Pareto says.

But if you took your vows without a prenup, there are other things you can do to protect yourself. Typically, couples don t divorce overnight but gradually get a sense that the marriage is unraveling. Tough as it may seem, that s when you should start to take action, just in case. For example, if all the family s financial accounts are in your spouse s name, you ll have a hard time establishing credit after divorce. So build your credit profile by opening bank and credit accounts in your own name.

The more you know going into this process, the better. Find out what your family s assets are and where financial statements, tax returns, and insurance policies are kept. Get to know the family advisers, such as the financial planner and accountant, Shapiro adds. You might consider making copies of all pertinent financial records and storing them in a secure location outside of your spouse s reach, suggests Dan West, a certified financial planner with the Moneta Group in St. Louis.

Get your own lawyer, preferably one who specializes in family law. You can also consult a divorce center to find out about your rights and obligations. Determine the type of divorce process mediation, collaboration, or litigation that will be best for you. If you have young children, take their needs into account as well.

Temper emotions. Many of the financial decisions you need to make are fraught with emotion. Try to separate the emotional baggage from the money, stocks, retirement accounts, etc., says Deborah Pajak, a certified financial planner with Wienken & Associates in Camp Hill, Pa. What is most prudent financially may not be the easiest step emotionally.

For example, you might want to keep the house. But if it will be too expensive for you to maintain, is it really worth it? Often it makes sense to sell it and divide the proceeds.

Make sure you know the full value of all your family s assets so that they can be divided equitably. For example, if your spouse has a pension, you might be entitled to a portion of it even if he or she is still working so you ll need to determine its current value. If you get your health-insurance coverage through your spouse s employer, be sure to factor that into your negotiations. By law you can stay on your spouse s plan for 36 months if you pay the premiums, but this can be an expensive option, says Lyn Dippel, a certified financial planner with Financial Advantage of Columbia, Md.

Watch for signs your spouse might be hiding assets. Get a preliminary agreement that essentially freezes his or her ability to spend down the household assets or put the family further in debt, Dippel adds.

Take control of your finances. If you are caught totally off guard by a request for a divorce, work quickly to get on top of the situation. Prepare a personal financial statement and a list of what you own and what you owe. Take the personal financial statement to a financial adviser, who can not only analyze your investment portfolio but also understand current and future tax consequences, says Dave Hinnenkamp, a financial adviser with KDV Wealth Management in Minneapolis.

Review all your beneficiary designations on life-insurance policies, bank accounts, and retirement funds. If your spouse was the beneficiary, you will probably want to name a new one. Make changes to wills and other estate-planning documents.

Whatever steps you take will help make a bad situation better. As Joseph Montanaro, a certified financial planner with USAA in San Antonio, Texas, says, Plan for the worst and hope for the best.

You get sick or injured

Buy disability insurance. Disability coverage, which provides replacement income if you re unable to work because of illness or injury, is often overlooked. Yet 43 percent of all 40-year-olds will have a disability lasting 90 days or more by age 65, according to research gathered by the Insurance Information Institute.

Your employer might offer some disability coverage as a benefit or as optional insurance. If you enrolled in an employer-sponsored plan years ago, make sure your coverage is appropriate for you now and on par with your current pay level.

If your company pays the premium, any benefits you receive from the policy will be taxable. Payments from policies you buy yourself will be tax-free. Policies generally pay 40 to 60 percent of predisability earnings, says Marvin Feldman, president and CEO of the Life and Health Insurance Foundation for Education, a nonprofit group in Arlington, Va.

If your employer doesn t offer disability insurance or if the coverage is inadequate for your needs, consider buying a supplemental policy on your own. You may be able to get a discount if you sign up for a group policy through a professional organization you belong to.

Pinson advises that you get a policy with the most generous definition of disability available. For example, look for one that will pay if you re unable to work at your own occupation, not just any occupation. You also want inflation protection and the option to increase your coverage if circumstances change. But these features typically will boost your premium.

Tap your resources. If you re unable to work because of disability, notify the insurance company to find out what is needed to begin payment. Ask your employer about continuation of your medical insurance while you are out, and about keeping your job available until you are ready to return, Brady Bolson advises.

Find ways to make up for income gaps. See what s available to you in terms of medical leave and vacation pay. If you were hurt on the job, find out what you re entitled to under workers compensation.

If your disability is likely to be permanent, immediately apply for disability benefits from Social Security, which can take a while to kick in. Also explore options offered by your state or county. Emergency assistance, subsidized health care, and other programs are available.

Be proactive and aggressive, says Patrick Astre, author of This Is Not Your Parents Retirement (Entrepreneur Press, 2005). It s your government, he points out. You should make it work for you as much as possible.

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