A survival guide for the unemployed

A job loss can be devastating, but it doesn't have to be a disaster. Here are 7 ways to shore up your finances, conserve cash and arm yourself for a long-term drought.

By Liz Pulliam Weston

When Dave Conner lost his job, he thought he'd be unemployed for two or three months.

So far it's been 17 months and counting.

Conner was a human resources trainer for a telecommunications company -- part of an industry that has cratered in the past three years, with dozens of company bankruptcies and at least half a million people thrown out of work.

But the Conners -- Dave, 37, Tina, 32, and daughter Stephanie, almost 1 -- aren't going under. They managed to hang onto their home in a nice Dallas suburb, equip a nursery for their daughter and maintain 90% of their savings, all while living on just 39% of the income they use to make.

Unemployed, with children

With mixed emotions, Conner has become an expert on surviving long-term unemployment.

"The first thing my friends do when they lose their job," Conner says, "is call me and say, 'What do I do?' "

The number of long-term unemployed -- people who have been out of work for more than six months -- has nearly tripled in the U.S. in the past three years:

- 1.87 million people were out of work for more than 26 weeks as of February 2003, compared with 629,000 in February 2000.
- Currently there are more than 8 million people out of work and fewer than 3 million job openings.
- The average length of time between jobs for all workers has lengthened from 13 weeks to nearly 19 weeks.

The number of long-term unemployed parents with children under 6 has grown even faster. About 235,000 such parents were out of work in October 2002, a study by the Children's Defense Fund found, up from 71,000 two years earlier. These parents face a particular challenge, since they can't take just any job -- their pay must at least cover the cost of day care.

Long-term unemployment, economists say, is contributing significantly to a record number of bankruptcy filings, foreclosures and credit-card delinquencies.

Time to crank back on the budget

As the Conners demonstrate, however, the loss of a job doesn't have to lead to financial disaster.

It helps that the couple wasn't already up to their ears in debt. They drive older, paid-for cars -- an 11-year-old Accord and a 7-year-old Civic -- and bought a home with mortgage payments only slightly higher than what they used to pay for rent. They did have about $8,000 in credit card bills and a small loan on his motorcycle.

As soon as he got his layoff notice in October 2001, Conner constructed a budget that allowed the family to live on his wife's salary as a registered nurse and his unemployment checks -- payments that totaled just 50% of their former income. The Conners also volunteered to be the subjects of a Reality Check profile here on MSN Money to get professional advice on what they should do next.

When the unemployment ran out in December 2002 and the hospital stopped paying its nurses bonuses, Conner cranked the budget back again.

The $500 a month the family used to spend eating out is now $50, and the grocery bill has been trimmed from $650 to $400. Stephanie's nursery was furnished with yard sale finds and furniture Conner built himself. Conner figures he's spent less than $100 on clothes since the layoff, since shorts and a T-shirt work fine as a uniform for his new role as a stay-at-home dad.

Enjoy the occasional splurge

That doesn't mean luxuries aren't allowed. The Conners kept their high-speed Internet and cable subscriptions. They're planning a first birthday party for Stephanie, complete with an Easter egg hunt. They attended a Wynton Marsalis concert recently, and Dave occasionally buys Tina a latte from the neighborhood coffee shop -- "Three dollars' worth of heaven," he calls it.

Tracking their spending allows them to splurge occasionally without worrying they won't be able to pay the mortgage next month.

“Losing your job doesn’t mean you stop being a human and you stop enjoying life,” Conner says.

The key to surviving, Conner believes, is being realistic -- both before and after disaster strikes. Too many people don’t save for a rainy day, he says, and don’t react fast enough when the cloudburst begins.

“Maybe it’s because people our age have never seen anything go really wrong, like our grandparents did in the Depression,” he speculates.

Save for life's disasters

The layoff wasn’t Conner’s first setback in life. He was hit by a drunk driver in college and lost the use of his left hand for two years, sidelining his plans to become a doctor. He switched careers to work in finance for Ford Motor Co. and got caught in the auto industry’s downsizing in the early 1990s.

So even after he joined AT&T as a “road warrior,” traveling the country to train other workers, he continued to save for retirement, put aside money for emergencies and monitor his spending.

Tina shared his conviction that people should live within their means and save for life’s inevitable disasters.

“We know people making $150,000 a year who live paycheck to paycheck,” Conner said. “They don’t think about anything going wrong.”

How to get back in the saddle

His biggest challenge now is keeping his spirits up while contemplating yet another career change. While he’s enjoyed spending time with his daughter, he’s eager to get back in the work world. That may mean training for a different field, such as pharmacy -- and that means more schooling and perhaps student loans.

“Being unemployed, I’m used to,” Conner said. “(What’s difficult is) getting back on that horse and figuring out which way to ride.”

For those who have just been bucked off the horse, here's a guide to getting your finances ready for what might be a long-term drought:

1. **Get your priorities straight.** List your bills and other spending in order of importance. The items at the bottom of the list should be pretty easy to trim. You also should find savings by cutting back on big-ticket items like groceries, dining out, utilities and transportation.

   You should have another list, the "If Things Really Get Bad" list. Tops should be the roof over your head (the mortgage or rent), keeping the lights on (utilities) and ensuring you have transportation to get to job interviews (car payments and insurance). At the bottom should be your unsecured debts -- credit cards, student loans and other personal debt that paid for stuff that can't be repossessed.

   If you have to choose which bills to pay, this list will remind you what's really a priority. Skipping credit-card payments may result in a ding on your credit and angry phone calls from creditors, but skipping mortgage payments could leave you homeless.

2. **Track your spending.** Conner is a poster boy for personal finance software, which he's used since 1993. He downloads all his credit card and bank transactions daily to better track the family's spending. He believes having an exact handle on what's coming in and what's going out has been essential for helping the family survive.

   "If it's March 25th and we've spent all the grocery money," Conner said, "we don't go grocery shopping again until the first."

3. **Conserve your cash.** The Conners decided to continue to pay off debt even after the layoff, including what he calls a "strategic" decision to use $1,500 from their savings to pay off his motorcycle loan. He figures that expenditure they figured saved them $400 in interest.

Most of the time, though, it's better to put your debt repayment plans on hold when you're facing a fiscal emergency. Pay the minimums on your debt. Contact your student loan lender to get a deferment. Check with utilities and telephone companies to see if they offer cut-rate services for low-income people.

4. **Don't tap your retirement funds if you can avoid it.** It can be tempting to raid these pots of money, but the financial repercussions are so serious that you should avoid such withdrawals unless you're about to lose your home or suffer some other dire setback.

   Not only will you lose one-third to one-half of the withdrawal to taxes and penalties, but you lose forever the tax-deferred returns you could have earned. A $10,000 withdrawal now from your IRA or 401(k) means $109,000 less for your retirement, assuming the money would grow at an average 8% annual rate for 30 years.

   It's an especially bad idea to use retirement money to pay credit-card bills. In a worst-case scenario, your credit-card debt can be wiped out in bankruptcy court, while your retirement funds would be protected from creditors.

5. **Use your home equity with caution.** Setting up a home equity line of credit can be a smart precaution while you still have a job -- if you're disciplined enough to use it only in case of emergencies. As with retirement funds, home equity is protected in bankruptcy court, so money from your home shouldn't be used to pay unsecured debts until you're back on your feet -- if then. (For more about this, read "The three worst money moves you can make.")

6. **Raise cash.** Use some of your newly free time to organize a garage sale or rent out a room in your home. Review all of your assets and your skills to determine which might be used to produce income. Good with tools? Take on a few odd jobs. Consider detailing cars or working as a driver or companion for the elderly. Just don't fall into the trap of trying to start of full-fledged business if you're short on cash.

7. **Identify emergency sources of aid.** If your unemployment stretches on, you should know where the food banks are and familiarize yourself with how you qualify for food stamps or other government aid. Family and friends may be able to help as well. Conner is proud of the fact that he hasn’t had to ask his parents for help, but those who are less prepared for unemployment may find a familial loan can tide them over until they find another job.