How to survive losing your job, in 12 steps

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Job loss can be among the most devastating life events both emotionally and financially, and it's something nearly 1,500 Chicago-area workers are dealing with from just three recent corporate layoffs.

Emotional turmoil aside, a pink slip should be a call to action — to get your money life in order, including spending, saving, paying bills, health insurance and creditors, financial experts say.

In recent weeks, 700 workers at Kraft corporate headquarters in Northfield were let go, in addition to 500 from Motorola Mobility in Chicago and 270 from Walgreens Boots Alliance in Chicago. Farther downstate, Caterpillar has announced 475 job cuts, 300 coming from the Peoria area.

Some laid-off workers have savings, while others live paycheck-to-paycheck. And advice changes depending on whether you're single or a sole breadwinner and therefore responsible for all the household income versus being part of a dual-earner household, where the pressure might not be as immediately intense.

"If you have no one to balance the load, you'll have to look at your difficult options sooner," said Sally Herigstad, a certified public accountant who was part of a 250-person job cutting and went on to write the book "Help! I Can't Pay my Bills."

Here are 12 crucial steps to take soon after your employer shows you the door.

Make a plan. Creating a budget to detail your income and expenses is not sexy advice, but it not only gives you a foundation for action but can relieve the stress of not knowing what your money picture looks like.

"As painful as it may be, now is the time to do it," said Francine Duke, a fee-only certified financial planner at Aqua Financial Planning with offices in downtown Chicago and the northern suburbs. "It gives people a comfort factor because at least they have some kind of plan."

Start with the income side, and list your inflows of cash, including severance and unemployment payments. What savings and investments could you tap if necessary? What are your sources of borrowing? Include a potential loan from family, home equity lines of credit and credit cards, although high-interest cards should be among the last resorts.

Then list your expenses. What are the fixed expenses that won't change in the short term, like mortgage or rent and car payment? What are your variable expenses that you have immediate control over and are often discretionary, like dining out and a gym membership?

Decide what a bare-bones baseline budget would look like.

"It has no fun in it. It has no clothing, no going to the theater," Herigstad said. "This is a 'how can we possibly get by' budget. ... It's amazing how little you can get by on, and it's comforting."

Liz Digani, a certified financial planner with UBS Wealth Management in Chicago who works with high net worth clients, said making good choices during a crisis is key.

"Take your time and make really thoughtful decisions," Digani said. "There are some things that are more pressing than others."

Prioritize your four pillars. As you map out a strategy to deal with the short-term impact of a job loss, maintain your four financial pillars: Food, shelter, utilities and transportation.

"You pay for the goods and services you can't live without," Herigstad said.

This is not a time to worry about what to do with your company 401(k) retirement plan. Leave the money in your former employer's plan while you address more urgent tasks. "My advice on a 401(k) would be to evaluate all your options and take your time," Digani said. "The near-term, critical issue is coming up with a game plan for cash flow."

Medical bills can slide, and although credit card companies might scream loudest for their money, they can wait. Although paying the minimums on the cards is far preferable to not paying at all.

Attack spending. A job loss is a crisis with the earnings side of the household ledger, but in the short term, you have more control over the spending side.

Look at three months worth of credit or debit card bills and ruthlessly cut optional recurring expenses. You might find it was an exercise long overdue. Keenly eye the difference between needs and wants.

"There's a good feeling to getting back to the bare minimum," Herigstad said. "It gives you a chance to reprioritize and start from scratch. It's cleansing."

In the near term, dining out, fancy hair salons, pay TV channels and subscriptions of all types might have to go.

Quit saving. If it's clear you'll encounter a cash crunch, temporarily stop all saving, to college savings plans and individual retirement accounts, for example.

Stop paying extra. If you were paying extra on your mortgage, car loan and credit cards, take those payments down to the minimums. Preserving cash is the short-term priority. If your spouse is working, reduce the tax withholding that would otherwise lead to a tax refund. You need that money now, not next April.

Use savings. If you have cash squirreled away or investments outside a retirement plan, use it. "If you have an emergency fund, this is an emergency. This is what you saved it for," Herigstad said.

Maintain health insurance. You can continue your existing health insurance under COBRA for 18 months, but that can be expensive. Determine whether you can get a cheaper private insurance policy, which can be more affordable since Obamacare. "It's worth checking into, shopping around," Duke said. For example, a healthy single person might search for a bare-bones high-deductible policy that covers emergency situations to cover them in the short term.

"That's one of the top-most priorities that people should look at, whether they have the proper health coverage," Digani said. In the case of a dual-earning household, the spouse still working might be able to pick up lost health coverage.

Inquire about other benefits. Determine whether your former employer will allow you to keep your group policies for long-term care insurance and life insurance. However, if you're single and nobody depends on your income, life insurance may be unnecessary, especially at a time with so many competing priorities.

Contact creditors. List your creditors and contact them immediately.

"Be honest and realistic when explaining your situation, and ask if there are any ways they may be able to offer temporary relief," said Bruce McClary, spokesman for the National Foundation for Credit Counseling. "Most creditors are in a better position to help when you are proactive, reaching out before payments are missed and things get worse."

It's not time to relay a sob story to creditors. It's time to succinctly describe your situation and lay out what you're going to do about it.

Short-term options may include deferring payments or paying less interest. Long-term options may involve refinancing or consolidating multiple accounts, and would most likely depend on the health of your credit score, McClary said.

Besides creditors, reach out to others you owe on a regular basis. For example, utility companies may have hardship programs offering a break on utility costs during a temporary financial crisis.

For mortgages, contact the mortgage servicer and tell them about the layoff. "Ask about options that might be available to avoid foreclosure if the situation doesn't improve soon," McClary said.

Seek to put student loans on hardship deferral or forbearance to buy time.

"Don't just stop opening bills," Herigstad said. "The worst thing you can do is ignore it and then get mad when they send you to collections."

Consider your credit scores. In a true crisis, your creditworthiness isn't a top priority, but safeguard it when you can. The primary factors determining your credit scores — you actually have many scores based on your credit reports — are paying bills on time and the amounts you owe, relative to how much credit you have available.

"This is not a good time to destroy your credit, if you can avoid it," Herigstad said.

That's because low credit scores can hinder your ability to recover from a job loss. For example, some employers conduct credit checks before hiring. And if you have to relocate for a job and need an apartment, you can be tripped up when a landlord checks your credit.

Get help. You might want to see a financial planner, especially if the situation isn't dire and you need strategic advice on which accounts to tap. Some planners charge on an hourly basis. If you have a financial adviser or you have substantial assets with a mutual fund company, you might qualify for free advice.

Joining a support group for unemployed people can be worthwhile, aiding not only with job-hunting strategies but helping psychologically. "It can help because you don't feel like you're the only one (unemployed)," Duke said. Also seek help from government job centers, which might have job-retraining grants available, she said.

Credit counseling might help. A place to start would be nfcc.org. Heed warnings from the Federal Trade Commission about debt relief services. See FTC advice at consumer.ftc.gov/articles/0150-coping-debt and consumer.ftc.gov/articles/0153-choosing-credit-counselor

Deal with desperation. Tapping 401(k) retirement savings can be costly because you have to pay taxes on the money and a 10 percent early withdrawal penalty if you're younger than 55. (The age is usually 59.5 but in case of a layoff is reduced to 55.) See irs.gov, publication 575. If you have a different type of retirement plan, check its early withdrawal rules.

Other desperate moves might involve moving to reduce costs, moving in with relatives or selling a car. One idea: Try to rent out your home for the cost of the mortgage payment and move somewhere cheaper temporarily. Then you can move back into your house or sell it when you're back on your financial feet, Herigstad said.

Consider personal bankruptcy. "There should be no shame in filing bankruptcy if someone is in a horrible situation," Herigstad said. Just realize it will likely be a stressful, difficult process, and make sure it will really help your situation. Not all debts are dismissed in bankruptcy. It will trash your credit for a decade in the case of Chapter 7 bankruptcy.

The good news, said Herigstad, who was laid off 15 years ago, is the experience of losing a job, while tough at the time, can set you on a new path.

"When you look back at it, years later, inevitably it turned out to be just a steppingstone," she said. "It seemed like the end of the world, but what came next was always better."

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