How to address layoff in comprehensive financial plan?

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How to address layoff in comprehensive financial plan?

Recent layoffs all across the IT and other sectors make one worry about their job security. To deal with a layoff is not an easy thing both emotionally and financially. While one has to put a strong face dealing with it, there are other worries looming over our heads like EMIs, kids' school fees, or other loans. Not everybody gets laid off, but preparation is the key.

Preparation for such an event well in advance will give you the security in case such situation occurs. Not only will it help you limit any financial troubles to you and your family, but it will also buy you enough time to sort things in your professional life. Therefore, such situation should always be a part of your financial plan.

Let's discuss how you can address layoff in your financial plan.

Create an emergency fund

As a thumb rule, one should have five to six months of expenses as an emergency corpus. If at all this layoff axe falls on you, you will have enough money to take care of your immediate expenses.
If you don't have this category of fund, you can start creating it by deducting a set amount every month from your income. This money is not to be saved in equities or any instrument with risky nature or lock-in period.

Emergency fund by name itself clarifies that it can be used at any point of time during emergency. Hence, close ended or high risk funds are a big NO. If you don't know how much are your monthly expenses you need track that.

This can be easily done by having a look at your monthly income and outgoing expenditure for over past three to four months. Then you can differentiate between the lifestyle expenses (money that you splurge) and necessary expenses (bills, EMIs, etc.). It will help you decide on how much should you save for your emergency fund corpus.

Have a personal health insurance

Many a times we think our corporate health insurance will serve all our needs. But we tend to forget that our corporate health cover works only till the time we are working with that company. The moment we stop working, or get laid off, this cover also ceases to exist. Hence, it is important to have personal health insurance to cover for our health issues at any point of time.

Managing debt

One more issue that a proper financial plan addresses is to manage debt. There are many types of debt or liabilities which an individual has in his working tenure — personal loan, credit card debt, home loan, or a car loan. While very few loans like home loan are healthy as they help one save taxes, but on other debts like credit card overdue or personal loans, an individual pays hefty interest which is an unnecessary burden.

You can buy this cover only as an add-on along with other insurance covers such as Critical Illness cover or Home loan protection plan. And there are quite a lot of exclusions in the current version of job-loss cover, for instance, the employee who is asked to leave due to poor performance will not get benefitted from this plan. Also, the insurers typically pay only three home loan EMIs with specific conditions. Hence, it is better to create your own emergency fund rather than going for the bundled job insurance plans which might not be able to provide adequate cover in the times of need.

(The writer is Managing Director at Sinhasi Consultants Pvt Ltd)

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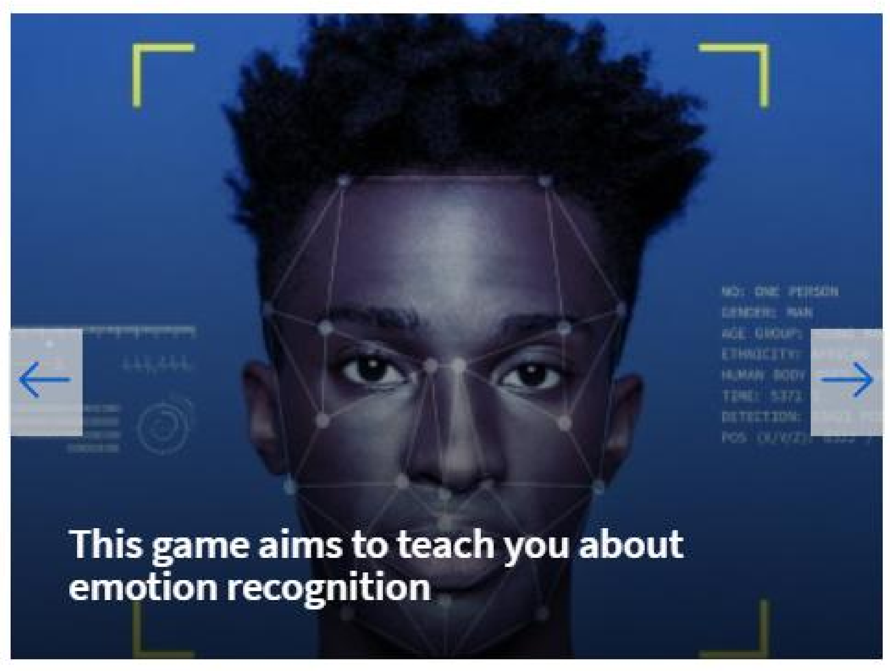

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