What To Do If You Lose Your Job

One of the biggest surprises of the CoronaBear for my readers and me is the decrease or even total loss of earned income. Physicians, dentists, attorneys, and other high-income professionals are used to having a relatively recession-resistant income stream. Now, dentists, plastic surgeons, and other self-employed doctors who do primarily elective procedures have closed up shop.

Without business interruption insurance (much of which excludes pandemics, I'm sure), not only are they without personal income, but they are facing difficult decisions regarding what to do with their employees. The employee salaries (and benefits) are massive drains on their business cash reserves and eventually personal assets, yet they hope to be back up and running full-speed in just a few weeks or months. Laying off the employees not only feels morally wrong, but is likely to hurt the business financially in the event that they are able to open back up quickly. Worse, some high-income professionals ARE those employees who are being laid off, offered fewer hours, or having their pay decreased in some other way.

Most stock market crashes, and even recessions, are buying opportunities for the typical doctor. By virtue of your very stable, high income, you can take advantage of great prices on stocks, real estate, and consumer goods. If anything is different about this bear market (all bear markets are unique, although it really isn't "different this time"), it's the fact that your income is at risk like that of many other Americans. Consider a recent poll (March 23) I did on Twitter.

As you can see, while there are plenty of emergency physicians, hospitalists, and intensivists who are ramping up their work, and 1/3 of doctors are fairly unaffected, there are 3% already laid off and 40% who are basically underemployed or rapidly headed that way. So today, I thought I would write a post for that 43%. At the end of the post, I'll discuss what can be done as an employer/small business owner.

How to Deal With Unemployment/Underemployment As a Doctor

The formula is relatively straightforward:

1. Minimize the Time Period
2. Build Up Cash
3. Cut Expenses
4. Increase Side Income
5. Tap Assets Strategically

1 Minimize the Time Period

The sooner you can get back to working full-time, the easier this all is to deal with. So as soon as you get laid off (or even when you start seeing the writing on the wall), starting looking for another job. Call your contacts, buff up your resume/CV, and LinkedIn profile. Consider getting another state license. Gather your credentialing paperwork. There's a big difference financially between being out of work for three months (feels a bit like a sabbatical/extended vacation and you burn through your emergency fund) and being out of work for a year (get depressed and burn through your portfolio).

2 Build Up Cash

Your cash is your runway. You're not actually in financial trouble until you run out. So if you lose your job (or think you're about to), start amassing cash. That means stopping your 401(k) and other investments. That might even mean selling some stuff that you're not using. It means cancelling any large purchases or vacations you were planning. The more cash you have, the longer your runway. If you've followed the guidance of most financial advisors, authorities, and gurus, you have an emergency fund of 3-6 months of your household expenses. One of the biggest reasons to have that amount of cash is to allow you to deal with a 3-6 month period of unemployment without having to sell long-term investments.

3 Cut Expenses

Cutting expenses is a great way to make your runway longer. With careful budgeting and frugal living, you might be able to live off of a 3-month emergency fund for 12 months. One of the best things about living debt-free is that you have fewer fixed expenses, and in a situation like job loss, you need to make a large part of the variable expenses go away. It might even be helpful to make some of the fixed expenses go away, at least temporarily. Here are some ideas for cutting expenses:

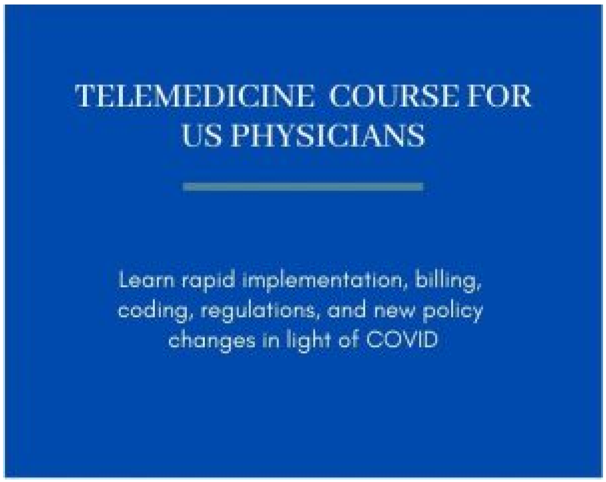
- Stop going out to eat or ordering out. Food is cheaper when you make it at home.
- Eat your food storage. Hopefully, you have 1-12 months of food sitting around. This is why. I'm not talking about hard-core preppers. I'm talking about the pantry, the cupboards, and the full freezer. If you don't have to go to the grocery store as much, your cash will last longer.
- Cut utilities. Turn the therm0stat up (Summer) or down (Winter.) Get better at turning the lights off. Get the cheapest internet and cell phone packages.
- Cut entertainment costs. Cancel cable, Netflix, and Disney+. Stop buying books and use your county library. Cancel your gym membership and start running and doing body-weight exercises at home.

-  Decrease/delay housing costs. Call your landlord and ask for help. At a minimum ask for rent not to be raised. You can ask for a temporary rent decrease or even the ability to delay payments for a few months. People understand we're in a pandemic. Landlords don't want to have to find a new tenant in a pandemic. Lenders don't want to have to foreclose when it is difficult to sell a home. They'd much rather not be paid for a few months than go through that. Take advantage of that fact.
- Don't go shopping. Most of us already have 5X as many clothes as we will wear for the rest of our lives.
- Give less. I'm a big fan of giving to those in need and to registered charities. But you can best help others from a position of strength. You're not in a position of strength right now. If you tithe a percentage of your income, that should pretty much go away when you've lost your job. Give the gift of your time instead of cash or an expensive gift.
- Cut your estimated tax payments. If you lose your job, your taxes will go down dramatically. If you've already made an estimated quarterly tax payment or two this year, you may have already paid more in taxes than you will owe. If so, stop or decrease those payments. Form 2210 isn't that painful.
- Find cheaper alternatives. You (and your kids) may find it particularly painful to cut back on their activities. Creativity can win the day. Instead of competitive

soccer, maybe you play county league this year. Maybe you go to piano lessons once a month instead of once a week. Instead of an art class, you go to the museum on their annual free day and buy some cheap art supplies to use at home. Go from private school to the local charter school for the rest of this year.

- Decrease child care costs. If one parent is not at work, you should be able to substantially reduce child care costs.
- Your college student can switch schools, get a job, take a semester off, or take out student loans.
- Delay expenses if possible. 1st and 2nd quarter estimated taxes can be pushed back to July 15th without penalty. Federal student loan payments are currently suspended. Private student loan lenders generally have a hardship provision of up to a year.
- Follow some frugality/FIRE blogs. It would not be an unusual month for my family to blow through $10-15K in a month, even without any debt payments. But there are plenty of bloggers out there who live on 10-20% of that amount. They're more than willing to tell you how they do it. Copy them. You may discover that at your new level of spending you're actually financially independent!

Remember this is all tempor



ary. Maybe you can even make it fun.

4 Increase Side Income

As many retirees have discovered, a side income may not fully support you, but it sure makes your cash last longer. Many unemployed and underemployed doctors are looking at telemedicine opportunities, doing paid surveys, doing insurance/medicolegal/nonclinical work, and even doing some side gigs.

It is hard to spend 60 hours a week looking for a job. You probably have some time in there to do some other work. While becoming a paid content producer (blogger, podcaster, author, etc) might seem attractive, chances are good that you’ll be back at your full-time gig long before you ever make any significant money doing it.

Be sure to file for unemployment and any other benefits you qualify for (Medicaid, Food Stamps, etc). Note that unemployment has NEVER been more generous than it is right now. The CARES Act passed a week ago provides $600/week more money and unemployment benefits last 13+ (varies by state) weeks longer. The Food Stamp program also received a bunch of money from the CARES Act.

5 Tap Assets Strategically

Losing your earned income in the midst of a bear market feels like a perfect storm. Cash is King, and it represents your runway. Do all you can to make the runway as long as possible so hopefully, you will be in the air (re-employed) before you get to the end of it. But what do you do if you don't make it? You're out of cash and still unemployed or underemployed. You've already cut your expenses and boosted your income. Now what? It's time to start tapping your other assets. Where to start?

Taxable account

One really nice thing about a taxable account is its flexibility. It's not restricted to health care expenses or education expenses and there is no issue with the Age 59 1/2 Rule. Retirees may not have an emergency fund simply because their entire portfolio functions as an emergency fund. Well, guess what? Your portfolio spends just fine. Naturally, in a downturn, you don't want to sell your stocks low. Fine. Sell bonds. No bonds in your taxable account? No problem. Sell stocks in your taxable account and exchange bonds for stocks in your retirement account. Same same. And even if you have to pay some long term capital gains taxes in that taxable account, it shouldn't be much given your new lower-income (LTCG rate is 0% at an income of <$80K MFJ) AND the smaller difference between basis and value due to the market downturn. Heck, you might even be able to book a useful loss and further reduce your tax burden. Obviously sell your highest basis stuff that you have owned for at least a year first.

Retirement Accounts

Retirement accounts are for retirement and I hate to see them raided for anything else. But tapping a retirement account beats starving to death. There are two main downsides to tapping your retirement accounts:

1. Loss of tax-protected and asset-protected compounding
2. The 10% penalty

There isn't much you can do about # 1, but there are LOTS of things you can do about # 2. For example, Roth IRA contributions can be taken out tax and penalty-free (careful with the 5-year rule). You can pull out up to $10K from a traditional IRA (or $10K in earnings from a Roth IRA) penalty-free for a new home (meaning you haven't bought one in the last 2 years). You can take money out penalty-free for higher education expenses (think money you spent a few months ago before you lost your job) and to buy health insurance too (especially if you're now, under COBRA, paying the entire premium.) You can pay an IRS levy penalty-free too.

But even if you need more than you can take out under all of those exceptions, it's not the end of the world. Maybe you save 35% when you put the money in and you're now pulling it out at 12% plus a 10% penalty for a total of 22%. That's still a nice arbitrage.

Borrow Money

This one can get tricky when you don’t have any earned income. But if you already have something set up with guaranteed terms, you might be able to now take advantage of it. That might mean borrowing against your whole life insurance policy or your home using a HELOC. It isn’t interest-free, but it is tax and penalty-free. Just realize that when you start borrowing against something, you are putting it at risk and if your economic situation never turns around, you may lose the asset. Borrowing against your 401(k) isn’t a terrible option either. It used to really not be an option at all since it all had to be paid back within 60 days of losing the job. Now you get until your tax return due date, which could be as many as 15 months away. If you don’t have it paid back by then, it basically just converts to a withdrawal and you would owe taxes and penalties. But if you’re still in a terrible situation at that point, you should be in a pretty low tax bracket.

A Few Ideas for Employers

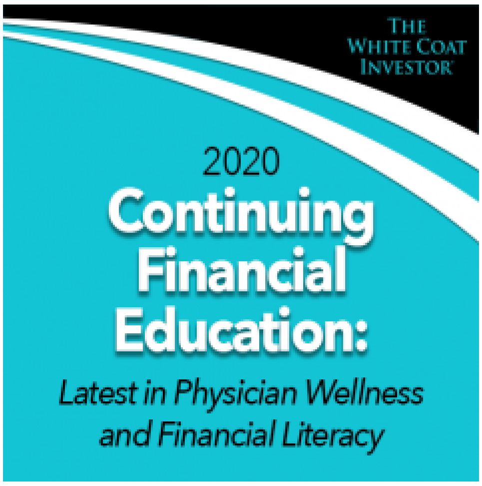
So what if you are that employer whose revenue has been dramatically reduced? What options do you have? Well, the obvious first option is to use your cash reserves, for as long as they may last. Just like families should have an emergency fund, so should a business.

Business interruption insurance is also a great option, although you need to have done this beforehand obviously. Be sure to check whether your coverage includes pandemics!

A business line of credit or mortgaging property owned by the business or business owner is also an option, but may have some significant upfront costs and in the long run, may cause you to lose the business or its assets. Your state and the federal government are offering low interest, potentially forgiveable SBA loans as part of their relief efforts.

Ask employees to share some of the risk. Your employees are terrified of losing their jobs completely. Using up a couple of weeks of paid vacation, having their hours temporarily cut, taking a salary decrease (or at least foregoing an increase) or even taking a little bit of unpaid leave beats losing their job completely.

Pivot the business. Maybe you didn't use to do telemedicine by video chat, email, or telephone. Why not add that service? Even if you're getting paid less, some income beats no income. Medicare and some insurance companies are now basically paying regular rates for telemedicine visits. You can continue this service after the pandemic is over as a new business line.



Cut the fluff. If your volume is down 80% or 90% for an extended period of time, you're probably going to have to let someone go for the sake of the business, you, and the other employees. If you've been looking for an excuse to fire a less productive or problematic employee, here's your chance. It sounds ruthless, but streamlining the business now means more secure jobs for your best employees in the long run and it may not even hurt the fired employee as much as normal since they can blame it on the pandemic in their future job interviews. If nothing else, firing the least productive employee may provide a little extra motivation to the remaining employees to maximize their value to the business.

[Update prior to publication: [The CARES Act]() passed one week ago includes significant benefits to small business owners who agree to keep employees on rather than firing them. Make sure your employer knows about these if they start talking about letting you go or even cutting your hours. Those who are logical will realize that the government will pay a good chunk of your salary for them for the next 8 weeks.]

Losing a job, income, or business revenue isn't fun for anyone. But good financial planning can reduce the pain and dramatically reduce the anxiety associated with it. Lengthen your runway as much as you can and have a plan for what you will do if you get to the end of it.

What do you think? What tips do you have for docs who have lost their jobs in the CoronaBear? Comment below!