Business Not So Good? Here's How to Protect Against Job Loss in a Financial Plan

In September, Chicago outplacement firm Challenger, Gray & Christmas announced that August layoffs had rocketed 85 percent to 79,459 in August from 42,897 in July, continuing a steady march upward in job cuts since spring.

What does this mean to you? As Harry Truman once said, "It's a recession when your neighbor loses his job; it's a depression when you lose yours."

So, are you ready for a depression?

A financial advisor such as a Certified Financial Planner™ professional will insist you build a cushion in case of job loss – it's part of their job to make sure you understand the worst-case financial scenarios in all areas of your life. Even if times are good at your employer, use these stress-free moments to plan for a rainy day:

Build that emergency fund: If you don't have 3-6 months worth of living expenses already saved in an interest-bearing account for emergencies, start socking it away. Try to find an account with an automatic deposit feature so you never have to worry about missing a week of savings. And make this account separate from any other savings or investment account. Wondering where you'll find that extra money? Start tracking your spending and you may readily notice areas where you can economize.

Slash your high-interest debt: While times are good, cut your spending so you can eliminate credit card, auto and home equity debt – these are the kinds of debt that are particularly punishing if you're out of work. The sooner you can learn to manage debt and use it only for reasonable purposes, the sooner you'll be on your way to a savings and investment cushion that will protect you in good times and bad.

Keep networking: It's always a good idea to get to know your peers in the city or town where you work. It's particularly wise to make the time to network while you're still employed because you might get the lead on your next job well in advance of the time when you may need it. The money you spend on membership in a group or association key to your industry may be the best money you've ever spent. Plus, it may be tax-deductible.

Get a line of credit while you're still working: If you own a home, consider taking out a home equity line of credit and vow never to touch it unless you run into a serious cash flow problem if you lose your job. If you don't touch it, it won't cost you anything. Make sure you apply for the line while you're still working – lenders want to see that steady salary.

Use your company's education dollars: Sharpen your skills on the company dime. Take classes that will improve your skills at this company or other employers down the line. You might get a promotion with those added smarts, and that could make you more invaluable to your employer.

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Apply for disability coverage while you're still working: Personal disability coverage is increasingly important as companies continue to pare benefits. Group disability coverage can be threadbare if you have a lengthy illness or disability. Plus, it makes sense to buy personal disability coverage based on your current income. You won't be able to buy as much if your income goes down.

Apply for your child's college financial aid while you're working: If you have a child in college or ready to go to college, make sure you have filled out the FAFSA – the Free Application for Student Financial Aid – on time. Even if you don't need the money now, there are hardship forms that can be filled out later in case your child needs the aid and you're without a job. Even if you're in relatively good shape now with your child's tuition now, consider this college insurance for your kid.

Understand your benefits: If you are laid off, you will qualify for a continuation of your employer's health insurance benefits through COBRA. The federal Consolidated Omnibus Budget Reconciliation Act allows an individual to buy coverage from his former company for 18 months (or more in certain situations) due to employment termination or reduction of hours of work. You'll end up paying the amount of your total premium since the boss doesn't have to pay his share anymore, but at least your coverage won't change. If you're married, see if you can switch to your spouse's health coverage – it might save more money than going COBRA. Also, check out what your unemployment benefit will be ahead of time so you can budget.

Stay away from your 401 (k): The possibility of losing your job is an excellent reason never to take out a 401 (k) loan. You'll need to pay it back before your last day at work. And don't even think about tapping retirement savings if things get tough. Find another way to shore up your cash flow – take on a part-time job if necessary until you find your next full-time position. It's not uncommon for a part-time or temporary position to lead to a rewarding full-time job.

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