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TIP 86 PLANNING A SMOOTH TRANSITION TO A NEW CAREER

Q. I'm thinking about making a career change. What steps can I take to manage the financial aspects of this transition successfully?

A. If you are reading this, chances are you are about to embark on the fascinating, enriching, and sometimes frightening journey that a career change— whether self-imposed or involuntary—often represents. Career change also often results in a change in financial circumstances, whether temporary or permanent, large or small, up or down. Whatever the outcome, the transition will be smoother if you consider the financial implications of a job change before you make it.

Gather Information

First, familiarize yourself with your current benefits package and, if possible, your new one. For some, this will provide leverage when negotiating your new compensation package. But it's also an opportunity to take full advantage of your existing benefits package while you still can.

Pay It Forward

If you anticipate fewer comprehensive benefits in your new career, consider moving up elective visits, expenses, and procedures. For example, if you will no longer have vision benefits under your new employer's health plan, schedule your annual check-up before the transition. Fill ongoing prescriptions now rather than wait. Prepay your dependent care or health club expenses if possible.

Use It Before You Lose It

Check the balance on your Flexible Spending Account. If you contributed more than you spent, you will forfeit the balance when you leave the company. So spend it on qualifying expenses before you go. On the other hand, your employer must reimburse you for all eligible expenses through your date of termination (up to the annual amount you would have contributed), even if you have contributed less than the amount of those expenses.

Are You Playing It Close to the Vest?

With most retirement plans, the employer's contribution vests over a period of several years, but if you leave before being fully vested, you will lose some of these benefits.

Therefore, if you're close to becoming more fully vested, consider changing the timing of your career switch accordingly.

Stay on a Roll

When you leave an employer, you can roll over your retirement plan to an IRA or to the new employer's plan, or you can keep it where it is (if allowed). You may also have the option to cash out. If you're not yet 59 ½ cashing out carries a 10 percent penalty *and* you'd owe income tax on the amount withdrawn. If you have borrowed from your retirement plan, the outstanding loan comes due immediately on termination. If you don't have the cash, the loan amount is considered an early withdrawal (subject to that same 10 percent penalty and income tax.) Generally, it is most advantageous to roll over your retirement account from your former employer to an IRA when you change jobs.

Stay Covered

If your new employer doesn't provide a health plan, consider purchasing the coverage offered by your previous employer for up to 18 months (per the Consolidated Omnibus Reconciliation Act of 1985, also known as COBRA). Investigate your health insurance options before changing jobs.

Get a Handle on Expenses

If you expect a significant decrease in income with your career change, get a handle on your expenses. If you haven't already done so, determine your monthly expenses and estimate how they will change. Do not forget nonreimbursed job training and relocation expenses, business start-up costs, and new commuting costs. If your decrease in income is permanent, decrease expenses accordingly. If the decrease is temporary, calculating your expenses will help you to save for interim cash needs.

Build a Cushion

Although it's always a good idea to have an emergency fund of at least three to six months of expenses, it's especially important if you're earning less. Consider beefing up your cash cushion if you're unsure how long the lean times will last.

Give Yourself Some Credit

In general, try to avoid taking on a lot of debt prior to your transition. But, if you need to purchase a big-ticket item and can make the required payments, it will be much easier to get a loan approved while you show a steady income. Also, consider securing a home equity line of credit now. That increases your available emergency funds, and you will only owe interest if you actually use the money.

Plan for Uncle Sam

Where possible, consider timing income and expenses to reduce your overall tax liability. For example, if you know that you're in a high tax bracket this year but will be in a lower one next year, incur tax-deductible expenses this year but defer income until next year. If you plan to sell securities held at a loss, do so while you have income against which to offset the loss.

Create a Disability Safety Net

If you're starting a business and not already covered by an employer or individual policy, consider purchasing disability insurance while still employed. Once you are in business for yourself, you generally have to show a year's track record of income before you become eligible to purchase disability insurance. Even if you have disability coverage from an employer, consider a supplemental policy to help cover you after you leave the company.

Keep Your Eye on Goals

Depending on the timing, a career change can have a significant impact on your ability to meet financial goals like retirement, college funding, and more. Consider working with a financial planner to determine the extent of the impact.

End Note$

While a career transition can dramatically change your financial situation, it is important to plan for and manage the impact where you can. Money, however, isn't the only factor in this important decision. Ultimately, few things in life are as satisfying as finding (or creating) personally and financially rewarding work. To successfully make the journey from where you are today to this destination, you must take into account personal goals and satisfaction, long-term opportunities for growth, and the effect on your family's lifestyle. Then apply a healthy dose of money smarts.

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