Financial Planning

Your Client's New Career

Rather than retire, more and more clients want to downshift into more satisfying, if less lucrative, jobs. Can they pull it off without derailing their financial plans?

By Sherrill St. Germain

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"I work long hours under constant stress at tasks I'm getting pretty tired of doing. I'd love to walk into the office and quit tomorrow," explained 39-year-old single mom Jennifer, who is a director of personnel in the military. "But I have a mortgage and bills, and my divorce decree requires me to pay 50% of college costs. I'm eligible for early retirement in eight years, and I really want to take it. I have no intention of actually retiring. I just don't want to do this much longer. Can I do it?"

Jennifer came to see me as one of many mid-career professionals who are discovering that, now that they have the jobs they always wanted, the end result is nowhere near as satisfying as expected and the tradeoffs are too many. These clients have worked with their advisors to build financial plans, and their dreams, around careers they had anticipated pursuing, at increasingly higher income levels and benefits, for decades. Many have been doing all the right things (living within their means, saving, investing appropriately) for a number of years. If they could hang on in the job, early retirement would be a definite possibility. But they are saying they can't imagine themselves lasting even that long in their current careers, and they want to find a way out. On the other hand, they're reluctant to ditch the financial security they've worked so hard to achieve.

Can financial planners best serve these clients? Specific recommendations depend greatly on how far along the client is in the transition process, but planning for a career change is actually not all that different from planning for retirement. As with retirement, planning strategies run the gamut from cash flow/debt management to income tax planning, from risk management to proper investment selection, from maximizing employee benefits to assessing readiness. The key to recommending strategies that really work for the client is to understand what's driving the change, how motivated the client is, how urgent the need is and what the acceptable options and tradeoffs might be.

LOOKING FOR AN OFFRAMP

Why do so many clients suddenly seem to be looking to escape from jobs they hate? Since the recession of the early 2000s and throughout the "jobless recovery," companies have been trying to do more with less, sometimes simply to survive--and employees are being pushed to the limit. With jobs disappearing, people may feel they have less to lose by "jumping ship," since chances are they'll be pushed out anyway.

Furthermore, with increasing globalization, companies now have facilities and clients all over the world. Never before have so many employees, so deep into the organization, been required to travel so much to do their jobs. This can put a tremendous strain on employees and their families.

Increased longevity is also driving people to want to work longer, given the very real possibility that an early retiree may live another 30 or 40 years. On the other end of the spectrum, some clients are convinced they may never be able to retire. Their attitude seems to be: "If I'm going to have to keep working forever, I want to be doing something I like a whole lot better than this!" The goal for these baby boomers and older Gen Xers is to "retire" (from the must-do full-time-plus job), but continue to work in a more flexible, part-time role that better suits their interests and values.

Perhaps the single biggest factor driving clients who want to change careers is the desire for a more meaningful existence. In past decades, those complaining about what were perceived as "good steady jobs" might have been dismissed as whiners and told to be grateful for what they have. These days, especially in a post-9/11 world, more people share an unwillingness to wait until retirement age to pursue activities that are meaningful to them, for fear that it might be too late!

In recent years, much has been written about professional women wanting to downshift. But it's not just women who are experiencing the desire to take their careers "off-ramp." The trend is increasingly common among men, including sole breadwinners with young families.

Jim, 47, is a vice president of operations at a pharmaceutical software company, a job that requires him to spend two hours commuting in traffic every day when he isn't amassing frequent flyer miles visiting clients around the country. He wants to downshift, but, besides their other financial obligations, he and his wife Nancy are committed to funding 100% of college costs for their four kids.

Likewise, 37-year-old Matthew, a highly paid network engineer, has a lot of child-rearing expenses ahead of him. He and his wife are expecting twins. Nonetheless, he wants to go to law school. While he likes his job well enough, he doesn't think it will exist for much longer. "I'm convinced my engineering job, and most others like it, are going to India in the next three to five years, and I want to be ready."

THE PLANNER'S ROLE

If this wave of career changers hasn't yet washed up on your shores, it probably will soon. How can we planners help these clients reconcile their seemingly contradictory goals? How should we shift the way we work with them to accommodate these new factors in the financial planning equation?

Dealing with many variables is nothing new to planners. However, financial planning for a younger client who is proposing to take a big hit to income and benefits--at least temporarily--takes uncertainty to a whole new level. Indeed, it's a lot like retirement, but with less time to accumulate assets to support the shift.

Given our natural tendency to want to mitigate risk, financial planners may be tempted to discourage these clients from attempting the proposed transition. But we need to keep in mind that there are opportunities as well as costs and risks inherent in such a shift. After all, a client who loves his or her job and wants to keep working may well be happier, healthier and at less financial risk (over the long run) than one who insists on banging away at a higher-paying, much-loathed job for a few decades in hopes of achieving the elusive goal of early financial independence.

Helping a client pull off such a transition can be tremendously rewarding, but designing a financial plan for a career changer is probably among the most challenging work a planner might be asked to do. If you end up tackling such a case--and, with so many boomers considering this as their retirement strategy, chances are you will--what are some of the factors you may want to consider?

First, listen to your initial instinct to mitigate risk. Before crafting a detailed plan, make sure that the client has thought things through and is truly committed to the change. Ask a lot of questions: Is he or she making a conscious choice to move to a better place and not running away from a bad situation? Is he or she certain that the dissatisfaction truly stems from the career, and not some other aspect of an unsatisfying life? Is he or she looking to escape the role, the workgroup, the company or the entire industry? What is the target time frame for the transition? Will it be necessary to get additional training? How much will training cost, initially and on an ongoing basis? Does the career waiting on the other side justify this investment, as well as the opportunity cost of abandoning a lucrative career?

And keep going: Are there alternative strategies that might help the client get to, or near, the desired destination? Is it possible that someone else (e.g., an employer, the government) would pay for training? What tradeoffs is he or she willing to make (current spending, college goals, etc.) to effect this change? If your client can't answer these questions, you might recommend that he or she do more research or consult a career counselor before moving ahead.

THE MIDLIFE-CRISIS CLIENT

Even before any firm goal is in place, there are some things planners can do to better position a client to make a career change at some point down the road. For example, Sharon and Steve, a recently married, dual-income couple in their early thirties, are already lukewarm about their careers. They expect and want to plan for a midlife crisis, as they put it. That is, if in 10 to 15 years they want to change careers, start a business, live abroad, go back to school, etc., they want to be able to do so without derailing their retirement.

In many ways, their financial plan is similar to that of a young couple who intends to "stay the course" work-wise, including strategies for paying off debts, building an emergency fund and taking maximum advantage of "free money" at work, such as 401(k) matching and flexible spending accounts. The main difference is that rather than maxing out their 401(k)s, Sharon and Steve are directing more of their ongoing savings to Roth IRAs and a (taxable) escape fund, which gives them the flexibility they need should they want to tap their funds without penalty before they reach age 59.

Because Sharon and Steve don't yet know what lies on the other side of their transition, it's too early to tell exactly how big their escape fund needs to be. But it's safe to say that the traditional emergency fund of three to six months' living expenses probably won't cut it. Nor does the escape fund need to be all cash, since they have at least a decade before they'll need the money. Rather, they should invest the money somewhat more conservatively than their retirement accounts to match the relatively short time frame of the goal.

While they may be giving up some tax breaks and some expected return on their investments, Sharon and Steve are more than making up for this by aggressively managing their cash flow. With such a pivotal life goal at stake, they are more motivated to make spending decisions consciously than many others their age. The book *Your Money or Your Life: Transforming Your Relationship with Money and Achieving Financial Independence,* by Joe Dominguez and Vicki Robin, has been a valuable resource in helping them form a clear picture of exactly how much "life" they are willing to trade off with each purchase. Having built their flexible nest egg in parallel to funding retirement, Sharon and Steve should be well positioned to manage whatever change they choose, or any curveball life throws at them.

THE CLIENT COMMITTED TO MAKING IT HAPPEN

When it comes to planning ahead, Sharon and Steve are the exception. Typically, clients come to terms with their desire to scrap their careers after the need has become more pressing.

That was the case for Jennifer, the young military worker. By the time she determined that she had to make a change, she was significantly further along, both in her career and in her level of financial commitments. Fortunately, she was fairly well positioned to achieve her goal of leaving her current job at 47. After many years of living within her means and diverting income to 401 (k) and 529 plans, Jennifer had, in fact, already funded a significant portion of her college and retirement commitments and built a solid foundation for launching her future plans.

The main issue was that she would not be able to access much of what she had saved for her other goals without paying a 10% penalty and depleting assets originally intended for the long term. While she initially proposed using a 72(t) election to access her retirement funds without penalty, my analysis suggested that, with her eight-year time frame, she should be able to save enough to fund her transition period without tapping into her retirement assets before age 59.

Together, we mapped out a timeline for her overlapping goals (a heftier-than-usual emergency fund, her escape fund for the transition period, college for each of the kids, training to prepare her for a to-be-determined role in the arts, her eventual retirement from all work) and calculated monthly savings amounts for each. I matched the investment objectives of each "sub-portfolio" to the goal, and set up milestone savings targets so she'll know if she needs to adjust her plan midcourse. For instance, if she doesn't have about $15,000 in her escape fund by 2008, she'll know she needs to accelerate her savings, consider shifting her transition target date or make other tradeoffs. I recommended that she continue to direct some of the college and retirement money to qualified plans for the tax benefits, but put some in a regular brokerage account for flexibility. Further, I suggested that she stop prepaying her low-rate mortgage to free up more cash flow for saving and investing.

When it comes to career-change planning, timing can be everything. Jennifer's fantasy of walking into her boss' office "tomorrow to just quit" could cost her a fortune in lost employee benefits. Planners may need to raise clients' awareness about what they're giving up if they don't factor in vesting schedules for employee stock options and pension benefits, as well as tax- and college-planning opportunities.

The golden handcuffs might not always sway them, but clients should at least make decisions about leaving money on the table with their eyes open. Jennifer was already prepared to stay at her job until she would be eligible for full pension benefits. I also pointed out that if she decides to return to school after her transition, she might increase her eligibility for financial aid if she is in school at the same time as one or more of her children.

As with retirees, perhaps the biggest wild card facing career changers is healthcare. The luckiest career changers are those whose spouses have great health plans. Jennifer's early retirement benefits include very low-cost health insurance so she will be spared the brunt of this concern. But she will have to set aside additional funds to cope with the fact that insurers are passing more and more costs on to the insured.

Others, like sole breadwinners Jim, the pharmaceutical VP, and Matthew, the network engineer, are on their own when it comes to health insurance. Whether they take advantage of COBRA or seek private insurance, most will have to factor hefty health insurance premiums into their transition plans. For these clients and their families, a detailed cash-flow projection showing both actual and opportunity costs over the transition period and beyond can help them decide whether they are willing to take the risks and make the necessary tradeoffs to take the leap.

PREFLIGHT CHECKLIST

Michael Donohue, a 45-year-old dessert products marketing executive with a wife and two kids, also felt he was sacrificing too much "life" to earn the income required to live in the San Francisco Bay area. He was convinced he could achieve a higher quality of life at a lower cost of living in another part of the country, thereby enabling him to pursue a more satisfying career, albeit one that might not be as lucrative--at least in the short term. The proposed solution: Quit his job, move 3,000 miles to be near family in Maine (state slogan: "The Way Life Should Be") and launch his own business in a completely different industry. It was an ambitious plan, to be sure.

But since he wanted to become a financial planner, it wasn't surprising that Michael had already done some solid analysis to test his plan. He was almost ready to make the leap when he contacted me for a sanity check: Was he missing anything?

At this phase in the career-change process, the focus of financial planning efforts for someone like Michael shifts from planning and execution to assessing readiness, much like the transition from the accumulation phase of retirement planning to the actual retirement. Think of it as a preflight check. The factors to consider are similar:

- Are the assumptions about projected costs and income still realistic?

- Has the impact of the loss of corporate benefits such as health and disability insurance been adequately accounted for?

- Is the cash on hand sufficient to bridge the gap between careers?

- Are there any tax-planning opportunities as a result of the coming reduction in income? Can the client shift some income into the next (lower bracket) year? Can he incur business expenses according to a timeline that enables him to offset higher current income? Is the lower income transition period a good time to harvest some investment gains?

A detailed review, including cash flow projections for multiple what-if scenarios, allowed Michael to see the range of possible outcomes. Armed with information on the impact of a higher- versus lower-priced residence, Maine health insurance costs and projected income, Michael was able to make a final decision about his transition and gain the confidence he needed to move ahead with it.

Of course, the path of career change doesn't always run so smoothly. Many people don't plan far enough ahead, and it's not unusual for plans to get derailed or delayed by unexpected health problems, divorce or competing goals.

Occasionally, a client shifts to a new career only to find that the grass is not really greener. For example, one of my clients left the tech industry to become a special ed teacher. Even though she loved teaching, her satisfaction with her new career was diminished by other aspects of the job she hadn't anticipated, such as extensive administrative work and ever-tightening school budgets. After several years of trying to make the new career work, she recently decided to return to the technology industry. Such not-so-successful transitions reinforce the need for clients to research the availability of jobs in the new career and to interview with people already in the field prior to making a final decision. Working special ed teachers might have been able to warn my client about some of the unanticipated frustrations of her new career. Planners also need to work with clients on contingency plans.

Even when career changers have done all this work, much is still at stake. Actually making the leap can be just as daunting as retiring. This is why many would-be career changers only talk about switching and never actually do so. It's also why many of those who do have recently been laid off from corporate positions. Despite their initial anger, many of these "corporae refugees" emerge grateful for the push that allowed them to move on to what turned out to be a more satisfying life. If so many who are unprepared can somehow pull off a change, how much more successful could a client working with a financial planner be?

The bottom line is that more and more baby boomers want out of the jobs that bind--at younger ages; and more than ever, they are willing to make the not-so-inconsequential tradeoffs necessary to recapture their time as their own. Those planners who are willing to rethink some long-held assumptions will be well positioned to counsel these clients through this challenging but rewarding journey.

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