

Managing Your Finances When Changing Jobs

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by Charles Schwab & Co., Inc.
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In today's workplace, Americans of all ages are changing jobs more frequently. According to the U.S. Department of Labor, the youngest baby boomers (ages 42–49) have, on average, held more than 10 different jobs during their careers. Changing jobs can bring new opportunities—but also new challenges for keeping your financial plan on track during the transition. We'll take a look at some of the issues you may face when changing jobs at different stages in your career, as well as strategies for a successful transition that you can employ at any age.

Different Challenges At Different Life Stages

In your 20s and 30s, you may be changing jobs more frequently as you explore different career paths and interests. One challenge during this period of your life may be maintaining your health insurance during your job transitions, as many employers have a waiting period before you can join their health care plan. In addition, maximizing your retirement savings can be a challenge, as you often won't be fully vested in your employer contributions before leaving your first few jobs.

In your 40s and 50s, job changes are often more strategic in nature. You may be changing jobs to learn a new skill, take on new responsibilities or improve your work/life balance. Challenges can include understanding how your stock options work, as well as consolidating your retirement assets into a single account for easier management. Additional challenges can include how much value to place on non-cash compensation (such as company-paid life insurance policies) and how relocation may impact your total financial life, including state income taxes and local property taxes.

In your 60s and beyond, job changes are often driven by income needs and your lifestyle expectations. You may want to work fewer hours, or pursue a new job that reflects a personal interest. One challenge during this time can include making sure that your health insurance policy remains in place as you switch from full-time to part-time work, or even switch employers. Other challenges include trying to ensure that your income will last as you begin to make withdrawals from your retirement accounts. Today, many people are working longer or starting new careers in order to help supplement their retirement income.

What Do You Need To Consider?

Here are seven financial considerations you may want to think about when changing jobs. You'll likely need to tailor your choices to your own goals and priorities, but these ideas can give you a good place to start. No two employers are exactly alike, so calculating the benefits of a new job requires careful attention.

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Don't be afraid to ask detailed questions of both your current employer and potential new employers about their benefits program. Make a list of which considerations are most important to you.

1. Review Your Retirement Plan

A crucial decision you'll need to make when changing jobs is what to do with your retirement plan assets. The beauty of 401(k) plans is that your vested assets are portable, meaning that you can take them with you to your new employer or roll them over into an IRA. You always have full ownership of your personal contributions to a retirement plan, as well as any employer contributions that have passed any vesting, or waiting, period for full ownership. Make sure to ask your employer if there is a company match and how long it will take for the match to vest.

Consolidating retirement plan assets from one or more plans into an IRA or into your new employer's plan through a direct rollover can be a smart way to maintain the tax-advantaged status of your investments. In addition, you'll receive a single statement for all your retirement savings, making it easier to gain a clear view of your overall asset allocation. If you're younger than age 59½, making a direct rollover will also help you avoid any early-withdrawal taxes and penalties. An IRA may offer you more investment choices and flexibility than your new employer's retirement plan, but either solution can be a smart approach.

Two additional options include leaving your money in your former employer's plan and taking a cash distribution. As with choosing a direct rollover to an IRA or your new employer's plan, leaving your money in your former employer's plan will also help maintain the tax-advantaged status of your money. However, you won't be able to make contributions to your former employer's plan once you've left the company. As for taking a cash distribution, this option is almost never a good idea. If you are younger than age 59½, you'll incur an early withdrawal penalty, as well as a mandatory 20% federal withholding tax.

2. Protect Your Pension

Fewer employers are offering traditional pension plans these days, but if you have one, it's important to ask what will happen to your vested assets once you leave your job. Pension plan assets belong to your former employer until you take a distribution. With most pension plans, you are required to leave your assets in your former employer's plan and wait until retirement to receive a distribution. However, there are some pension plans that may allow you to receive a distribution upon leaving the company.

If you have the option to receive a distribution, consider requesting a direct rollover of your assets into an IRA. As with your 401(k) plan distributions, taking a cash distribution from a traditional pension plan prior to age 59½ will trigger early withdrawal taxes and penalties.

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3. Evaluate Your Stock Options And Grants

If you have stock options or stock grants, assess exactly what they are worth and find out what you may be leaving on the table if you change jobs. Stock options allow you to buy your company's stock at a preset price, while stock grants allow you to receive company stock at no charge. Your stock options are only valuable when your preset price, also known as the exercise price, is lower than the current market price of the company stock.

Your stock grants are typically equal in value to the current market price of the company stock. Many company stock option and stock grant plans have vesting periods before you gain full ownership. To assess the value of your stock options and grants, you'll need to determine how much ownership you have, how much they are worth and whether there are any restrictions for when you can use them. Your benefits department can give you this information and answer any questions you have.

If you have a significant number of options or grants that you think may be valuable in the future, you may want to consider staying in your current job until they are fully vested and you can exercise them. As an alternative, you could also ask a potential new employer to match the value of your options and grants through its employee stock plan or through a cash-hiring bonus. It's also a good idea to talk to your tax advisor about the tax consequences of exercising your options before making any decisions.

4. Calculate The Cost Of Living

If you're moving to a new location for a job, be sure to find out if the new city will be more expensive or less expensive than your current location. The easiest way to compare the cost of living in two different cities is to use an online calculator. Sperling's Best Places, an independent Web site that collects data on hundreds of cities nationwide, can help you create a detailed comparison of two cities.

5. Remember Insurance

While many people don't think of health care as being part of their financial plan, going without it has the potential to jeopardize your finances. To ensure that your health coverage is not interrupted, ask if there's a waiting period to join a new employer's health care plan and how much it costs once you join. The Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) is a federally mandated program that allows you to remain on your old health care plan for up to 18 months after you leave a job. You'll typically have to pay your own premiums while on COBRA, but you'll enjoy the peace of mind that comes with knowing you have health coverage should you need it. Other types of insurance you may want to ask a new employer about include life insurance and disability coverage.

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If a company provides life insurance, find out how much coverage it provides and whether you or your employer will pay the premiums. Many life insurance plans are not transferable, so having a policy independent of your employer when you switch jobs may be something to consider.

If a company provides disability insurance, ask whether it covers both short-term and long-term leaves of absence from your job. In addition, find out how much money you'll receive each month from the policy should you become unable to work.

6. Ask About FSAs and HSAs

Flexible spending accounts (FSAs) are tax-advantaged expense accounts that you can use to pay for health care deductibles, unreimbursed medical expenses and even child care. Your account will typically be funded out of your own pocket through pre-tax payroll deductions. Paying for eligible expenses with pre-tax dollars can potentially create significant tax savings over the long run. The IRS sets a contribution limit of \$5,000, although employers frequently set a lower limit for their own plans. Keep in mind that with an FSA, you need to spend your entire balance each year. Any unused funds are typically forfeited.

Health savings accounts (HSAs) allow you to set pre-tax money aside for both current and future health care needs that aren't covered by your health insurance. Generally, you can contribute an amount that is equal to your annual deductible for your health care insurance, up to \$2,700. Unlike an FSA, an HSA allows you to roll over your unused balance from one year to the next. An HSA also allows you to accumulate investment earnings on your account balance.

7. Take A Closer Look

As you crunch the numbers, remember that even small benefits can add up to big savings.

Some employers may help pay for all or part of your gym membership or offer you a commuter allowance to help pay for gas or public transportation. While these smaller benefits may not seem like much, consider this: A transportation allowance of only \$30 a month adds up to \$1,800 over five years.

Making The Switch

At every stage of life there may be times when it makes sense to change jobs. During the interview process, be sure to ask detailed questions about your total benefits package. Evaluate any potential job offers in the context of your broader financial plan. Find out if changing jobs can help you achieve your retirement goals and offer affordable health care to you and your family members.

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And if you accept the job, sign up for direct deposit as soon as possible to maintain the continuity of your payroll deposits. By measuring the value of the entire package against your personal goals, you can make a smoother transition and keep your financial plan on the right track.

One Last Question

What beneficiary forms should you review and update when you change jobs? When changing jobs, it can be a good time to locate and review the beneficiary forms for your 401(k) plan(s), your IRA account(s) and your pension plan(s), as well as any life insurance policies you have.

Managing Your 401(K) Balance After Changing Jobs

To make the most of your retirement savings, consider your options carefully.

Option	Pros	Cons
Roll over to new employer's plan	Avoid early withdrawal penalties. Money continues to grow tax-deferred.	May have a limited number of investment choices May have limited ability to make exchanges among funds in your plan.
Roll over to an IRA	Avoid early withdrawal penalties. Money continues to grow tax-deferred. Offers more options than employer plan.	Can't borrow against the assets. May have to pay an annual fee.
Leave in former employer's plan	Avoid early withdrawal penalties. Money continues to grow tax-deferred. Retain the ability to roll over to an IRA or new employer's plan at a later date.	Can no longer contribute to former employer's plan. May have a limited number of investment choices. May have limited ability to make exchanges among funds in your former plan.
Take a cash distribution	Can provide cash when facing extraordinary financial difficulties.	If you are younger than age 59½, you'll face a 10% early withdrawal tax penalty and a 20% federal mandatory tax withholding. Money no longer grows tax-deferred. You may face goal short-fall risk—the risk that you won't have enough money for retirement.

(End)