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# Transitioning Employment in Difficult Times



RBC Wealth Management™

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# Table of Contents

- Coping with Unemployment ..... 4
  - What is coping with unemployment? .....4
  - Dealing with your emotions ..... 4
  - Planning a financial strategy ..... 4
  - Planning for life after your current job ends ..... 5
  - Finding a new job .....6
  - Starting your own business ..... 6
- Surviving Financially When You're Unemployed ..... 7
  - What is it? ..... 7
  - Adjust your expectations ..... 7
  - Map out your priorities .....8
  - Draft a survival budget ..... 8
  - Find ways to increase your income ..... 8
  - Reduce expenses ..... 10
  - Strategies to consider if you have more time to prepare .....11
  - Plan a financial strategy ..... 12
- Deciding What to Do with Your 401(k) Plan When You Change Jobs ..... 13
  - Take the money and run ..... 13
  - Leave the funds where they are ..... 13
  - Transfer the funds directly to your new employer's retirement plan or to an IRA (a direct rollover) ..... 14
  - Have the distribution check made out to you, then deposit the funds in your new employer's retirement plan or in an IRA (an indirect rollover) .....14
  - Which option is appropriate? ..... 14
- Setting Up a Support Network When You're Unemployed ..... 16
  - What is an unemployment support network? ..... 16
  - Emotional support ..... 16
  - Job-hunting services and assistance ..... 16
  - Other job-hunting resources .....17

Special considerations for retirees ..... 18

## Coping with Unemployment

### What is coping with unemployment?

Coping with unemployment means breaking away from the past and facing your future. It means dealing with the emotional, financial, and professional challenges unemployment can bring. Although this process can be painful, facing unemployment with a plan will help make coping with it easier.

### Dealing with your emotions

#### *When you lose your job*

Losing your job is an emotional experience--whether you are laid off or fired, whether you quit or retire. Your feelings of self-worth are tied more closely to your job than you realize. Although you're certainly entitled to relax awhile after your job ends, it's easy to let a few days of sleeping late, watching television, and playing golf turn into a few months of inactivity. Be careful not to use your need to relax as an excuse to avoid facing your future. The more time that passes, the more likely you'll feel anxious and depressed about your future. Here are three tips on what you can do to keep yourself moving:

- Pretend that you're still working. You've probably heard the adage that finding a job is a full-time job. Well, it's usually true. So why not pretend that you're still working? You don't have to get dressed up for this job, but at least get out of bed at the same time, make yourself a cup of coffee, and get going. Stop for lunch and then work again until late afternoon. Keep moving, and you'll accomplish your goal of finding a new job with a lot less anxiety.
- Set daily and weekly goals.
- Get a calendar and write down what you want to accomplish each day for one week. Be specific and reasonable. Don't write "call future employers." Instead, write "call the human resource departments at five publishing companies." Then, write down what your weekly goal will be. You might write "compile a list of five potential employers and send resumes to them." Setting goals will help you feel in control of your fate and will ultimately help you get a job.
- Reward yourself. Looking for a job is tough, so after a long, hard day of job hunting, reward yourself. For instance, promise yourself in the morning that if you accomplish everything on your list by three o'clock, you can go to the matinee of the movie you've been wanting to see.

### Planning a financial strategy

#### *When you lose your job*

When you lose your job, you may be able to rely on savings or, in some cases, unemployment compensation to replace some of your lost income. However, if you don't have much money saved or are worried about how to survive financially, you should come up with a financial plan for unemployment. You should plan a financial strategy that will keep you afloat for six months, if necessary. Hopefully, you won't be unemployed that long but if you are, you'll be prepared. Make a list of ways you can save money and cut expenses and prepare a bare-bones budget that shows the least amount of money you can live on during your period of unemployment. Then, prepare a six-month financial plan that details to the extent possible how you plan to survive financially while you're unemployed.

## Planning for life after your current job ends

### *Find out what unemployment compensation you may receive*

If you are being terminated for any reason, find out if you will receive severance pay and what unemployment benefits you may receive. You're likely to receive severance pay if you are laid off, but severance pay is usually based on the number of years you've been with the company. If you are laid off or fired, you may be eligible for unemployment compensation from your state. Your employer can give you the details. You should also find out when you will receive your final paycheck and if you are eligible for compensation for vacation or sick days you accumulated but never took.

**Example(s):** When Alice was laid off from her job as executive housekeeper, her employer gave her a final paycheck consisting of her last two weeks of salary and ten days' worth of pay for the vacation time she had accumulated but never took. She also received severance pay equal to one month's salary. In addition, her employer gave her the address and phone number of the nearest unemployment office, as well as information on how to apply for unemployment benefits in her state.

### *Find out about continuing your medical benefits through COBRA*

If you work for a company with more than 20 employees, your employer must notify both you and your spouse (if any) via first class mail that you have the right to continue your group health insurance coverage after your employment has been terminated (unless it ended because of gross misconduct). Under COBRA, you can continue your benefits up to 18 months, and your spouse and dependent children may be covered up to 36 months. However, you'll probably have to pay the full premium cost plus a small administrative fee--your employer won't contribute anything. If you work for a company that has fewer than 20 employees, you'll have to check your state's laws to see if you can continue coverage. Some states have passed legislation that gives employees of small employers the right to continue their health care coverage for a certain period of time.

**Tip:** The American Recovery and Reinvestment Act of 2009 provides that, for involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010, assistance-eligible individuals will only need to pay 35 percent of COBRA premiums for a period of up to nine months. The remaining 65 percent of COBRA premiums will be subsidized. However, this premium subsidy may need to be repaid in some cases.

### *Determine how you will handle your retirement account or pension plan funds*

If you will receive a lump-sum pension plan or savings plan distribution, decide where you want that money to go. It's easiest if you authorize your employer to transfer funds directly from your retirement plan to another retirement plan you have set up elsewhere. Although you may be tempted to withdraw money from your retirement account to provide much-needed income, do so only if this is your only option.

### *Find out whether your employer-sponsored group disability or life insurance policy is convertible or portable*

When you lose your job, you may also lose your disability or life insurance coverage. Although disability insurance is rarely portable or convertible (you can't take it with you or convert it to an individual policy), your group life insurance policy may be.

### *Ask how the company handles inquiries about your employment*

Afraid of being sued by vengeful ex-employees, many companies today will give only limited information about your employment. A few companies may be willing to give some information about the quality of your work, but, in general, companies may answer only factual questions such as your dates of employment. If you were fired, you may be happy if your company has a strict employment inquiry policy. However, if you quit or were laid off, you may wish that your employer would give out more positive information as well.

### *Line up references*

If possible, you should line up one or more people who are willing to give you a good professional reference. Those you choose should be personally familiar with your work and hold positions in the company higher than your own. However, before you list any former supervisors as references, check with them; some companies forbid department managers or supervisors to give out information about former employees. Many individuals, however, will give out information anyway, but check with them first. You don't want to be surprised later if someone you list as a reference refuses to talk to your potential employer.

## **Finding a new job**

### *Setting realistic expectations*

It may take you a lot longer to find a job than you think. You may have to update your resume, research job openings, and interview more than once with a potential employer. You should expect the job hunt to last at least six weeks and be prepared for it to last at least six months, especially in a tight job market (one rule of thumb is to expect it to last one month for every \$10,000 of compensation). You may also have to decide whether you're willing to move to a different area if you can't find a job locally.

### *Setting up a support network*

Networking can mean either finding others who can support you emotionally when you're unemployed or finding individuals and printed materials that can help you find a new job. You can find emotional support through friends, relatives, job-hunters' support groups, or Internet sites. In addition, many resources are available to help you find a new job. You can find numerous books and newspapers at your local bookstore or library that will help you determine your career goals, prepare a resume, and research companies in your area. You can talk to professional job counselors, headhunters, temporary agencies, or image counselors (you may have to pay them a fee, in some cases) who can help you find job openings or line up interviews. You can even find jobs through the Internet or through your friends and family.

## **Starting your own business**

Many people who have lost their jobs to company downsizing decide to start their own businesses and, after years of working for someone else, really enjoy being in charge of their own company. If you are tempted to start your own business, be aware that most new businesses fail quickly, often due to the lack of cash flow and thorough planning.

# Surviving Financially When You're Unemployed

## What is it?

When you lose your job, you may have to put yourself on a financial diet. Just as losing weight is simple if you eat less (and exercise more), staying afloat financially is simple if you spend less. Is this process going to be easy? No, of course not. But it can be done with a little self-discipline, some creativity, and a lot of planning.

### *Plan for a six-month period of unemployment*

It's hard to know how long you'll be unemployed. You may find a new job within a matter of weeks, or it may take you months. However, it's best to plan for a worst-case scenario, probably six months. Most likely, you'll find a job sooner, and you can throw the rest of your plan in the trash. But, if you don't find a job quickly, at least you'll be prepared.

### *Follow the plan*

When you've come up with a financial plan, stick to it. Like any diet, you'll be tempted to cheat by spending a little more money than you should. You may even find that as time goes by, you want to change your plan a bit. That's OK. Your plan is designed to be flexible so that you don't feel too burdened by something that seems unworkable.

## Adjust your expectations

### *No, finding a new job is not going to be easy*

First, despite the number of appealing job ads you see in the Sunday paper, finding a new job is not going to be easy. Even if you're one of the lucky few that's working in an occupation that's in high demand, finding a new job is probably going to take at least a few weeks and maybe months. Your job search may look something like this:

- Week One: Send out ten resumes, and wait for the phone to ring.
- Week Two: Send out ten more resumes, and wait some more.
- Week Three: Send out five resumes for jobs you really want and five for jobs that you really don't want. The phone rings. It's your mother.
- Week Four: The phone rings. Then it rings again. You line up two job interviews. You send out three more resumes.
- Week Five: You have two interviews, and send out five more resumes. You're called for a second interview at one of the jobs.
- Week Six: Good news! You're hired! Bad news: You can't start for two more weeks.

As you can see, even a successful job search can take a while, even if you're a good candidate in a good job market. Prepare yourself for this by drawing up a financial plan as soon as you lose your job.

### *Expect that life is going to change*

When you lose your job, you probably won't be able to live the same way you lived when you had a job. If you try to live the same way, there's a good chance you won't survive financially. If you're unemployed for only a few weeks, your life might not change radically. Perhaps you'll only need to spend a little less on groceries, go out to

eat once every two weeks instead of once a week, and then dip into your savings account. But if you're unemployed for months, or if your basic living expenses are high, you're going to have to take a more radical approach to survive. You may have to sell your house, your car, or take a temporary job. Prepare yourself mentally for this.

## Map out your priorities

### *How desperate are you?*

Desperation can trick you. Things that you once said that you'd never do, seem more and more appealing as time passes and you can't find a new job. When you started your job search, maybe you said "I'll do anything to survive, but I won't sell my Jeep!" Four months later, you're saying, "OK, maybe the Jeep has to go, but I'll never disconnect my cable." Hopefully, you'll never reach the point where you say, "I'll declare bankruptcy, but only Chapter 13, not Chapter 7!" After all, you do have some pride, don't you? What are the things you will and won't do, will or won't sell to survive financially? At this point, do yourself a favor and map them out.

### *Remember, diets (even financial ones) don't last forever*

Keep in mind as you plan for unemployment that even though you're on a financial diet, no diet lasts forever. At some point, you'll find another job and the crisis will pass. Therefore, you want to be especially careful that the decisions you make now aren't shortsighted. Do what you can to survive, but only do what you really have to.

**Example(s):** When Jeff was feeling especially desperate one day, he sold his lawn mower at a garage sale for \$75. Two weeks later, he landed a job at a software company, and his lawn had grown six inches. Jeff was forced to spend \$350 for a new mower.

## Draft a survival budget

The next step is to draft a survival budget. If you currently have a budget, use that as a guide. If you don't, you'll have to start from scratch by listing all your income and expenses. A survival budget is a bare-bones version of a regular budget. What you want to end up with is an idea of what income you need to actually survive. Start by listing your expenses and your post-employment income. Remember to include only expenses that are necessary; eliminate any items that are luxuries or that you could reasonably do without.

**Example(s):** Before Don lost his job, he went to the movies twice a week, ate lunch out every day, and took a weekend trip once a month. By eliminating these expenses from his budget after he was fired from his job, Don was able to save \$500 a month.

## Find ways to increase your income

There are many ways to increase your income while you look for a new job, some of which you should look into immediately, and others only when you are truly desperate.

### *Unemployment insurance*

One of the first places you should look for income when you lose your job is your state's employment office. However, you can only receive unemployment benefits if you meet certain eligibility criteria. Mainly, you must be involuntarily unemployed. This means that if you've quit your job, you have no chance of receiving unemployment benefits, but if you've been laid off or fired (but not for misconduct), you should definitely check into it. Benefits and regulations vary from state to state, so it's hard to say how much you'll get. But if your application is approved, you should begin receiving benefits quickly, often within a week or two. For more information on this, see Unemployment Compensation.

### ***Severance pay***

You may be eligible for severance pay if you are laid off. How much you receive will depend upon your employer's policy. You may have the option of receiving a lump-sum payment or a continuation of salary. If you take a lump-sum payment, you'll have immediate control over your money, but you may lose your employee benefits. If you take a continuation of salary, you may keep your benefits, but you'll have to trust the company that laid you off in the first place to stay financially sound.

### ***Savings***

If you've planned ahead, you may have an emergency fund set up that's equal to three to six months of living expenses from which you can borrow when you need to supplement your income. This is a great source of income . . . if you have it. Many people don't, and are surprised to see how fast a savings account can be depleted when it's used as a source of funds for everyday expenses.

### ***Credit insurance***

You probably don't have credit insurance that will make your bill payments when you're unemployed. However, if you have any doubt, call your mortgage company, or credit card companies to find out or check your billing statements. Perhaps you inadvertently signed up for such protection, which adds a few dollars to your payment every month. However, you may have to wait for a while before receiving benefits.

### ***Part-time or temporary job***

If you get a little more desperate, you should think about taking a part-time or temporary job to supplement your income. This may be a good idea for two reasons. First, you'll feel less stress if you know that you have at least some regular income coming in. Second, you may even be able to parlay a part-time or temporary job into a full-time job, or gain experience that will help you in your job search. Third, you'll be able to schedule interviews relatively easily, if you can decide where or when you want to work (as you can with many temporary assignments). Even if you take a job that you feel doesn't have career potential, you'll feel better just doing something besides sitting around the house worrying.

### ***Have a yard sale***

Depending upon what you have to sell, having a yard sale can be quite lucrative. If you look around your house, you'll be surprised at how much you own that you really don't need. Make a list of things you want to get rid of, and list them in order of priority. If you're really desperate or if you don't care about an item, price it accordingly. If you don't want to sell it unless you get a good price, keep that in mind as well. Also consider consigning items at a shop if you have specific things to sell.

### ***Sell your house, or rent it***

As a last-ditch attempt to remain solvent, selling your house can be advantageous if you can raise a lot of cash this way and if you want to reduce your monthly cash outlay over the long-term. It's not a good short-term way to raise cash because it will take time to implement, and it has long-term consequences. After you accept an offer on your house, you could have trouble if you change your mind, and the impact on your family will be far-reaching. If you want to temporarily reduce what you pay for housing, however, you may want to consider moving to an apartment (or cheaper housing) and renting out your home for a year or two. However, any decisions you make in this area should be made carefully, and only after considering the true cost of your decision and how much you can actually get out of the deal.

### ***Withdraw money from your tax-deferred retirement account***

Withdrawing money from your tax-deferred retirement account (e.g., an IRA or employer-sponsored retirement plan) is an option you should consider only as a last resort to avoid bankruptcy. In general, any money you withdraw from a tax-deferred retirement account will be taxed as ordinary income for the year in which you make the withdrawal. In addition, you may have to pay a 10 percent penalty tax for early withdrawal if you're under age 59½. The IRS allows exceptions to the penalty tax under certain conditions, however. If you are under age 59½

and considering taking funds from your IRA or retirement plan, see Premature Distribution Rule to find out if one of the exceptions applies to your situation.

**Tip:** If you are considering taking funds from your IRA or retirement plan, you should consult a tax advisor regarding the specific tax treatment of your withdrawal, because not all of it will necessarily be taxable. For example, if you have ever made nondeductible contributions to your traditional IRA or after-tax contributions to your employer's plan, a portion of your withdrawal may not be subject to tax. Also, qualifying withdrawals from a Roth IRA are totally tax free, and even nonqualifying withdrawals may not be fully taxable (since Roth IRAs are funded only with after-tax contributions).

### ***Borrow from the cash value of your life insurance policy***

If you have a life insurance policy with cash value, consider borrowing the cash reserves. You'll have to repay the money, but not right away.

### ***Borrow from relatives***

Borrowing from relatives can be difficult. Not only will you have to put aside your pride, but you'll also have to contend with the consequences. Your relatives may be generous, but there's a chance that their generosity will backfire. What if you can't pay the money back? What if you eat out one night? Will they secretly (or vocally) hold this against you? If you do borrow from a relative, clearly outline the terms of the loan in writing, if necessary. That way, you'll reduce the chance for a future conflict.

## **Reduce expenses**

### ***Increase deductibles on auto insurance***

Check with your insurance company to find out how much you could save per month on your auto insurance premium if you increased your deductible. However, remember that if you get into an accident, you'll have to pay the deductible out of pocket. Will you be able to come up with a large amount of cash while you're unemployed? Balance the risk with the benefits.

**Example(s):** Pamela increased her auto insurance deductible from \$250 to \$1,000. This reduced her auto insurance premium by \$10 per month. Three months later when she was still unemployed, she rear-ended a truck, causing \$3,000 worth of damage to her car. The insurance company paid \$2,000, but Pamela had to come up with the remaining \$1,000 before she could get her car fixed, an amount she could hardly afford.

### ***Sell your car***

While many people consider a car to be a necessity, you may be able to dramatically reduce your monthly expenses by selling yours--they are expensive to drive and maintain. Not only do you have to pay for gas and upkeep, but in many cases, you also have to pay insurance premiums and monthly car payments. This can add up to several hundred dollars per month--money you could really use when you're unemployed. Keep in mind, however, that if you have a loan on your car, you might owe more than your car is worth; if you sell your car for less than the loan balance, you'll still have to make payments until the balance is paid off (or take out another loan to pay off the car loan balance). Also, if you get another job, you may need to buy another car, and many lenders require a certain length of employment before they give you a loan. Investigate your options thoroughly before you sell your car.

Selling your car may also be a good way to raise a large amount of cash quickly. This will depend, of course, on whether you own your car, whether you have a loan for it, and what your car is worth. Again, this is a decision to make carefully. If you have a loan, call your bank to find out the procedure to follow, because until your bank releases the title, you don't really own the car. They can also tell you the book value of your car and your loan balance. If you own your car outright, research its value at the library or on the Internet, and decide what price to charge.

### *Negotiate with your creditors*

If you find that you're having trouble paying all your bills, seriously consider negotiating with your creditors. Assuming that you have good credit, you may find it relatively easy to reduce the interest rates on your credit cards, skip a payment or two on your car loan, or reduce your monthly payments temporarily. To do this, you'll have to put aside your pride and admit that you're having financial difficulties. You'll be in a much better negotiating position, however, if you call your creditors before you get into financial trouble. Some creditors will turn you down, but most will negotiate with you. If you wait until you've already missed more than one payment and the creditors are calling you, you'll have more trouble making your case. If you need help negotiating with your creditors or managing your debt, you may want to call a nonprofit credit counseling organization, such as the Consumer Credit Counseling Service (CCCS). For further information on CCCS, call (800) 388-CCCS. For further information on restructuring debt, read *Options When You Can't Meet Your Financial Obligations*.

**Caution:** If your creditor agrees to let you skip payments or pay reduced amounts, honor the terms of your agreement, and keep in close contact with your creditor's representative. Otherwise, your good credit may be ruined.

### *Discontinue discretionary expenses*

You probably pay for a lot of things you don't really need. For instance, think about canceling magazine subscriptions, extra phone services, credit cards you don't use that have an annual fee, health club memberships (if possible without incurring a large cancellation fee), auto club memberships, cable television, and Internet service (although this can help you find a job). You may even save a few dollars a month by switching banks if you currently pay monthly checking fees. Every little bit helps.

**Tip:** If you're billed annually for some of these things, you won't save any money unless you cancel them at renewal because you won't ordinarily get a refund.

### *Limit long-distance calls*

If your long-distance bills are high, put yourself on a phone budget. Vow to spend no more than a certain amount (say \$25 a month) on long-distance. To keep track of your calls, keep a notebook next to your phone so that you can easily see when you've reached your limit.

## **Strategies to consider if you have more time to prepare**

Often you lose your job with little warning. However, if you're being laid off or plan to quit your job, you may have time to save money for unemployment by using the following strategies.

### *Establish a home equity line of credit*

If you have enough time, consider establishing a home equity line of credit, if you have enough equity in your house (20 percent is often the minimum), and if you can find a bank that will loan you money without charging you closing costs. With a home equity line of credit, you'll pay interest only on the portion you use. However, the bank may charge you an annual fee or require that you take a certain draw on the line up front. You may even be able to use the line to pay off credit cards or loans that carry a higher interest rate, and consolidate your debt. You'll still have to make a monthly payment, however, so make sure you'll be able to afford it before you put your house on the line. In addition, beware when lenders claim that your home equity line of credit will be tax deductible. Although this may be true in many cases, you should consult your tax advisor to find out whether it will be true in your case.

**Caution:** Use caution when using your house as a debt management tool. If you can't pay your loan back, you may lose your house. For more information, see *Home Equity Loans and Lines of Credit*.

***Reduce contributions to retirement or education funds***

Once you know you are going to lose your job, stop contributing to any savings plans that you'll have trouble accessing, or that aren't necessary. These include retirement funds, education funds, and Christmas club accounts.

***Decrease your withholding***

Consider increasing your withholding allowances to reduce the amount that is taken out of your paycheck. Deposit this extra money in a savings account. Of course, be careful that you don't claim more allowances than you are entitled to. When you get a new job, you should look at your tax liability for the year. It's possible at that time that you'll have to increase your withholding to make up the difference.

**Plan a financial strategy**

Once you've mapped out your priorities and drafted a bare-bones budget, you're ready to come up with your own six-month financial strategy. After you've formulated your own strategy, post it somewhere (maybe on the refrigerator) where you can use it everyday to chart your progress.

## Deciding What to Do with Your 401(k) Plan When You Change Jobs

When you change jobs, you need to decide what to do with the money in your 401(k) plan. Should you leave it where it is, or take it with you? Should you roll the money over into an IRA or into your new employer's retirement plan?

As you consider your options, keep in mind that one of the greatest advantages of a 401(k) plan is that it allows you to save for retirement on a tax-deferred basis. When changing jobs, it's essential to consider the continued tax-deferral of these retirement funds, and, if possible, to avoid current taxes and penalties that can eat into the amount of money you've saved.

### Take the money and run

When you leave your current employer, you can withdraw your 401(k) funds in a lump sum. To do this, simply instruct your 401(k) plan administrator to cut you a check. Then you're free to do whatever you please with those funds. You can use them to meet expenses (e.g., medical bills, college tuition), put them toward a large purchase (e.g., a home or car), or invest them elsewhere.

While cashing out is certainly tempting, it's almost never a good idea. Taking a lump sum distribution from your 401(k) can significantly reduce your retirement savings, and is generally not advisable unless you urgently need money and have no other alternatives. Not only will you miss out on the continued tax-deferral of your 401(k) funds, but you'll also face an immediate tax bite.

First, you'll have to pay federal (and possibly state) income tax on the money you withdraw (except for the amount of any after-tax contributions you've made). If the amount is large enough, you could even be pushed into a higher tax bracket for the year. If you're under age 59½, you'll generally have to pay a 10 percent premature distribution penalty tax in addition to regular income tax, unless you qualify for an exception. (For instance, you're generally exempt from this penalty if you're 55 or older when you leave your job.) And, because your employer is also required to withhold 20 percent of your distribution for federal taxes, the amount of cash you get may be significantly less than you expect.

Note: Because lump-sum distributions from 401(k) plans involve complex tax issues, especially for individuals born before 1936, consult a tax professional for more information.

Note: If your 401(k) plan allows Roth contributions, qualified distributions of your Roth contributions and earnings will be free from federal income tax. However, no distributions will be qualified until 2011 at the earliest. If you receive a nonqualified distribution from a Roth 401(k) account only the earnings (not your original Roth contributions) will be subject to income tax and potential early distribution penalties.

### Leave the funds where they are

One option when you change jobs is simply to leave the funds in your old employer's 401(k) plan where they will continue to grow tax deferred.

However, you may not always have this opportunity. If your vested 401(k) balance is \$5,000 or less, your employer can require you to take your money out of the plan when you leave the company. (Your vested 401(k) balance consists of anything you've contributed to the plan, as well as any employer contributions you have the right to receive.)

Leaving your money in your old employer's 401(k) plan may be a good idea if you're happy with the investment alternatives offered or you need time to explore other options. You may also want to leave the funds where they are temporarily if your new employer offers a 401(k) plan but requires new employees to work for the company for a certain length of time before allowing them to participate. When the waiting period is up, you can have the

plan administrator of your old employer's 401(k) transfer your funds to your new employer's 401(k) (assuming the new plan accepts rollover contributions).

## **Transfer the funds directly to your new employer's retirement plan or to an IRA (a direct rollover)**

Just as you can always withdraw the funds from your 401(k) when you leave your job, you can always roll over your 401(k) funds to your new employer's retirement plan if the plan allows it. You can also roll over your funds to a traditional IRA. You can either transfer the funds to a traditional IRA that you already have, or open a new IRA to receive the funds. There's no dollar limit on how much 401(k) money you can transfer to an IRA. You can also make a direct rollover of your 401(k) money to a Roth IRA if you qualify (the taxable portion of your distribution from the 401(k) plan will be included in your income at the time of the rollover).

If you've made Roth contributions to your 401(k) plan you can only roll those funds over into another Roth 401(k) plan or Roth 403(b) plan (if your new employer's plan accepts rollovers) or to a Roth IRA.

Generally, the best way to roll over funds is to have your 401(k) plan directly transfer your funds to your new employer's retirement plan or to an IRA you've established. A direct rollover is simply a transfer of assets from the trustee or custodian of one retirement savings plan to the trustee or custodian of another (a "trustee-to-trustee transfer"). It's a seamless process that allows your retirement savings to remain tax deferred without interruption. Once you fill out the necessary paperwork, your 401(k) funds move directly to your new employer's retirement plan or to your IRA; the money never passes through your hands. And, if you directly roll over your 401(k) funds following federal rollover rules, no federal income tax will be withheld.

Note: In some cases, your old plan may mail you a check made payable to the trustee or custodian of your employer-sponsored retirement plan or IRA. If that happens, don't be concerned. This is still considered to be a direct rollover. Bring or mail the check to the institution acting as trustee or custodian of your retirement plan or IRA.

## **Have the distribution check made out to you, then deposit the funds in your new employer's retirement plan or in an IRA (an indirect rollover)**

You can also roll over funds to an IRA or another employer-sponsored retirement plan (if that plan accepts rollover contributions) by having your 401(k) distribution check made out to you and depositing the funds to your new retirement savings vehicle yourself within 60 days. This is sometimes referred to as an indirect rollover.

However, think twice before choosing this option. Because you effectively have use of this money until you redeposit it, your 401(k) plan is required to withhold 20 percent for federal income taxes on the taxable portion of your distribution (you get credit for this withholding when you file your federal income tax return for the year). Unless you make up this 20 percent with out-of-pocket funds when you make your rollover deposit, the 20 percent withheld will be considered a taxable distribution, subject to regular income tax and generally a 10 percent premature distribution penalty (if you're under age 59½).

If you do choose to receive the funds through an indirect rollover, don't put off redepositing the funds. If you don't make your rollover deposit within 60 days, the entire amount will be considered a taxable distribution.

## **Which option is appropriate?**

Assuming that your new employer offers a retirement plan that will accept rollover contributions, is it better to roll over your traditional 401(k) funds to the new plan or to a traditional IRA?

Each retirement savings vehicle has advantages and disadvantages. Here are some points to consider:

- A traditional IRA can offer almost unlimited investment options; a 401(k) plan limits you to the investment options offered by the plan

- A traditional IRA can be converted to a Roth IRA if you qualify
- A 401(k) may offer a higher level of protection from creditors
- A 401(k) may allow you to borrow against the value of your account, depending on plan rules
- A 401(k) offers more flexibility if you want to contribute to the plan in the future

Finally, no matter which option you choose, you may want to discuss your particular situation with a tax professional (as well as your plan administrator) before deciding what to do with the funds in your 401(k).

# Setting Up a Support Network When You're Unemployed

## What is an unemployment support network?

An unemployment support network is a group of people, organizations, or resources available to help you cope with issues that unemployed people must face. Setting up a support network when you're unemployed is important for several reasons. First, when you lose your job, your ego is likely to be damaged, and you'll benefit from the encouragement and perspective that talking to others can bring. Second, if you plan on returning to work, you may need help finding a new job or exploring a career change. Third, if you're an older unemployed worker thinking about retiring rather than seeking another job, you may need the advice of others who have experienced retirement firsthand. Whatever your reason for needing support, you can easily find it if you know where to look.

## Emotional support

When you lose your job, you'll most likely turn to your friends and family for emotional support. Another option is to find or form a support group (also called a self-help group) to share information and provide emotional support to one another.

### *Finding a support group*

If you live in a metropolitan area, finding a local support group should be easy. Look in the Local or Community sections of your newspaper or contact your local community center, college, or university to see if it sponsors support groups. You can also try the American Self-Help Group Clearinghouse website [www.mentalhelp.net](http://www.mentalhelp.net) for information on starting or finding a self-help group in your area.

## Job-hunting services and assistance

Rather than go it alone, you may choose to find a job using an employment professional or a government agency or community organization. Some employment professionals will charge you a fee for their services, while others do not. Government job services are free but may offer only basic assistance. Community organizations may sponsor free or low-cost services, which are sometimes tailored to the needs of specific groups.

### *For-fee services*

If you are having trouble marketing yourself, you might consider paying someone to help you. You can, for instance, hire image counselors to teach you how to dress professionally, rewrite your resume, target your job search, and rehearse interviewing. Or, in a tight job market, you might use a for-fee job placement agency. You sign a contract with the agency, under which you promise to pay a flat fee or a certain percentage of your first year's salary and in turn, the agency promises to find you a suitable job. Whatever your reason for paying someone to help you find a job, be careful. Before you sign a contract, know what you'll get for your money. How hard will the company work for you? What kind of guarantee does it offer? What specific services does it offer? In particular, check the company's reputation. Make sure that it has been in business in the same location for several years, and call the Better Business Bureau (if the agency is a member) and ask for references or published statistics on its placement success rates.

### *Fee-paid services*

- **Headhunters and recruiters:** If you work in a high-demand occupation or you are a professional with a few years of experience, you may be able to find a job through a recruiter or a headhunter. In fact, one may come looking for you! Headhunters or recruitment professionals are usually paid by companies who use them to find qualified employees. Most headhunters specialize in finding employees in a particular field, and they expect you to be flexible. They may not want to talk to you, for example, unless you are willing to relocate. They also may not be interested in you if you are changing career

paths or if you don't match their area of specialization and requirements.

**Caution:** A recruiter can seem like your best friend when you are unemployed. Remember, however, that the recruiter is also a salesperson, and you are the product. Don't be upset by a recruiter's reluctance to talk to you unless you are a seasoned professional, and don't be misled into thinking that a job offered through a recruiter is necessarily the best job for you or the only good way to find a job.

- The temporary or permanent placement agency: Another type of fee-paid employment service is the temporary or permanent placement agency. You sign up with an agency and specify the type of position you are looking for, and it tries to match you with a job opening. You'll work for the agency, not for the company unless the company buys your contract from the agency. This means that you won't be eligible for any company benefits or perks. Some agencies specialize in placing candidates in a certain industry (banking, for instance) while others are generalists. A good employment service will be responsive to your needs, offer training and benefits (if necessary), and won't mislead you about the jobs they usually have available. Some companies publish "teaser" jobs in the paper that probably won't be available when you call the agency because they are designed to lure you in to fill out an application.

**Caution:** Although taking a temporary job is a good way of supporting yourself for a short time or even finding a permanent job with a good company, you'll probably find that the pay is relatively low. However, you may be able to negotiate a better rate of pay if you are a good, qualified candidate.

### ***Government agencies and community services***

Your local employment office (where you apply for unemployment insurance benefits) may assist you in finding a new job, or there may be programs set up in your community to help displaced workers, low-income workers, senior workers, or veterans. Check your telephone directory under Job Services, Employment Services, or Social Services. Your local college or university may also sponsor career-counseling seminars or courses that are open to the public even if attendees are not enrolled in a degree program.

### ***Outplacement assistance***

If you have prior warning that you will be losing your job, you can do several things to make unemployment easier. First, if you're being laid off, find out if your company has outplacement assistance. You may be able to attend seminars or speak with a job counselor one on one. Next, if you plan on looking for another job, ask about your current company's policy regarding employment verification and references. If a potential employer calls and asks about your work history, what information will the company give out? In addition, are your coworkers or supervisors allowed to give professional and/or personal references? If you're leaving the company because you're moving or being laid off, don't forget to ask everyone you know who might have leads on job openings for introductions to managers or executives at other companies.

## **Other job-hunting resources**

### ***The Internet***

Many Internet sites are devoted to the needs and concerns of the job-hunter. These sites offer career counseling, networking opportunities, job fairs, and lists of available jobs (including on-line applications). Some popular sites are Monster ( [www.monster.com](http://www.monster.com)), Headhunter.net ( [www.headhunter.net](http://www.headhunter.net)), and the Career Resource Center ( [www.careers.org](http://www.careers.org)). When you've lined up a job interview, you can prepare for the interview by researching the company on-line under the company name. You may be able to pull up press releases, articles about the company, or even financial information. You may have to pay an extra fee for the latter. Information about public companies is readily available, while information about private companies can be difficult to find.

### ***Libraries and bookstores***

If you go to the library or a bookstore, you'll find many books on job hunting and career counseling. These books can be quite useful, particularly if you've been out of the job market for a while or you need help in a particular area. You can also buy or read local and out-of-town newspapers that advertise jobs.

### ***Friends, family, and acquaintances***

One good way to find a new job is to tell everyone you know that you're looking for one. Your friends, family, and acquaintances may know about jobs that are presently open within their companies or about job opportunities that might be available in the future. They may also be able to put a good word in for you with a manager or the human resources department. Some companies use a very formal process to hire (first open the job to current employees, next advertise the job to others), while others hire more informally.

## **Special considerations for retirees**

There are many resources tailored to your needs if you are an unemployed older worker looking forward to a relaxing retirement, searching for volunteer opportunities, thinking about working part-time, interested in opening your own business, or facing health concerns. You can find support groups in your community or on the Internet to help you adjust to retirement. There are also a multitude of organizations set up just to help you find the resources and information you need. A good place to start is the American Association of Retired Persons (AARP). Call (888) OUR-AARP (888-687-2277).



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