PRE-MEETING OVERVIEW

OPTIMIZING RESOURCES AFTER A LAYOFF

COLUMBIA THREADNEEDLE INVESTMENTS

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What to know before your meeting

As a person who is or anticipates going through a layoff, you soon will be facing many crucial decisions, some related to income, retirement plan and health benefits. Avoid knee-jerk reactions. Take your time to read through and fully understand any paperwork you receive from your former employer. Don't sign anything right away. Consulting a financial advisor may be beneficial.

Questions to review before your meeting

Q: What are the first things I should think about after I'm notified of a layoff?

A:

1. **Talk over details with your HR representative:** A one-on-one discussion regarding the details of your severance, necessary elections and the timeline is important. Ask key questions such as: Am I receiving a severance package? Does the company provide outplacement help? What's going to happen with my benefits?

2. **File for unemployment benefits immediately:** To qualify for unemployment insurance, your previous employer must confirm that you were laid off. Since each state has different eligibility requirements, you can check on your specific state's requirements by searching online with the phrase "[your state] unemployment" (e.g., Minnesota unemployment).

3. **Understand your severance package:** Some companies allow you to negotiate a severance package. Make sure you get reimbursed for outstanding vacation days and expenses. See if your stock options have vested in order to exercise them.

4. **Health insurance:** When you get laid off, your health insurance may end immediately. One option is COBRA, a federal program that allows you to continue your previous employer's group plan coverage. Your other option is to purchase insurance through a health insurance exchange under the Affordable Care Act. Based on your income during your job search, you may be eligible for federal subsidies. For more information and eligibility requirements, go to dol.gov, click on Topics and choose Health Plans & Benefits.

5. **Retirement accounts:** When you leave employment, you most likely will have four options with respect to your account balance in your former employer's retirement plan: 1) Leave it in the plan (plan permitting); 2) Roll it to your new employer's plan when rehired; 3) Roll it to a traditional or Roth IRA; or 4) Cash out. If you leave the account in your former employer's plan or roll it over into a new employer's plan or into an IRA, you will be able to continue to save on a tax-deferred basis. Amounts distributed to you, in most cases, would be taxable. You need to check with your previous employer regarding eligibility and retirement account options. In addition, you should take into account any potential tax consequences, as well as expenses and sales charges and/or penalties for selling or buying investments before initiating a rollover. You should avoid touching IRA assets if possible. But if necessary, setting up substantially equal periodic payments from the IRA can help you avoid the 10% early withdrawal penalty. But you must make withdrawals for five years or until you reach age 59½, whichever is longer.

6. **Reduce spending and avoid debt:** Take a look at your monthly expenses and see where you can cut costs. Contact your credit card company to see if you can reduce or defer your payments.

7. **Take inventory of your assets:** Find out exactly how much you have in nonqualified deferred compensation distributions, restricted stock awards, stock options, mutual funds, and savings, checking and retirement accounts. This will help you figure out exactly where you stand financially. With a complete inventory, you and your financial and tax advisors can determine where you have the ability to raise cash for ongoing spending needs and what are the more tax-efficient options during your job-hunting period.

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Q: Are there any actions I should avoid taking?

A: 1. **Don't withdraw from your 401(k):** Times may be tough, but resist the urge to take money out of your 401(k). You will get hit with income taxes and in some cases a 10% penalty. If you are age 55 or older at termination, you will not be subject to the 10% penalty for early distributions. If tapping retirement assets is a must, then be sure to leave some amount in your workplace plan.

2. **Don't rely on a home equity line of credit (HELOC):** It will be extremely difficult to get a home equity loan while unemployed. But if you already have one, be careful when tapping into it. You could be without a job for a long period of time.

3. **Don't abuse your credit cards:** It may be tempting to purchase everything with your credit card, but that can be a mistake. Most credit card companies will raise your interest rates if you miss one payment.

Checklist to complete before your meeting

Your financial advisor can help you review the paperwork associated with your layoff to help you better understand your decisions and options. Before meeting with your financial advisor, you may want to gather some important information:

- ☐ Severance package and other termination documentation
- ☐ Your most recent retirement plan account balance or benefit statement
- ☐ The website address for your employee benefits
- ☐ Any retirement and health plan documents you have in hard copy such as summary plan descriptions (the HR department can provide copies if they are not available online)
- ☐ The telephone number of your former employer's benefits administrator
- ☐ Your tax advisor's contact information

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WHITE PAPER

OPTIMIZING RESOURCES AFTER A LAYOFF

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Employees nationwide and across industries may feel the effects of corporate downsizing at some point in their career. Whether you accept a voluntary early retirement package or face an involuntary workforce reduction, the change will require you to address your retirement plan, health care coverage and expense decisions.

Assess your situation

A layoff can produce a psychological shock. You may need to invest time in short-term financial counseling and even life coaching. Working with a neutral third party, such as a financial advisor, may help you fully assess your situation and select the best options to help you move forward.

- As a first step, carefully review your severance package and any other termination documentation (e.g., an exit contract and retirement plan information, including an increase in length of service to a defined benefit plan in the case of a voluntary early retirement). Analyzing these documents will help you:
  - Understand what you will receive in severance payments, how payments will be disbursed (e.g., lump sum or monthly) and how long the severance period will last.
  - Determine how long employer-covered health insurance will remain in effect.
  - Compare the cost of continuing health insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA) with the price of insurance under the Affordable Care Act, through a health insurance exchange or marketplace sponsored by a state or the federal government. Take note of payment amounts and the time frames for making necessary elections.
- Review the details of your company retirement plan(s):
  - Is there a defined contribution plan, such as a 401(k), 403(b) or 457(b)?
  - Are there any loans outstanding to the plan? If so, what are the repayment requirements and how might those payments affect future cash flow? Consider the extended rollover period for loan offset amounts available as a result of the Tax Cuts and Jobs Act of 2017.
  - Is there a company matching contribution? If so, when will the final matching contribution be paid?
  - Is there an employee stock ownership plan? Get a net unrealized appreciation (NUA) analysis to determine potential tax benefits if the shares are needed to raise cash.
  - Is there a defined benefit plan (cash balance or traditional)? Does the plan allow lump-sum distributions at termination or only at retirement age? If you have not reached the standard retirement age, have you met the age and length of service criteria to initiate lifetime payments? Analyze the lifetime differential for taking early payment.
- Conduct a beneficiary audit, which will provide a snapshot of all your accounts and designated beneficiaries for each plan.

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Understand your options

Retirement assets are just that — not meant to be withdrawn and used until retirement. That said, it is prudent for you to plan for a potential layoff and how you might make ends meet during a prolonged period of unemployment. Although it should be a last resort, your survival plans could include dipping into retirement savings. A cash-flow analysis is a critical first step to determine how to distribute retirement assets, since there are different tax treatments based on the vehicle.

- **Employer-sponsored plans:** Common sources include 401(k) plans, profit-sharing plans, traditional pension plans, money purchase pension plans, Keoghs, 403(b) plans, 457(b) government plans and 412(e) defined benefit plans.

- **Distribution rules[1]:** Terminated employees age 55 or older who need to make a one-time withdrawal from their retirement plan assets to get through a period of unemployment should be aware of the age 55 separation from service rules. For public safety employees, such as police and firefighters, the age trigger is 50. These special rules exempt terminated employees who have reached this age from the 10% early withdrawal penalty for distributions from a qualified plan. Based on cash-flow considerations, this is an opportunity to take a single withdrawal of a portion of the balance. Please note that any distributions would still be subject to the mandatory 20% federal income tax withholding. You can bypass this withholding if you request your balance be directly rolled over to an IRA. In doing so, you would lose the separation from service exemption from the penalty tax but would still have an early withdrawal penalty exemption option based on the ability to receive substantially equal periodic payments from an IRA. These IRA distributions would need to be taken over a five-year period or until age 59½, whichever is longer. Additional requirements may apply. Note that plan distributions taken but not rolled over into an IRA within 60 days may be taxed as ordinary income.

- **IRAs:** Owners of traditional, Roth, SEP and SIMPLE IRAs can request distributions at anytime, subject to taxation rules and an early withdrawal penalty, unless a penalty exception applies.

- **Net unrealized appreciation (NUA):** Company stock held in a qualified plan could have more favorable tax treatment if transferred in kind to a taxable brokerage account rather than rolled over to an IRA. Consider getting an NUA analysis of the stock, which could be factored into a cash-flow analysis that includes distributions of retirement assets as income before retirement. If you are at least age 55 and terminating, the 10% penalty does not apply for a transfer in kind of the stock.

- **COBRA coverage[2]:** COBRA is a federal program passed in 1986 that amended the Employee Retirement Income Security Act (ERISA). It allows terminated employees to participate in group health care coverage for a period of up to 18 to 36 months following the end of their employer's coverage period (which typically runs the length of the severance period). Although it extends the same group health care coverage offered under the former employer, the terminated employee, rather than the former employer, is responsible for making all premium payments. While COBRA can be expensive, it may be necessary to ensure continued coverage during any gaps in employment. The summary plan description associated with the company's health plan should contain information on the election time frame for COBRA coverage, and the employer must provide written notice of the COBRA election date.

- **The Patient Protection and Affordable Care Act:** The Patient Protection and Affordable Care Act (ACA), signed into law on March 10, 2010, was designed to ensure that all Americans have access to health care. Unlike COBRA, the ACA seeks to sever the link between employment and health care. The ACA includes numerous provisions that took or will take effect between 2010 and 2020. The ACA attempts to protect consumers from discriminatory practices and provide consumers with better preventive coverage and information they need to make informed decisions about their health insurance. As a result of the ACA, individuals and small businesses have access to health care through health insurance exchanges through some states and the federal marketplace. Premium tax credits and cost-sharing assistance are available for those who need aid.

[1] Internal Revenue Service, "Topic No. 588, Additional Tax on Early Distributions from Retirement Plans Other than IRAs," https://www.irs.gov/taxtopics/tc558.
[2] US Department of Labor, Employee Benefits Security Administration, Cobra Continuation Coverage, https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/cobra.

Insurance companies are barred from discriminating based on preexisting conditions, health status and gender.

- **Unemployment benefits:** Rules and procedures for applying for unemployment benefits vary by state. Know your state's requirements or talk to your financial advisor for guidance. Note that some company documents may guide terminated employees to postpone applying for unemployment benefits until their severance packages have elapsed. There is no requirement to wait until severance payments end, however, so you might consider collecting benefits as soon as possible. That doesn't mean you need to spend the payments right away, but you should apply for benefits to increase your cash-flow allowance if needed.

- **Dislocated worker assistance:** The DOL's Employment and Training Administration (ETA) provides information on training programs and other services that are available to assist workers who have been laid off or are about to be laid off. For a list of programs near you, contact an American Job Center, visit America's Service Locator on the web, or call ETA's toll-free help line at (877) US-2JOBS (TTY: 1-877-889-5267). Services are designed to meet local needs and may vary from state to state. Some services for dislocated workers have eligibility requirements. Check with your State Dislocated Worker Unit for details.

Implement your plan

Outline your options in terms of developing a solid cash-flow strategy. A sound cash-flow strategy will help to minimize taxes and preserve your retirement savings.

- Create a preliminary cash-flow analysis, taking into consideration:

  - Temporary or contract work income

  - Bank deposits and money market savings

  - Severance payments

  - Unemployment benefits

  - Cash value in insurance

  - Social Security benefits that may begin early at age 62. Payments will be less than at the full retirement age and could be reduced by earned income.

    Note: Early recipients can reset by paying back benefits without interest and restart at a higher benefit rate at a later age. This is a one-time election and repayment must be within 12 months of the first month of entitlement.

  - Securities held in taxable accounts (which, depending on the adjusted gross income in the year sold, could have a more favorable capital gains tax treatment)

  - Other sources of income (e.g., spouse's income, child support, inheritance, rental)

  - Stock compensation: Restricted stock awards/units are taxed at fair market value at vesting. Selling recently vested restricted stock could be a tax-efficient way to raise cash. Older clients may experience accelerated vesting due to termination. Determine when stock will be delivered: at one time or in the year(s) of the vesting schedule.

  - Any NUA on company stock or planned distributions from retirement plans, if needed

- Understand your distribution options related to your former workplace retirement plan account balances. These may include: 1) leaving the account balance in the plan; 2) distributing the account; 3) rolling over the account to an IRA or, eventually, to another employer's plan; or 4) converting the account to a Roth IRA. Before making a decision, be sure to discuss with your financial advisor the suitability of each scenario, taking into consideration potential tax and penalty implications, investment options, fees and expenses, services, protection from creditors, required minimum distributions and impact to employer stock.

- Nonqualified deferred compensation is often distributed the year following termination. Determine if this will be a lump sum or installment payments.

Consider taking these additional steps:

- Prepare for the possibility that finding a new job at the same compensation level could take as long as a year. You'll need to be psychologically and financially prepared for any waiting period.
- Remember that your former employer could be an important source of referrals. Resist disparaging your former company at all costs.
- Look for contract or consulting work. There may even be opportunities for contract work with your former employer.
- Take advantage of outplacement services, if available. Networking — including through social media — is the best way to find a new job, and outplacement services focus on that job-hunting approach.
- Consider whether you need additional training or accreditations to improve your ability to find a new position.
- If you have children attending private school or college, consult with the financial aid office immediately. Temporary financial assistance may be available. If not, you can still plan ahead for the next school year. You may need to redo your Free Application for Federal Student Aid (FAFSA) and/or institutional financial aid form for the next school year.
- Reduce expenses wherever possible — immediately. Are there items that were bought on credit and could be sold online? Are there services (e.g., lawn service, cable, streaming subscriptions) that could be suspended or reduced?
- Take into account all options with respect to your retirement plan and IRA balances (e.g., leave the balance where it is, take a distribution or complete a rollover to an IRA or another employer's plan) and any potential tax consequences, as well as expenses, sales charges and/or penalties for selling or buying investments, before initiating a transfer and/or rollover.

Above all, don't become discouraged after experiencing a layoff. Try to look at your situation from a different perspective to identify potential opportunities. For example, being laid off is a time to regroup and reassess your life, especially your career path. Take the time to make sure you're still doing something in which you have interest and passion. If not, it's the perfect time to make a change. You may look back at this juncture in your life and realize the change was the best thing that could have happened to you. It's important to consider your own longer-term happiness.

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MEETING WORKSHEET

OPTIMIZING RESOURCES AFTER A LAYOFF

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Available cash	
Checking account	$
Savings account	$
Stocks/bonds	$
Mutual funds	$
	$
	$
	$
	$
	$
	$
	$
Total	$

Money owed to you	
Severance	$
Unused vacation	$
Unemployment benefits	$
Nonqualified deferred compensation distributions	$
Accelerated vesting of restricted stock awards or units	$
	$
	$
	$
	$
	$
Total	$

Monthly expenses	
Mortgage/rent	$
Auto loans	$
Auto insurance	$
Life insurance	$
School loans	$
Gas/automobile	$
Groceries	$
Childcare	$
Commuting costs	$
Electric	$
Water	$
Gas/home	$
Telephone	$
Cable/internet (including streaming services)	$
Health (insurance, prescriptions, etc.)	$
Entertainment (movies, dining, etc.)	$
Investments	$
Beauty/haircuts	$
Membership (fitness, golf, etc.)	$
Miscellaneous	$
Total	$

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