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info sheet Job change - look before you leap

Today, few people stay with the same employer until they retire. On average, Americans change jobs 11 times during their careers.¹ Companies may restructure or downsize. Or workers may be looking to make more money, to seek greater career satisfaction, or just to have a shorter commute. As with any change, those considering new employment might be faced with stress, uncertainty, and maybe some trepidation. But there are steps to take and issues to consider when switching jobs that can make this transition also a time of excitement and opportunity.

Weighing the possibilities

Start by thoroughly researching your potential employers. Talk to current employees about their jobs. Look through the company's Web site. Order an annual report and read it cover to cover. Find out how long the company has been in business and how financially strong it is. How many employees work there? What is the company's philosophy?

After you receive a job offer, there are many issues to consider. (Note: If your new job involves relocation, you'll have a whole other set of complex issues you'll need to address on top of the job change. If you're thinking of changing jobs and residences, review the infosheet "Checklist: when a job change involves relocation".)

Consider all aspects of the offer you receive: salary, bonus, benefits, and personal and professional consequences. Will you have health coverage immediately through your new employer? What kind of retirement plan is available? How much time off — vacation days, personal days, sick time, holidays — will you get? Must you travel extensively? How will this job affect your family?

Next, you'll need to determine if the offer is financially better than your current situation. Use the worksheet (at the end of this infosheet) to help get a clear picture of what you'll be giving up monetarily from your current company.

Compare retirement plans

One issue to consider is how much of your deferred compensation plan you will be leaving behind. Calculate how much 401(k) money you'll be foregoing by leaving the company at this time. You're entitled to any money you paid into your employer's 401(k) plan, but unless you're vested, you forgo any money your employer contributed to your account. Full vesting usually takes five years, although some companies may have partial vesting schedules enabling you to take a portion of your account. If you've been diligently saving in a 401(k) and you're only months from being vested, consider waiting a bit before calling it quits. You could end up with as much as 50% more cash.

¹ *The Cerulli Edge*, March 2000

Also compare the level of contributions your current company matches to that of the company you're thinking about joining.

Example:

Suppose your current company contributes 5% of your salary into the 401(k) plan, but the new company matches only 2%. That could add up to a few thousand dollars less in retirement benefits than you have been getting from your current company.

	Current Company	New Company
Annual Salary	\$50,000	\$55,000
Match Amount	\$2,500	\$1,100

In this example, although the salary is higher in the new company, changing jobs results in \$1,400 less each year contributed into your company retirement plan.

Additionally, if you've taken a loan from your 401(k) plan, you'll have to pay back the full amount pronto or face a tax and penalty on what will be considered an early withdrawal.

Other benefits to compare

If your current company offers a profit-sharing plan, be sure to consider your level of vesting there too. The total value not vested is what you'll be leaving behind. And if the new company doesn't offer profit sharing at all, that's additional money you'll be losing out on.

Similarly, if you're due for an annual or quarterly bonus soon, you may want to wait before leaving the company.

What do you want from your new employer?

If you don't think the offer is fair, but you like the company, you should negotiate the terms. Be specific about what you want. Name the salary. After calculating the total monetary "give-up" from your current company, use this figure as a negotiating point for a sign-on bonus.

Take time to make your decision. Pay attention to your intuition about the company and about the position.

What to consider once you've decided to leave

Company stock

If you were granted stock options by your current employer, be sure to check the provisions of your outstanding stock options. Failure to exercise vested options prior to termination may result in the cancellation of the options. In some cases you may have a three-month period following termination to exercise options that were vested on the termination date.

Retirement plan assets

Your company retirement money from your former employer may be the largest amount of savings you have. You have four options for what to do with these investments.

1. Do nothing — Just leave it in your previous employer's plan. While this is the path of least resistance, and the account will continue to enjoy tax-deferral, you probably will have very limited control over the investment choices. You also run the risk of someday forgetting about this money. If you haven't already, now may be a good time to create a grid of your investments, including retirement accounts from past employers. Record the name of the employer, the value of the account, and how the funds are invested.
2. Roll it — Preserve the tax benefits by rolling the money directly into an Individual Retirement Account (IRA). If you've changed jobs more than once and have several separate 401(k) plans from old employers, you can consolidate them all into one Rollover IRA. This is one of the best ways to keep track of all your retirement money.
3. Move it — You may be able to fill out paperwork from your new employer and roll the money from your old account into the new employer's plan. These assets may be kept separate from your investments in the new plan and indicated as rollover assets on your quarterly statements. Not all plans will accept assets from previous plans, so you'll have to check with your new employer about the feasibility of this option.

4. Take it — It may be tempting to take the cash distribution and have fun with it, but you may have to pay an early withdrawal penalty on top of ordinary income tax. Let's say you're not at retirement age, and you decide to take a distribution. If you have \$50,000 in a 401(k), you end up with only \$31,000 after taxes and penalty. This assumes a 28% federal income tax and 10% early withdrawal penalty. Most people will also have to pay a state income tax, which varies from state to state.

Keep in mind that investments in a tax-deferred account, such as a 401(k) plan or a rollover IRA, do not generate taxes or penalties. If you want a comfortable retirement, you'll want the money you've earmarked for retirement to keep working hard. Assets in such accounts have the potential to grow more quickly than similar investments that do not enjoy tax deferral.

What if you can't enroll in some of your new company's benefits on the first day of employment?

First, you should confirm your health coverage and that of your dependents. If you won't have health coverage immediately at your new job, you may want to look into continuing your group insurance coverage under COBRA for up to 18 months.

Next, plug the retirement savings gap. New employees might not be eligible to join a company's retirement plan for months or a year. Consider contributing to an IRA for that year — but not into the same account as your Rollover IRA. If you mix or "comingle" outside money with money from a qualified retirement plan, you'll lose the ability to transfer your Rollover IRA to another employer's retirement plan at a later date.

Be sure to take your Rolodex with you when you pack up your old office. Keeping in touch with colleagues from your previous company can be a valuable resource. And don't burn bridges. You may someday need a good reference or want to return to your old company.

Your new job — day one and beyond

The first day is usually filled with paperwork and orientation. You'll start by enrolling in your new company's benefits. You may have to make some new choices regarding the company's retirement plan and health, life, or disability insurance. Is there a waiting period before you can contribute to the 401(k)? Are stock options available? When and to whom? Is there a profit-sharing plan?

Soon, you'll be meeting lots of new people and getting comfortable with your surroundings. Eat lunch with your new colleagues. Find out how your new workplace really works. Learn the corporate culture of your organization and be willing to adapt to it.

It'll help if you can be as organized as possible. You'll be meeting many new people and processing much new information. Write down names, numbers, titles, meeting times, and locations.

Changing Job Checklist

Before changing jobs:

- Investigate potential employers.
- Evaluate job offers.
- Use a worksheet to calculate the overall monetary give-up
 - from your 401(k) or 403(b) plan
 - from your profit-sharing plan
 - of any upcoming bonus
- Negotiate terms.
- Take time to make your decision.

After you've decided on the change:

- Decide what to do with the stock options from your former employer.
- Decide what to do with the retirement money from your former employer. Set up an investment grid.
- Confirm your health benefits.
- Plug the retirement savings gap.
- Take your Rolodex with you.

After starting your new job:

- Enroll in benefits.
- Meet new people.
- Get organized.

Job Change Worksheet

After you receive a job offer, there are many issues to consider in your decision making. One step you should take is to get a clear sense of how your new job offer stacks up against your current situation, particularly in terms of salary, bonus, and benefits. Once you enter all of the information in the worksheet below, you'll be able to determine in monetary terms what you are giving up, if anything, by accepting the new offer. You might even be able to use your calculation of the total monetary "give-up" from your current company as a negotiating point for a sign-on bonus with your potential employer.

	Column A	Column B	
Company Comparison	Current Company	New Company	
Salary	\$	\$	② Column B minus Column A \$
Upcoming annual or quarterly bonus or sign-on bonus	① \$	② \$	N/A
How much do you pay for health and other benefits?	\$	\$	② Column A minus Column B \$
Annual commuting expenses	\$	\$	② Column A minus Column B \$
Monetary value of paid days off (vacation, personal, sick, holidays)	\$	\$	② Column B minus Column A \$

Retirement Benefits

401(k) annual amount from employer match	① \$	② \$	
Profit-sharing or pension plan annual company contribution	① \$	② \$	
401(k) nonvested amount	① \$	N/A	
Profit-sharing or pension plan nonvested amount	① \$	N/A	

(1) Add up the items labeled ①. This is your total monetary "give-up" if you leave your current company now.

\$ _____

(2) Add up the items labeled ②. This is what you'll gain if you join the new company. Note that any sign-on bonus you may receive will be a one-time occurrence. In addition, employer contributions to pension plans are usually not realized for several years. This is significant since full vesting typically takes five to seven years.

\$ _____

(3) Each attribute should be evaluated individually, and you should also consider other personal or professional implications. However, in general, if the total dollar amount you gain in (2) is greater than the total dollar amount you're giving up in (1), then that's certainly a step in the right direction financially.

Resources for additional information:

Book:

Bolles, Richard Nelson, **What Color Is Your Parachute?** Ten Speed Press, 349 p., \$16.95.

Web sites:

www.jobhuntersbible.com/index.html

Supplement to the book *What Color Is Your Parachute?*

www.icanonline.net/employment/

iCan

News and resources for people affected by disabilities; section on employment

www.job-hunt.org

Comprehensive listing of Internet job search resources

www.careerjournal.com

Career site for executives and professionals sponsored by *The Wall Street Journal*

www.fiveoclockclub.com

Career counseling network

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Contact your investment professional for more information or to construct a personalized Heritage Planning Profile to help your parents, your children, or yourself.

