



Financial Industry Regulatory Authority

# Job Dislocation

Making Smart Financial Choices  
after a Job Loss



# FINRA Helps You to Protect Yourself

You have a partner to help you protect yourself from investment fraud during an already difficult time. Our name is FINRA, the largest non-governmental securities regulator. We oversee securities firms doing business in this country and their brokers. We examine securities firms, write rules and enforce those rules and the federal securities laws. A major FINRA objective is investor protection. We believe that informing and educating the investing public helps individuals protect themselves.

# Job Dislocation

## MAKING SMART FINANCIAL CHOICES AFTER A JOB LOSS

You may not be able to control if or when your company closes a plant or lays off workers—but you *can* take steps to manage the financial impact of those events.

This brochure contains tips on how to:

- ▶ keep your finances on the right track in the event of unemployment;
- ▶ protect yourself when getting financial advice during a period of job dislocation; and
- ▶ ask the right questions about your company's benefit plans at any time.



# Job Dislocation

## WHAT TO DO AFTER YOUR COMPANY ANNOUNCES A PLANT CLOSING OR LAYOFFS

Whatever the reason for your job dislocation, you now face a period when handling your finances correctly will be critical to you and your family. These tips can help you take charge of your financial situation:

- ▶ **Act Quickly to Reduce Spending:** With less money coming in, you should take immediate action to reduce spending wherever possible. Resist the temptation to buy on credit.
- ▶ **Assess Your Short-Term Situation:** Figure out how much cash you have readily available or can get on short notice, how much you owe—mortgage, rent, credit cards, car loans—and the monthly payments associated with those and other debts. Establish how long you can make ends meet on the financial resources that you already have in hand.
- ▶ **Ask About Dislocated Worker Services:** Your employer may work with state and local officials to provide services such as job placement, retraining or resume writing. Maximize your opportunity to get a new position as quickly as possible by taking advantage of these services—make finding a new job your full-time job. If you belong to a labor union, also ask your union what it can do to assist you.
- ▶ **Inquire About Unemployment Insurance:** A representative of the state's unemployment insurance office will likely be at your workplace to offer guidance and assistance in filling out the necessary applications. Ask the representative if you qualify and find out how the insurance may be affected if you get other payments from the company. Knowing how much you can claim and how long you can expect to receive unemployment benefits will help you handle your finances.



- ▶ **Avoid Taking Out Loans Against Your 401(k):** Loans put a drag on your retirement savings by reducing the amounts invested on your behalf. In the event of a layoff, 401(k) rules generally require that employees pay back loans within 90 days of leaving or face both income taxes and a hefty 10 percent penalty tax on the withdrawal.
- ▶ **Take Advantage of Health Flexible Spending Accounts (FSA):** If you have enrolled for a Health FSA and the coverage period has begun, consider spending the money while still employed for health items you'll need when unemployed. IRS rules allow you to withdraw the full amount you elected to contribute at any time during the coverage period. Check with the IRS for a list of medical expenses that qualify for tax-free use of your flex funds. You will need to document your expenses and confirm that they have not been paid or reimbursed under any other health plan.
- ▶ **Get Financial Advice:** Your company or union may offer guidance regarding the financial decisions you face. Your state or local employment agencies may also provide information. Ask questions as early as possible to help determine what is right for you. Consider working with a credit counselor or investment professional. They can help you develop a plan to see you through your unemployment period and beyond.



## Protect Yourself—Avoid Investment Fraud

### **BEWARE OF INVESTMENTS THAT PROMISE TOO MUCH:**

The announcement of your plant's closing or mass layoff may have received national or local press coverage. If all of a sudden you find that you are receiving unsolicited offers for the investment of a lifetime, beware. If it sounds too good to be true, you know it probably is.

### **ALWAYS DO A BACKGROUND CHECK BEFORE HIRING AN INVESTMENT PROFESSIONAL:**

The right investment professional can work with you to make good choices during periods of job dislocation. Legitimate investment professionals must be properly licensed. You can check the credentials of any person offering you investment opportunities.

## THIS IS HOW YOU CHECK TO PROTECT YOURSELF:

- ▶ For a broker or brokerage firm, use **FINRA BrokerCheck** [www.finra.org/brokercheck](http://www.finra.org/brokercheck) or call toll-free (800) 289-9999.
- ▶ For an investment adviser, use the SEC's **Investment Adviser Public Disclosure** Web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or call toll-free (800) SEC-0330.
- ▶ For an insurance agent, check with your state insurance department. You will find contact information through the **National Association of Insurance Commissioners** (NAIC) at [www.naic.org](http://www.naic.org) or call toll-free (866) 470-NAIC.
- ▶ For all brokers and advisers, be sure to call your state securities regulator. Contact the **North American Securities Administrators Association** at [www.nasaa.org](http://www.nasaa.org) or call (202) 737-0900 for the state's number.

### TIP:

## State Contact Information

- ▶ Get telephone numbers and other contact information for your state's securities and insurance regulators in the pull-out sheet included in this brochure.
- ▶ Keep it handy for easy reference.

# Long-Term Job Dislocation

## SMART CHOICES IN DIFFICULT TIMES

The prospect of an extended period of unemployment will require some difficult decisions that could affect your long-term financial health. Managing severance pay, choosing the form of payment from benefit plans, and preserving your retirement funds if you are still years away from retirement age are high in that list. Keep in mind the following tips when deciding what to do:

- ▶ **Conserve Funds Meant for Your Retirement if You Can:** Tap into your retirement funds to make ends meet only as a last resort. If you have a choice, choose to keep those funds invested and working for you until you actually retire.
- ▶ **Understand the Tax Bite:** Income taxes apply when you tap into retirement funds prior to age 59½. The plan administrator is required to withhold 20 percent of the amount you cash out to ensure that you will pay the taxes that apply. An additional 10 percent penalty tax may apply if you are under 59½ years of age. In order to avoid income tax and a tax penalty, you must roll over your funds to an Individual Retirement Account (IRA) or other qualified retirement plan within 60 days of receiving the retirement funds.
- ▶ **Use Direct Rollovers to Avoid Potential Taxes:** If you elect to roll over retirement funds, you may avoid tax complications and the risk that you will not complete a rollover within the required 60 days of receiving those funds. Choose a direct rollover by having the plan administrator transfer the rollover amount directly to an IRA or other qualified retirement plan.

- ▶ **Spend and Invest Lump Sums Wisely:** Receiving a lump sum may tempt you to spend it on that one thing you have been wanting all your life. Do yourself a favor and wait. If you face a long unemployment period, these may be the only funds you will have to make ends meet. Even if that is not the case, give yourself time. Consider short- and long-term needs before you decide what to do. If you decide to invest the lump sum, take your time to consider what you are going to invest in, when you are going to make the investment and how much of the lump sum you want to invest in different types of investments such as stocks, bonds, or non-financial assets.
- ▶ **Tap Roth IRAs First:** If you cannot avoid using your retirement funds, consider tapping a Roth Individual Retirement Account (IRA) first to help minimize taxes. You can withdraw contributions to a Roth IRA tax- and penalty-free at any time. Keep in mind that any earnings you take out will be taxed at your normal rate. They are also subject to a 10 percent penalty tax if you are under 59½ years of age. Consult a tax expert and IRS rules for details.



TIP:

## Health Insurance

### COBRA MAY HELP YOU STAY HEALTHY

One of the most significant risks of job dislocation is the loss of your health insurance. A federal law, known as COBRA, provides for continuation of health coverage up to 18 months after a job loss, under certain circumstances. To be eligible for COBRA:

- ▶ You must have been enrolled in your company's health plan while employed. Furthermore, the plan must continue to operate after you are no longer employed.
- ▶ You must sign up within 60 days of the date on your COBRA election notice or the date your coverage ends – whichever is later.
- ▶ You must pay the entire health insurance premium formerly shared by you and your employer, plus up to 2 percent for administrative fees, unless you qualify for relief under the American Recovery and Reinvestment Act of 2009 (aka the Stimulus Bill). If you lose your job involuntarily between September 1, 2008 and December 31, 2009 and qualify for COBRA, your employer will pay 65 percent of your premiums for up to nine months. Accepting the premium reduction disqualifies you for the Health Coverage Tax Credit, which could be more valuable for some taxpayers. And if you make more than \$125,000 (\$250,000 for joint filers), you may have to repay some of the premium reduction at tax time. See [www.dol.gov/ebsa/COBRA.html](http://www.dol.gov/ebsa/COBRA.html) for details.
- ▶ You must pay the premium on time. Failure to make your payment on time will result in termination of health insurance. Generally, you will not be able to regain coverage once it has lapsed.



## Understand Your Company's Benefits

The most obvious benefit you get from your company is the regular paycheck that you count on for doing your job. Another benefit that you probably use frequently is your health insurance. Other company benefits, such as a 401(k) or pension plan, help you build retirement security over time. Your employer may offer a variety of retirement benefits, and it is up to you to take the initiative to understand them. This is particularly important as you face a period of job dislocation. Do not be shy about asking questions. We tell you what to ask below after this brief description of commonly offered plans:

### **PENSION PLANS:**

These plans usually provide a series of payments, also called a defined benefit, after you retire. The amount you receive is normally calculated based on a combination of salary, age and years of service. Pension plans that replace a good chunk of your before-retirement salary are becoming rare. Employees who leave a job before a certain age or specified years of service with the company may not receive anything. This may happen when they have not met the eligibility requirements to become entitled, or vested, in the plan benefits.

## 401(K) PLANS:

These plans are referred to as defined contribution plans because they allow you to contribute a portion of your salary to retirement savings, and receive certain tax benefits. When you participate, the taxable salary that your employer reports to the Internal Revenue Service (IRS) is reduced by the amount of that contribution. Income taxes on that money and any earnings are deferred, or postponed, until you withdraw from your account. Generally, if you withdraw before age 59½, you will pay a tax penalty. Some companies also offer a Roth feature to the 401(k) plan that allows you to contribute after-tax dollars—known as designated Roth contributions. You pay taxes on designated Roth contributions up front, but their earnings grow tax free. Earnings on the Roth contributions may be withdrawn after age 59½ so long as the withdrawal is made five years after the initial Roth contribution.

The maximum amount you can contribute to a 401(k) is set annually by the IRS. For 2009, the maximum contribution is \$16,500. If you are 50 or older, you can add another \$5,500 in “catch up” contributions for a pre-tax total of \$22,000. If your company allows you to make both pre-tax and designated Roth contributions, you may determine how much you want to contribute to each. You must, however, count both contributions towards the annual limit.



A 401(k) plan may give you several investment choices. The company may also match some or all of your contributions on a pre-tax basis. You will owe tax on any pre-tax contributions and their earnings when you withdraw funds from the plan. The money that you have contributed to the 401(k) plan will not be affected by events impacting your employer because you are always entitled to or vested in your own contributions. Your employer will decide how long you must work before you vest in the matching contributions. You may move (rollover) your 401(k) savings when you leave an employer allowing continued deferral of the taxable portion of your account.

### **CASH BALANCE PLANS:**

These plans provide for a benefit that is stated in terms of an account balance. Each employee has an account to which the employer contributes a specified dollar amount every year. The funds in the account earn interest at a guaranteed rate that is independent of the actual investment performance of the plan. Generally, you can take an annuity or a lump sum.

### **EMPLOYEE PROFIT-SHARING PLANS:**

The company contributes a certain amount of its annual profits to participating employees. Each worker's account is credited with its share of the contributed profits. The amount contributed often ebbs and flows with a company's financial performance.

### **EMPLOYEE STOCK BONUS PLANS:**

The company contributes a certain number of shares of its own stock to its employees. As with profit sharing plans, the amount of shares received tends to fluctuate according to the company's financial performance.

## ASK THESE QUESTIONS ABOUT YOUR EMPLOYER'S BENEFIT PLANS:

- 1. What are the terms of the plans that cover me?** Ask for the summary plan description (SPD), the document that contains a complete description of the benefits owed to you and how they are calculated. Your company's human resources department, the plan trustee or administrator, or your labor union should have a copy of this document.
- 2. When do I vest and how much is my benefit?** The plan administrator or the company's human resources department should tell you exactly how long you must work before you become entitled to, or vest in, your benefits and how much those benefits will be. Understand how the benefit is calculated so you can double check that the amount reported to you is correct. Also check previous benefit statements that you have received along the way to ensure that the calculation is correct. Keep in mind that you are always vested in the amounts that you have contributed to a plan. Your employer, however, may require employees to work for a designated period to vest in the amounts contributed by the company.



### 3. **When can I start getting payments?**

You need to know when you can start receiving your benefits so you can plan accordingly. It is possible that you may not have a right to receive payments as quickly as you would expect even if you retire under normal circumstances. Some plans may provide for an early retirement option under certain circumstances if you have met the length of service requirement even if you do not meet the age requirement. This option usually results in a reduced benefit to the employee. Before you opt for payments, make sure that you understand what level of benefit—full or reduced—you are getting, the reason causing a benefit reduction and how long you have to wait to get the full benefit provided by the plan.

**TIP:**

## 401(k) Hardship Withdrawals

### UNDERSTAND THE TAX BITE AND LONG-TERM CONSEQUENCES

Under certain circumstances, it may be possible to access your 401(k) funds before retirement. Check with your employer for the specifics of your plan. A hardship withdrawal should be a choice of last resort. You will never get the full amount that you withdraw because you will have to pay taxes.

#### Generally, hardship withdrawals are:

- ▶ available if your employer's plan permits them, but are not required by law;
- ▶ not loans—they cannot be repaid;
- ▶ subject to regular taxes—your employer will likely deduct 20 percent up front;
- ▶ subject to a 10 percent penalty tax if you are not 59½ or older;
- ▶ available only after you have withdrawn all other available 401(k) funds;
- ▶ not available after you have been terminated.

#### You may use hardship withdrawals to:

- ▶ purchase or repair a primary home;
- ▶ pay education tuition, room and board, and fees for the next 12 months for you, your spouse, children and other dependents;
- ▶ prevent eviction or foreclosure on your primary residence;
- ▶ address severe financial hardship;
- ▶ pay for unreimbursed medical expenses for you, your spouse, children and other dependents;
- ▶ pay for funeral expenses for immediate family members—parents, spouse, children, and other dependents.

TIP:

## 401(k) Hardship Withdrawals continued

**The 10 percent penalty tax is waived if your hardship withdrawal results from:**

- ▶ your total and permanent disability;
- ▶ medical bills that exceed 7.5 percent of your adjusted gross income;
- ▶ a court order to pay funds to a spouse, child or dependent;
- ▶ permanent lay off, termination, quitting or early retirement in the same year you turn 55;
- ▶ permanent lay off, termination, quitting or retirement accompanied by payments for the rest of your (or your designated beneficiaries') life or life expectancy that continue for at least five years or until you reach age 59½, whichever is longer.

Hardship withdrawals are costly in the short term when you pay taxes. Over the long term, they also cost you when the withdrawn funds are not there to grow with the help of compounding.



## Your “To Do” List

### PUTTING IT ALL TOGETHER TO KEEP YOUR FINANCES ON TRACK

There are many things you need to do and think about as you face a period of unemployment. It is easy to feel overwhelmed. Keep it simple by following these steps:

- ▶ **Take Control of Your Finances:** Follow the tips above as soon as you learn that you will experience a job loss. Knowing what you can count on financially will help alleviate your concerns.
- ▶ **Use All Available Employment Services:** Take advantage of your state’s services. Use the contact information in the pull-out sheet in this brochure. Help yourself find that next job sooner rather than later.
- ▶ **Protect Yourself From Financial Fraud:** Check out anyone offering you financial advice. Call the numbers listed in the pull-out sheet to contact your state and national regulators.

# Who We Are

## FINRA

FINRA, the Financial Industry Regulatory Authority, is the largest non-governmental regulator for all securities firms doing business in the United States. Created in 2007 through the consolidation of NASD and NYSE Member Regulation, FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA oversees nearly 5,100 brokerage firms, about 174,000 branch offices and more than 672,000 registered securities representatives. For more information, please visit our Web site at [www.finra.org](http://www.finra.org).



Investor protection. Market integrity.

1735 K Street, NW  
Washington, DC 20006-1506  
[www.finra.org](http://www.finra.org)

© 2009 FINRA. All rights reserved.  
09\_0004.15—3/09