

You've Lost Your Job – What's Next?

By: Ian Burns

Losing your job is an emotional, gut-wrenching experience, whether you are being terminated or offered some kind of early retirement package. Having someone say they chose you as part of an “employee reduction program” can be a crushing blow to your confidence and self worth. One day you have an income, a purpose, a place to go. The next day you are faced with some kind of financial crisis, empty days ahead of you, and an uncertain future. Unfortunately, it's at this time, in the middle of a personal crisis, that you must make some financial decisions that will affect your future long after your job has ended.

‘Surplus to Requirements’

This is the position that many of today's baby-boomers find themselves in. As more corporations trim their budgets and their workforce, many long-term employees find themselves “surplus to requirements.” What is even more devastating is that many members of this generation are not financially prepared for the future.

To make matters even worse, the security offered by their company pension plans may be in jeopardy due to market failures, unrealistic actuarial assumptions, or the inability of their employer to cover major pension deficits.

If you are unfortunate enough to find yourself in this position, you will be faced with a myriad of financial decisions regarding severance options, possible loss of benefits, and, of course, pension choices. It's at this stage that many people make the mistake of going immediately for legal advice or even worse, signing on the dotted line to get it over with. This is the time when you need to step back; when cooler heads need to prevail. While it may be difficult to divorce yourself from the situation, here are some tips that may guide you towards the right financial choices.

Consider the advice of a good financial advisor. Make sure he or she is knowledgeable in this field. It is important that he or she understands tax laws, employee benefit options, and, of course, the nuances of your pension plan and all the options available to you. Now is the time to do a complete net worth (assets minus liabilities) – what you own minus what you owe. Next on your list is the budget – this will tell you if you have income available to cover your expenses. In the interim, you may need to cut back financially or dip into your savings to pay the bills.

Review your benefit package; you may lose your benefits immediately depending on the options you select in your severance package or pension. Remember, your spouse may have a health plan that you can use or you can purchase coverage, in some cases without proof of good health. If you do have health issues, you can convert your group life insurance to a permanent plan without a medical.

Finally, what to do with your pension? You may be given multiple choices from commuted values (surrendering your pension for cash), transferring your pension to another plan, or taking one of many immediate or deferred income options from your employer. This decision cannot be made lightly. You must understand all of the options and the consequences of the choices you elect before you make those decisions. Bear in mind, the most important thing is to try to compare like with like, such as after tax numbers with after tax numbers. Will there be any penalties for early withdrawal? How does the future value of your pension compare to investing your money personally? Are there any options available to you that you haven't been told about? Is your company's pension plan solvent? Finally, which pension option makes sense for you and your family in your situation?

Finances In Order

Some pre-emptive tips: keep your resume up to date; get your finances in order; live within your means and most importantly, start planning for your future today.

Things to remember – you have many years experience in the workforce. People will pay for your wisdom. You do have a lot to offer. Many people use this time to reflect on their life and to plan for the future they deserve. Most importantly, “this too shall pass.” Many of you will look back at this as a life changing experience and wonder why you stayed with your previous employer for so long. ■

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