



Job Dislocation

Making Smart Financial
Choices After a Job Loss



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NASWA—The National Association of State Workforce Agencies (NASWA) is an organization of state administrators of unemployment insurance laws, employment services, training programs, employment statistics and labor market information provided through the publicly funded state workforce system. Throughout its more than 75-year history, in collaboration with federal and other partners, NASWA has strengthened the workforce system through information exchange, liaison, and advocacy. For more information, visit www.naswa.org

NAWB—The National Association of Workforce Boards (NAWB) represents approximately 550 Workforce Development Boards and their 12,000+ business members that coordinate and leverage workforce strategies with education and economic development stakeholders within their local communities, to ensure that state and local workforce development and job training programs meet the needs of employers. For more information, visit www.nawb.org



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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;
- ▶ protect yourself from job search scams when looking for employment; and
- ▶ ask the right questions about your company's benefit plans at any time.

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.
- ▶ **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. (See information on 401(k) Hardship Withdrawals on pages 14 and 15.)

To find your state's workforce agency, visit:

- ▶ <http://us.jobs/state-workforce-agencies.asp>

To locate a public job center near you, visit:

- ▶ <http://jobcenter.usa.gov/>

► **Inquire About Unemployment Insurance:**

The state's unemployment insurance office may visit your workplace to offer guidance about the application process. Or you can access the office online at <http://www.servicelocator.org/OWSLinks.asp>. Find out if you qualify and how the insurance may change if you get other payments from the company. Knowing the amount of the insurance benefit and the time you can expect to receive it will help you handle your finances.

Remember that when you file for unemployment insurance, state regulations generally require that you also register with the state's employment service so you can start searching for a job immediately. Check with your state to see whether any exceptions apply.

Collecting unemployment benefits while working is illegal. Report the date when you return to work or start a new job.



You become ineligible to receive unemployment benefits as of the date you return to work or start a new job, not on the date you receive the first paycheck for that job.

State unemployment insurance (UI) agencies regularly match the list of those receiving UI payments against wage and date of employment records to determine if an individual was working and collecting benefits for the same week(s).

Remember: Do not file for benefits for periods of time when you are working. Report to your state unemployment office the date when you begin to work, either full time or part time. Do not wait to get your first paycheck to notify the state.

Protect Yourself—Avoid Investment Fraud

Beware of Investments That Promise Too Much:

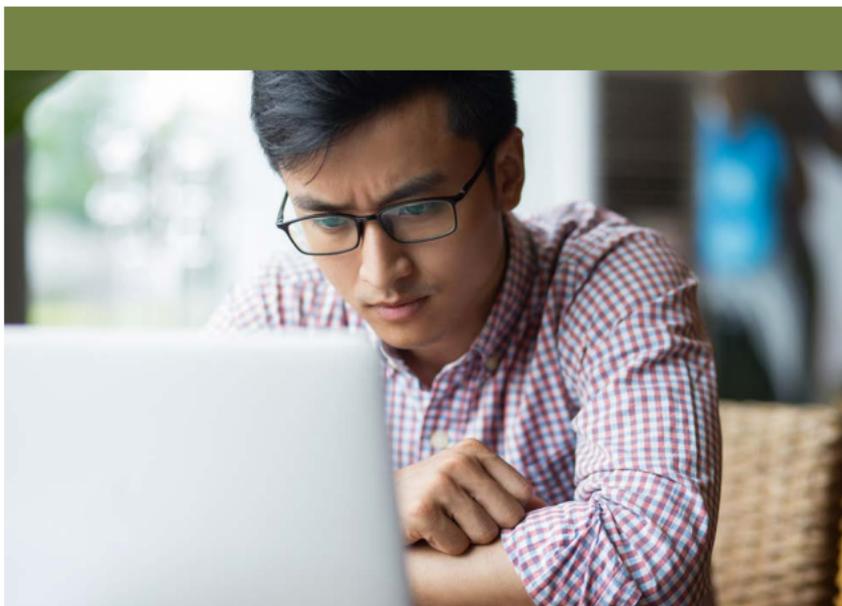
The announcement of your plant's closing or mass layoff may have received national or local press coverage. If all of a sudden you find that you are receiving unsolicited offers for the investment of a lifetime, beware. If it sounds too good to be true, it probably is.

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 or an investment adviser or investment adviser firm, use FINRA BrokerCheck at brokercheck.finra.org or call toll-free (800) 289-9999.
- ▶ 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 or call toll-free (866) 470-NAIC.
- ▶ For all brokers and advisers, call your state securities regulator. Contact the North American Securities Administrators Association at www.nasaa.org or call (202) 737-0900 for the state's number.



Protect Yourself—Avoid Job Search Scams

Beware of Job Search Ads That Promise Too Much:

Resist the temptation to rely on job search ads or services that promise easy results. You should not have to pay to get a job, disclose personal or financial information in a job application, or use electronic money transfers via your bank or credit card accounts to do your job. These are all red flags that the job may involve illegal activity, or someone may be trying to steal your identity.

This Is What You Do to Protect Yourself from Job Search Scams:

- ▶ Check with the Federal Trade Commission at www.ftc.gov/jobscams for the latest scams. If you suspect a job scam, file a complaint at www.ftccomplaintassistant.gov or call (877) FTC-HELP.
- ▶ Check with your state's Consumer Protection Agency or Office of the Attorney General. Find the contact number at www.usa.gov/directory/stateconsumer.
- ▶ Check with your local Better Business Bureau. Find the contact number at www.bbb.org/bbb-locator.

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. These tips can help you decide what to do:

- ▶ **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.
- ▶ **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 tax penalty 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. If you want to defer tax on the entire amount you cashed out, you will have to add funds from other sources equal to the 20 percent withheld by the plan administrator.



- ▶ **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.

Health Insurance

A significant risk of job dislocation is the loss of your health insurance. You may have several options to continue coverage during a period of unemployment. Compare the benefits and the cost of all available options to decide what health insurance works best for you.

You may be eligible to get health insurance at group rates from your former employer under COBRA—a federal law that typically entitles you to continue your employer’s coverage for up to 18 months. To be eligible, you must have been enrolled in your company’s health plan while employed. You must also elect to take COBRA coverage once you have been notified that you are eligible by the later of the 60th day after the written notice is sent or the day your health coverage ceases under the company’s health plan. If you fail to respond, you and your family will lose your right to COBRA benefits. COBRA coverage will cost the premium that you were already paying plus the amount paid by the company, and an administrative fee of up to 2 percent of the premium. Failure to make full payment on time will result in termination of health insurance.

If you are married and your spouse continues working after you retire, you may be able to get health insurance under your spouse’s company health plan, if one is available.

You should also check health insurance options under the 2010 Patient Protection and Affordable Care Act. Under that law, you may be able to obtain health insurance, even if you opt to get COBRA coverage for some period while unemployed or when the COBRA period ends. For details—including eligibility for a special enrollment period—go to www.healthcare.gov.



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 2018, the maximum contribution is \$18,500. If you are 50 or older, you can add another \$6,000 in “catch up” contributions for a pre-tax total of \$24,500. 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. Visit www.irs.gov for additional information.

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.

Keep in mind that you are always entitled to 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. What is the dollar amount of the benefit I will get?

Your company should be able to tell you the dollar amount that you can expect to receive based on your years of service to date. It should also be able to estimate your benefit assuming you work until retirement age.

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.



4. 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, if any, and how long you have to wait to get the full benefit provided by the plan.

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; and
- ▶ 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; or
- ▶ pay for funeral expenses for immediate family members—parents, spouse, children and other dependents.

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

- ▶ your total and permanent disability;
- ▶ medical bills that exceed 10 percent of your adjusted gross income (or 7.5 percent if you or your spouse was born before January 2, 1950);
- ▶ 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; or
- ▶ 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 provided by your employer. Help yourself find that next job sooner rather than later.
- ▶ **Get health coverage and protect other benefits.** Find out what employer benefits you are entitled to and what you need to do to get them. Pay attention to deadlines to avoid losing benefits.
- ▶ **Protect yourself from financial fraud and job search scams.** Check out anyone offering you financial advice and any job ads or offers that seem too easy to be true. Call federal, state or local agencies at the numbers listed above.

Additional Resources:

TO MANAGE YOUR FINANCES:

- ▶ **Debt Management** (to cope with debt and get counseling)
<http://www.consumer.ftc.gov/topics/dealing-debt>
- ▶ **National Foundation for Credit Counseling** (to get financial counseling and education)
<http://www.nfcc.org/>
- ▶ **Mortgage Help** (to learn how to get help)
<http://www.consumerfinance.gov/mortgagehelp/>
- ▶ **Mymoney.gov** (to get the basics about financial education)
<http://www.mymoney.gov/Pages/default.aspx>
- ▶ **Careeronestop.org** (to get training and job information)
<http://www.careeronestop.org/jobsearch/findjobs/state-job-banks.aspx>

TO STAY HEALTHY:

- ▶ **Health Information for Individuals and Families** (to keep or improve your health)
<http://www.health.gov/>
- ▶ **Healthy Eating** (to plan healthy meals on a budget)
<http://www.choosemyplate.gov/healthy-eating-on-budget.html>
- ▶ **Stress Management** (to deal with stress)
<http://www.nlm.nih.gov/medlineplus/ency/article/001942.htm>



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