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Coping with Unemployment

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Coping with Unemployment

What is coping with unemployment?

Coping with unemployment means breaking away from the past and facing your future. It means dealing with the emotional, financial, and professional challenges unemployment can bring. Although this process can be painful, facing unemployment with a plan will help make coping with it easier.

Dealing with your emotions

When you lose your job

Losing your job is an emotional experience--whether you are laid off or fired, whether you quit or retire. Your feelings of self-worth are tied more closely to your job than you realize. Although you're certainly entitled to relax awhile after your job ends, it's easy to let a few days of sleeping late, watching television, and playing golf turn into a few months of inactivity. Be careful not to use your need to relax as an excuse to avoid facing your future. The more time that passes, the more likely you'll feel anxious and depressed about your future. Here are three tips on what you can do to keep yourself moving:

- Pretend that you're still working. You've probably heard the adage that finding a job is a full-time job. Well, it's usually true. So why not pretend that you're still working? You don't have to get dressed up for this job, but at least get out of bed at the same time, make yourself a cup of coffee, and get going. Stop for lunch and then work again until late afternoon. Keep moving, and you'll accomplish your goal of finding a new job with a lot less anxiety.
- Set daily and weekly goals.
- Get a calendar and write down what you want to accomplish each day for one week. Be specific and reasonable. Don't write "call future employers " Instead, write "call the human resource departments at five publishing companies." Then, write down what your weekly goal will be. You might write "compile a list of five potential employers and send resumes to them." Setting goals will help you feel in control of your fate and will ultimately help you get a job.
- Reward yourself. Looking for a job is tough, so after a long, hard day of job hunting, reward yourself. For instance, promise yourself in the morning that if you accomplish everything on your list by three o'clock, you can go to the matinee of the movie you've been wanting to see.

Planning a financial strategy

When you lose your job

When you lose your job, you may be able to rely on savings or, in some cases, unemployment compensation to replace some of your lost income. However, if you don't have much money saved or are worried about how to survive financially, you should come up with a financial plan for unemployment. You should plan a financial strategy that will keep you afloat for six months, if necessary. Hopefully, you won't be unemployed that long but if you are, you'll be prepared. Make a list of ways you can save money and cut expenses and prepare a bare-bones budget that shows the least amount of money you can live on during your period of unemployment. Then, prepare a six-month financial plan that details to the extent possible how you plan to survive financially while you're unemployed.

Planning for life after your current job ends

Find out what unemployment compensation you may receive

If you are being terminated for any reason, find out if you will receive severance pay and what unemployment benefits you may receive. You're likely to receive severance pay if you are laid off, but severance pay is usually based on the number of years you've been with the company. If you are laid off or fired, you may be eligible for unemployment compensation from your state. Your employer can give you the details. You should also find out when you will receive your final paycheck and if you are eligible for compensation for vacation or sick days you accumulated but never took.

Example(s): When Alice was laid off from her job as executive housekeeper, her employer gave her a final paycheck consisting of her last two weeks of salary and ten days' worth of pay for the vacation time she had accumulated but never took. She also received severance pay equal to one month's salary. In addition, her employer gave her the address and phone number of the nearest unemployment office, as well as information on how to apply for unemployment benefits in her state.

Find out about continuing your medical benefits through COBRA

If you work for a company with more than 20 employees, your employer must notify both you and your spouse (if any) via first class mail that you have the right to continue your group health insurance coverage after your employment has been terminated (unless it ended because of gross misconduct). Under COBRA, you can continue your benefits up to 18 months, and your spouse and dependent children may be covered up to 36 months. However, you'll probably have to pay the full premium cost plus a small administrative fee--your employer won't contribute anything. If you work for a company that has fewer than 20 employees, you'll have to check your state's laws to see if you can continue coverage. Some states have passed legislation that gives employees of small employers the right to continue their health care coverage for a certain period of time.

Tip: The American Recovery and Reinvestment Act of 2009 provides that, for involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010, assistance-eligible individuals will only need to pay 35 percent of COBRA premiums for a period of up to nine months. The remaining 65 percent of COBRA premiums will be subsidized. However, this premium subsidy may need to be repaid in some cases.

Determine how you will handle your retirement account or pension plan funds

If you will receive a lump-sum pension plan or savings plan distribution, decide where you want that money to go. It's easiest if you authorize your employer to transfer funds directly from your retirement plan to another retirement plan you have set up elsewhere. Although you may be tempted to withdraw money from your retirement account to provide much-needed income, do so only if this is your only option.

Find out whether your employer-sponsored group disability or life insurance policy is convertible or portable

When you lose your job, you may also lose your disability or life insurance coverage. Although disability insurance is rarely portable or convertible (you can't take it with you or convert it to an individual policy), your group life insurance policy may be.

Ask how the company handles inquiries about your employment

Afraid of being sued by vengeful ex-employees, many companies today will give only limited information about your employment. A few companies may be willing to give some information about the quality of your work, but, in general, companies may answer only factual questions such as your dates of employment. If you were fired, you may be happy if your company has a strict employment inquiry policy. However, if you quit or were laid off, you may wish that your employer would give out more positive information as well.

Line up references

If possible, you should line up one or more people who are willing to give you a good professional reference. Those you choose should be personally familiar with your work and hold positions in the company higher than your own. However, before you list any former supervisors as references, check with them; some companies forbid department managers or supervisors to give out information about former employees. Many individuals, however, will give out information anyway, but check with them first. You don't want to be surprised later if someone you list as a reference refuses to talk to your potential employer.

Finding a new job

Setting realistic expectations

It may take you a lot longer to find a job than you think. You may have to update your resume, research job openings, and interview more than once with a potential employer. You should expect the job hunt to last at least six weeks and be prepared for it to last at least six months, especially in a tight job market (one rule of thumb is to expect it to last one month for every \$10,000 of compensation). You may also have to decide whether you're willing to move to a different area if you can't find a job locally.

Setting up a support network

Networking can mean either finding others who can support you emotionally when you're unemployed or finding individuals and printed materials that can help you find a new job. You can find emotional support through friends, relatives, job-hunters' support groups, or Internet sites. In addition, many resources are available to help you find a new job. You can find numerous books and newspapers at your local bookstore or library that will help you determine your career goals, prepare a resume, and research companies in your area. You can talk to professional job counselors, headhunters, temporary agencies, or image counselors (you may have to pay them a fee, in some cases) who can help you find job openings or line up interviews. You can even find jobs through the Internet or through your friends and family.

Starting your own business

Many people who have lost their jobs to company downsizing decide to start their own businesses and, after years of working for someone else, really enjoy being in charge of their own company. If you are tempted to start your own business, be aware that most new businesses fail quickly, often due to the lack of cash flow and thorough planning.

Coping with Unemployment Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered? • Names, ages • Children and other dependents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has financial situation been assessed? • Income • Expenses • Assets • Liabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Employee benefits	Yes	No	N/A
1. Did you meet with your former employer's Human Resources department or your manager about your benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you know when you will get your final paycheck?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Will you receive accrued vacation, sick pay, or overtime?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are you eligible for workers' compensation or disability benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Will you receive a severance package?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Can you keep your employer-sponsored life insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does your former employer offer outplacement resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you secured reference letters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Filing for unemployment	Yes	No	N/A
1. Have you filed a claim for unemployment benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you have your personal information including Social Security number and driver's license number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Do you have your former employer's information including name, address, federal tax ID number (from your W2)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. Do you have the dates you began and ended employment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5. Do you have a record of your earnings (W2)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Health insurance benefits	Yes	No	N/A
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1. Will you have health insurance after you leave your job?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. Have you checked for the availability of COBRA or state-mandated health insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3. Can you get health insurance through your spouse's plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. Have you checked on the cost of health insurance after you leave your job?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------	--------------------------

5. Do you have a Health Savings Account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Employee's retirement benefits	Yes	No	N/A
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1. Do you have a defined benefit or other pension plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. Are your benefits fully vested?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3. If yes, can you receive the plan benefits or transfer the plan benefits to another account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. Do you have a 401(k), profit-sharing plan, 403(b), 457(b), or other similar plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5. Are your employer contributions fully vested?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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6. Do you have an outstanding plan loan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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7. If yes, can you receive the plan benefits or transfer them to another account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------	--------------------------

Notes:

Your financial picture	Yes	No	N/A
1. Do you have other sources of income while you're unemployed? • Unemployment compensation • Pension • Spouse's income • Interest/dividend • Alimony/child support • Workers' compensation/disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you have savings you can use for expenses? • Checking/savings/money market/CDs • Stocks/bonds/mutual funds • Annuities • Cash value life insurance • Retirement plans (IRA, 401(k), pension) • Other (Social Security disability, veterans benefits, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Have you estimated all your expenses? • Housing costs • Taxes • Food, clothing, and other household expenses • Transportation costs and auto insurance • Health-care expenses including insurance premiums • Life, long-term care, and disability insurance costs • Child-care costs • Mortgages • Credit cards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know how long your unemployment compensation and other sources of income will last?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you know how long your savings will last if your unemployment and other sources of income end?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Finding your new job	Yes	No	N/A
1. Have you assessed your job skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is it time to start a new career?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are you ready to start/buy a business or franchise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Will you seek professional help? • Headhunter • Career counselors • Online job search	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Have you prepared or updated your resume?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Have you established network contacts? • Current and former coworkers • Professional associations • Friends/family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Have you honed your interviewing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you lined up your references?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Have you determined what the going rate is for your skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Have you established your minimum salary requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Do you know the minimum employee benefits you require?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Your new job/career	Yes	No	N/A
1. Have you researched your prospective employer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the job match your skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the company financially stable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know the employee benefits the company offers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the compensation offered meet your requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Can you negotiate your salary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is health insurance offered? • Type of plan(s) available • What's covered • Who's covered • How much will it cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Is an HSA available?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p>9. Is sick time available?</p> <ul style="list-style-type: none"> • How much is offered • When is it available • What types of absences are covered 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>10. Are retirement benefits offered?</p> <ul style="list-style-type: none"> • Plan types • Investment options • Vesting • Employer contributions • Portability 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>11. Are other benefits available?</p> <ul style="list-style-type: none"> • Life insurance • Disability • Educational/training benefits • Other 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Notes:</p>			

Setting Up a Support Network When You're Unemployed

What is an unemployment support network?

An unemployment support network is a group of people, organizations, or resources available to help you cope with issues that unemployed people must face. Setting up a support network when you're unemployed is important for several reasons. First, when you lose your job, your ego is likely to be damaged, and you'll benefit from the encouragement and perspective that talking to others can bring. Second, if you plan on returning to work, you may need help finding a new job or exploring a career change. Third, if you're an older unemployed worker thinking about retiring rather than seeking another job, you may need the advice of others who have experienced retirement firsthand. Whatever your reason for needing support, you can easily find it if you know where to look.

Emotional support

When you lose your job, you'll most likely turn to your friends and family for emotional support. Another option is to find or form a support group (also called a self-help group) to share information and provide emotional support to one another.

Finding a support group

If you live in a metropolitan area, finding a local support group should be easy. Look in the Local or Community sections of your newspaper or contact your local community center, college, or university to see if it sponsors support groups. You can also try the American Self-Help Group Clearinghouse website www.mentalhelp.net for information on starting or finding a self-help group in your area.

Job-hunting services and assistance

Rather than go it alone, you may choose to find a job using an employment professional or a government agency or community organization. Some employment professionals will charge you a fee for their services, while others do not. Government job services are free but may offer only basic assistance. Community organizations may sponsor free or low-cost services, which are sometimes tailored to the needs of specific groups.

For-fee services

If you are having trouble marketing yourself, you might consider paying someone to help you. You can, for instance, hire image counselors to teach you how to dress professionally, rewrite your resume, target your job search, and rehearse interviewing. Or, in a tight job market, you might use a for-fee job placement agency. You sign a contract with the agency, under which you promise to pay a flat fee or a certain percentage of your first year's salary and in turn, the agency promises to find you a suitable job. Whatever your reason for paying someone to help you find a job, be careful. Before you sign a contract, know what you'll get for your money. How hard will the company work for you? What kind of guarantee does it offer? What specific services does it offer? In particular, check the company's reputation. Make sure that it has been in business in the same location for several years, and call the Better Business Bureau (if the agency is a member) and ask for references or published statistics on its placement success rates.

Fee-paid services

- **Headhunters and recruiters:** If you work in a high-demand occupation or you are a professional with a few years of experience, you may be able to find a job through a recruiter or a headhunter. In fact, one may come looking for you! Headhunters or recruitment professionals are usually paid by companies who use them to find qualified employees. Most headhunters specialize in finding employees in a particular field, and they expect you to be flexible. They may not want to talk to you, for example, unless you are willing to relocate. They also may not be interested in you if you are changing career

paths or if you don't match their area of specialization and requirements.

Caution: A recruiter can seem like your best friend when you are unemployed. Remember, however, that the recruiter is also a salesperson, and you are the product. Don't be upset by a recruiter's reluctance to talk to you unless you are a seasoned professional, and don't be misled into thinking that a job offered through a recruiter is necessarily the best job for you or the only good way to find a job.

- The temporary or permanent placement agency: Another type of fee-paid employment service is the temporary or permanent placement agency. You sign up with an agency and specify the type of position you are looking for, and it tries to match you with a job opening. You'll work for the agency, not for the company unless the company buys your contract from the agency. This means that you won't be eligible for any company benefits or perks. Some agencies specialize in placing candidates in a certain industry (banking, for instance) while others are generalists. A good employment service will be responsive to your needs, offer training and benefits (if necessary), and won't mislead you about the jobs they usually have available. Some companies publish "teaser" jobs in the paper that probably won't be available when you call the agency because they are designed to lure you in to fill out an application.

Caution: Although taking a temporary job is a good way of supporting yourself for a short time or even finding a permanent job with a good company, you'll probably find that the pay is relatively low. However, you may be able to negotiate a better rate of pay if you are a good, qualified candidate.

Government agencies and community services

Your local employment office (where you apply for unemployment insurance benefits) may assist you in finding a new job, or there may be programs set up in your community to help displaced workers, low-income workers, senior workers, or veterans. Check your telephone directory under Job Services, Employment Services, or Social Services. Your local college or university may also sponsor career-counseling seminars or courses that are open to the public even if attendees are not enrolled in a degree program.

Outplacement assistance

If you have prior warning that you will be losing your job, you can do several things to make unemployment easier. First, if you're being laid off, find out if your company has outplacement assistance. You may be able to attend seminars or speak with a job counselor one on one. Next, if you plan on looking for another job, ask about your current company's policy regarding employment verification and references. If a potential employer calls and asks about your work history, what information will the company give out? In addition, are your coworkers or supervisors allowed to give professional and/or personal references? If you're leaving the company because you're moving or being laid off, don't forget to ask everyone you know who might have leads on job openings for introductions to managers or executives at other companies.

Other job-hunting resources

The Internet

Many Internet sites are devoted to the needs and concerns of the job-hunter. These sites offer career counseling, networking opportunities, job fairs, and lists of available jobs (including on-line applications). Some popular sites are Monster (www.monster.com), Headhunter.net (www.headhunter.net), and the Career Resource Center (www.careers.org). When you've lined up a job interview, you can prepare for the interview by researching the company on-line under the company name. You may be able to pull up press releases, articles about the company, or even financial information. You may have to pay an extra fee for the latter. Information about public companies is readily available, while information about private companies can be difficult to find.

Libraries and bookstores

If you go to the library or a bookstore, you'll find many books on job hunting and career counseling. These books can be quite useful, particularly if you've been out of the job market for a while or you need help in a particular area. You can also buy or read local and out-of-town newspapers that advertise jobs.

Friends, family, and acquaintances

One good way to find a new job is to tell everyone you know that you're looking for one. Your friends, family, and acquaintances may know about jobs that are presently open within their companies or about job opportunities that might be available in the future. They may also be able to put a good word in for you with a manager or the human resources department. Some companies use a very formal process to hire (first open the job to current employees, next advertise the job to others), while others hire more informally.

Special considerations for retirees

There are many resources tailored to your needs if you are an unemployed older worker looking forward to a relaxing retirement, searching for volunteer opportunities, thinking about working part-time, interested in opening your own business, or facing health concerns. You can find support groups in your community or on the Internet to help you adjust to retirement. There are also a multitude of organizations set up just to help you find the resources and information you need. A good place to start is the American Association of Retired Persons (AARP). Call (888) OUR-AARP (888-687-2277).

Surviving Financially When You're Unemployed

What is it?

When you lose your job, you may have to put yourself on a financial diet. Just as losing weight is simple if you eat less (and exercise more), staying afloat financially is simple if you spend less. Is this process going to be easy? No, of course not. But it can be done with a little self-discipline, some creativity, and a lot of planning.

Plan for a six-month period of unemployment

It's hard to know how long you'll be unemployed. You may find a new job within a matter of weeks, or it may take you months. However, it's best to plan for a worst-case scenario, probably six months. Most likely, you'll find a job sooner, and you can throw the rest of your plan in the trash. But, if you don't find a job quickly, at least you'll be prepared.

Follow the plan

When you've come up with a financial plan, stick to it. Like any diet, you'll be tempted to cheat by spending a little more money than you should. You may even find that as time goes by, you want to change your plan a bit. That's OK. Your plan is designed to be flexible so that you don't feel too burdened by something that seems unworkable.

Adjust your expectations

No, finding a new job is not going to be easy

First, despite the number of appealing job ads you see in the Sunday paper, finding a new job is not going to be easy. Even if you're one of the lucky few that's working in an occupation that's in high demand, finding a new job is probably going to take at least a few weeks and maybe months. Your job search may look something like this:

- Week One: Send out ten resumes, and wait for the phone to ring.
- Week Two: Send out ten more resumes, and wait some more.
- Week Three: Send out five resumes for jobs you really want and five for jobs that you really don't want. The phone rings. It's your mother.
- Week Four: The phone rings. Then it rings again. You line up two job interviews. You send out three more resumes.
- Week Five: You have two interviews, and send out five more resumes. You're called for a second interview at one of the jobs.
- Week Six: Good news! You're hired! Bad news: You can't start for two more weeks.

As you can see, even a successful job search can take a while, even if you're a good candidate in a good job market. Prepare yourself for this by drawing up a financial plan as soon as you lose your job.

Expect that life is going to change

When you lose your job, you probably won't be able to live the same way you lived when you had a job. If you try to live the same way, there's a good chance you won't survive financially. If you're unemployed for only a few weeks, your life might not change radically. Perhaps you'll only need to spend a little less on groceries, go out to eat once every two weeks instead of once a week, and then dip into your savings account. But if you're

unemployed for months, or if your basic living expenses are high, you're going to have to take a more radical approach to survive. You may have to sell your house, your car, or take a temporary job. Prepare yourself mentally for this.

Map out your priorities

How desperate are you?

Desperation can trick you. Things that you once said that you'd never do, seem more and more appealing as time passes and you can't find a new job. When you started your job search, maybe you said "I'll do anything to survive, but I won't sell my Jeep!" Four months later, you're saying, "OK, maybe the Jeep has to go, but I'll never disconnect my cable." Hopefully, you'll never reach the point where you say, "I'll declare bankruptcy, but only Chapter 13, not Chapter 7!" After all, you do have some pride, don't you? What are the things you will and won't do, will or won't sell to survive financially? At this point, do yourself a favor and map them out.

Remember, diets (even financial ones) don't last forever

Keep in mind as you plan for unemployment that even though you're on a financial diet, no diet lasts forever. At some point, you'll find another job and the crisis will pass. Therefore, you want to be especially careful that the decisions you make now aren't shortsighted. Do what you can to survive, but only do what you really have to.

Example(s): When Jeff was feeling especially desperate one day, he sold his lawn mower at a garage sale for \$75. Two weeks later, he landed a job at a software company, and his lawn had grown six inches. Jeff was forced to spend \$350 for a new mower.

Draft a survival budget

The next step is to draft a survival budget. If you currently have a budget, use that as a guide. If you don't, you'll have to start from scratch by listing all your income and expenses. A survival budget is a bare-bones version of a regular budget. What you want to end up with is an idea of what income you need to actually survive. Start by listing your expenses and your post-employment income. Remember to include only expenses that are necessary; eliminate any items that are luxuries or that you could reasonably do without.

Example(s): Before Don lost his job, he went to the movies twice a week, ate lunch out every day, and took a weekend trip once a month. By eliminating these expenses from his budget after he was fired from his job, Don was able to save \$500 a month.

Find ways to increase your income

There are many ways to increase your income while you look for a new job, some of which you should look into immediately, and others only when you are truly desperate.

Unemployment insurance

One of the first places you should look for income when you lose your job is your state's employment office. However, you can only receive unemployment benefits if you meet certain eligibility criteria. Mainly, you must be involuntarily unemployed. This means that if you've quit your job, you have no chance of receiving unemployment benefits, but if you've been laid off or fired (but not for misconduct), you should definitely check into it. Benefits and regulations vary from state to state, so it's hard to say how much you'll get. But if your application is approved, you should begin receiving benefits quickly, often within a week or two. For more information on this, see Unemployment Compensation.

Severance pay

You may be eligible for severance pay if you are laid off. How much you receive will depend upon your employer's policy. You may have the option of receiving a lump-sum payment or a continuation of salary. If you take a lump-sum payment, you'll have immediate control over your money, but you may lose your employee benefits. If you take a continuation of salary, you may keep your benefits, but you'll have to trust the company that laid you off in the first place to stay financially sound.

Savings

If you've planned ahead, you may have an emergency fund set up that's equal to three to six months of living expenses from which you can borrow when you need to supplement your income. This is a great source of income . . . if you have it. Many people don't, and are surprised to see how fast a savings account can be depleted when it's used as a source of funds for everyday expenses.

Credit insurance

You probably don't have credit insurance that will make your bill payments when you're unemployed. However, if you have any doubt, call your mortgage company, or credit card companies to find out or check your billing statements. Perhaps you inadvertently signed up for such protection, which adds a few dollars to your payment every month. However, you may have to wait for a while before receiving benefits.

Part-time or temporary job

If you get a little more desperate, you should think about taking a part-time or temporary job to supplement your income. This may be a good idea for two reasons. First, you'll feel less stress if you know that you have at least some regular income coming in. Second, you may even be able to parlay a part-time or temporary job into a full-time job, or gain experience that will help you in your job search. Third, you'll be able to schedule interviews relatively easily, if you can decide where or when you want to work (as you can with many temporary assignments). Even if you take a job that you feel doesn't have career potential, you'll feel better just doing something besides sitting around the house worrying.

Have a yard sale

Depending upon what you have to sell, having a yard sale can be quite lucrative. If you look around your house, you'll be surprised at how much you own that you really don't need. Make a list of things you want to get rid of, and list them in order of priority. If you're really desperate or if you don't care about an item, price it accordingly. If you don't want to sell it unless you get a good price, keep that in mind as well. Also consider consigning items at a shop if you have specific things to sell.

Sell your house, or rent it

As a last-ditch attempt to remain solvent, selling your house can be advantageous if you can raise a lot of cash this way and if you want to reduce your monthly cash outlay over the long-term. It's not a good short-term way to raise cash because it will take time to implement, and it has long-term consequences. After you accept an offer on your house, you could have trouble if you change your mind, and the impact on your family will be far-reaching. If you want to temporarily reduce what you pay for housing, however, you may want to consider moving to an apartment (or cheaper housing) and renting out your home for a year or two. However, any decisions you make in this area should be made carefully, and only after considering the true cost of your decision and how much you can actually get out of the deal.

Withdraw money from your tax-deferred retirement account

Withdrawing money from your tax-deferred retirement account (e.g., an IRA or employer-sponsored retirement plan) is an option you should consider only as a last resort to avoid bankruptcy. In general, any money you withdraw from a tax-deferred retirement account will be taxed as ordinary income for the year in which you make the withdrawal. In addition, you may have to pay a 10 percent penalty tax for early withdrawal if you're under age 59½. The IRS allows exceptions to the penalty tax under certain conditions, however. If you are under age 59½

and considering taking funds from your IRA or retirement plan, see Premature Distribution Rule to find out if one of the exceptions applies to your situation.

Tip: If you are considering taking funds from your IRA or retirement plan, you should consult a tax advisor regarding the specific tax treatment of your withdrawal, because not all of it will necessarily be taxable. For example, if you have ever made nondeductible contributions to your traditional IRA or after-tax contributions to your employer's plan, a portion of your withdrawal may not be subject to tax. Also, qualifying withdrawals from a Roth IRA are totally tax free, and even nonqualifying withdrawals may not be fully taxable (since Roth IRAs are funded only with after-tax contributions).

Borrow from the cash value of your life insurance policy

If you have a life insurance policy with cash value, consider borrowing the cash reserves. You'll have to repay the money, but not right away.

Borrow from relatives

Borrowing from relatives can be difficult. Not only will you have to put aside your pride, but you'll also have to contend with the consequences. Your relatives may be generous, but there's a chance that their generosity will backfire. What if you can't pay the money back? What if you eat out one night? Will they secretly (or vocally) hold this against you? If you do borrow from a relative, clearly outline the terms of the loan in writing, if necessary. That way, you'll reduce the chance for a future conflict.

Reduce expenses

Increase deductibles on auto insurance

Check with your insurance company to find out how much you could save per month on your auto insurance premium if you increased your deductible. However, remember that if you get into an accident, you'll have to pay the deductible out of pocket. Will you be able to come up with a large amount of cash while you're unemployed? Balance the risk with the benefits.

Example(s): Pamela increased her auto insurance deductible from \$250 to \$1,000. This reduced her auto insurance premium by \$10 per month. Three months later when she was still unemployed, she rear-ended a truck, causing \$3,000 worth of damage to her car. The insurance company paid \$2,000, but Pamela had to come up with the remaining \$1,000 before she could get her car fixed, an amount she could hardly afford.

Sell your car

While many people consider a car to be a necessity, you may be able to dramatically reduce your monthly expenses by selling yours--they are expensive to drive and maintain. Not only do you have to pay for gas and upkeep, but in many cases, you also have to pay insurance premiums and monthly car payments. This can add up to several hundred dollars per month--money you could really use when you're unemployed. Keep in mind, however, that if you have a loan on your car, you might owe more than your car is worth; if you sell your car for less than the loan balance, you'll still have to make payments until the balance is paid off (or take out another loan to pay off the car loan balance). Also, if you get another job, you may need to buy another car, and many lenders require a certain length of employment before they give you a loan. Investigate your options thoroughly before you sell your car.

Selling your car may also be a good way to raise a large amount of cash quickly. This will depend, of course, on whether you own your car, whether you have a loan for it, and what your car is worth. Again, this is a decision to make carefully. If you have a loan, call your bank to find out the procedure to follow, because until your bank releases the title, you don't really own the car. They can also tell you the book value of your car and your loan balance. If you own your car outright, research its value at the library or on the Internet, and decide what price to charge.

Negotiate with your creditors

If you find that you're having trouble paying all your bills, seriously consider negotiating with your creditors. Assuming that you have good credit, you may find it relatively easy to reduce the interest rates on your credit cards, skip a payment or two on your car loan, or reduce your monthly payments temporarily. To do this, you'll have to put aside your pride and admit that you're having financial difficulties. You'll be in a much better negotiating position, however, if you call your creditors before you get into financial trouble. Some creditors will turn you down, but most will negotiate with you. If you wait until you've already missed more than one payment and the creditors are calling you, you'll have more trouble making your case. If you need help negotiating with your creditors or managing your debt, you may want to call a nonprofit credit counseling organization, such as the Consumer Credit Counseling Service (CCCS). For further information on CCCS, call (800) 388-CCCS. For further information on restructuring debt, read *Options When You Can't Meet Your Financial Obligations*.

Caution: If your creditor agrees to let you skip payments or pay reduced amounts, honor the terms of your agreement, and keep in close contact with your creditor's representative. Otherwise, your good credit may be ruined.

Discontinue discretionary expenses

You probably pay for a lot of things you don't really need. For instance, think about canceling magazine subscriptions, extra phone services, credit cards you don't use that have an annual fee, health club memberships (if possible without incurring a large cancellation fee), auto club memberships, cable television, and Internet service (although this can help you find a job). You may even save a few dollars a month by switching banks if you currently pay monthly checking fees. Every little bit helps.

Tip: If you're billed annually for some of these things, you won't save any money unless you cancel them at renewal because you won't ordinarily get a refund.

Limit long-distance calls

If your long-distance bills are high, put yourself on a phone budget. Vow to spend no more than a certain amount (say \$25 a month) on long-distance. To keep track of your calls, keep a notebook next to your phone so that you can easily see when you've reached your limit.

Strategies to consider if you have more time to prepare

Often you lose your job with little warning. However, if you're being laid off or plan to quit your job, you may have time to save money for unemployment by using the following strategies.

Establish a home equity line of credit

If you have enough time, consider establishing a home equity line of credit, if you have enough equity in your house (20 percent is often the minimum), and if you can find a bank that will loan you money without charging you closing costs. With a home equity line of credit, you'll pay interest only on the portion you use. However, the bank may charge you an annual fee or require that you take a certain draw on the line up front. You may even be able to use the line to pay off credit cards or loans that carry a higher interest rate, and consolidate your debt. You'll still have to make a monthly payment, however, so make sure you'll be able to afford it before you put your house on the line. In addition, beware when lenders claim that your home equity line of credit will be tax deductible. Although this may be true in many cases, you should consult your tax advisor to find out whether it will be true in your case.

Caution: Use caution when using your house as a debt management tool. If you can't pay your loan back, you may lose your house. For more information, see *Home Equity Loans and Lines of Credit*.

Reduce contributions to retirement or education funds

Once you know you are going to lose your job, stop contributing to any savings plans that you'll have trouble accessing, or that aren't necessary. These include retirement funds, education funds, and Christmas club accounts.

Decrease your withholding

Consider increasing your withholding allowances to reduce the amount that is taken out of your paycheck. Deposit this extra money in a savings account. Of course, be careful that you don't claim more allowances than you are entitled to. When you get a new job, you should look at your tax liability for the year. It's possible at that time that you'll have to increase your withholding to make up the difference.

Plan a financial strategy

Once you've mapped out your priorities and drafted a bare-bones budget, you're ready to come up with your own six-month financial strategy. After you've formulated your own strategy, post it somewhere (maybe on the refrigerator) where you can use it everyday to chart your progress.

Coping with the Emotional Impact of Losing Your Job

Job loss can cause stress

Losing your job can exact an emotional toll on you and your family. Recognizing these emotions and dealing with them positively can go a long way toward helping you and your family cope with the stress that often follows a job loss.

Emotional reaction

Your immediate reaction to losing your job, especially if it's unexpected, might be shock and dismay. You might wonder how this could be happening to you, and think it must be a mistake. It is common to experience feelings of anger, blame, grief, shame, and even depression.

You also may begin feeling a sense of loss: loss of self-respect, loss of the respect of others, loss of identity, loss of security and daily structure, and a loss of the relationships you enjoyed with coworkers.

After a period of time, feelings of grief may set in. You may find that you have no energy or ambition, especially with the task of finding another job. How you respond to these feelings can affect not only you, but also the people around you.

For example, your lack of energy and inability to focus may carry over to other responsibilities, such as your obligations as a parent or spouse. You may fear that your family views you as a failure, which may cause you to shrink from parental or spousal duties.

Often, a job loss means that family members' roles and tasks may change. For instance, you may try to help out by doing chores that your spouse or children had done. Other family members may look for employment which may mean less time together as a family. A spouse may start a new job or try to pick up more hours at a current position. It's often difficult, though, to adjust to these new lifestyle changes. In addition, the emotional stress of coping with a job loss, and the general anxiety created by change can sometimes lead to increased family squabbles and bickering. Here are some suggestions that may help you and your family deal with the emotional impact caused by job loss.

Don't panic

Give yourself time to think about the situation. Don't do something as the result of an emotional reaction that you might regret later. Think positively. You can find another job. You have talents that are desirable and useful and you don't necessarily have to jump at the first opportunity that comes along.

View your situation as just another challenge. What had been your former work day is now a day you'll spend looking for work. Consider this time as an opportunity to reassess what you'd like to do as opposed to a job you have to do.

Understand that you're not alone

Especially during tough economic times, many people face job loss every day. You shouldn't be ashamed to admit you may have been a victim to company downsizing or a poor economy. You'll probably be surprised to find many people who have had similar experiences.

Consider the support of others

Often, it can be helpful to talk with people who are in the same situation as you. By sharing your emotions and concerns, you may learn how to better deal with them and help others in the process.

Recognize your feelings and those of your family members

If you're feeling angry, frustrated, or even depressed, don't try to hide those feelings. And be mindful that stressful situations affect everyone. Address your feelings with your family and discuss their concerns. As important as it is to express yourself, it's equally helpful to listen to others and try to understand their reactions.

Financial concerns add to the stress of job loss

Additional sources of stress associated with job loss include financial concerns and the possibility of relocating. Often, losing the income your job provided forces you and your family to adjust your spending and lifestyle. Sometimes the spending constraints are short-term and include relatively minor adjustments such as eating out less frequently, downscaling or even canceling a planned vacation, or putting off a new car purchase. However, as the jobless period grows longer, the loss of income may force you to forgo more important expenditures such as college funding or retirement savings.

Of potentially greater concern to your children is the possible need to relocate for a new job. Your children may resent the fact that they have to leave their school and friends. The comfort and routine that is being disrupted may affect your relationship with your children as well as their interactions with teachers and other children. Until you're able to land that new job, consider these ideas to help you deal with the financial strain that may result from your unemployment.

Take stock of your finances

Before you spend all of your time trying to find another job, spend some time assessing your financial situation. Addressing any financial issues at the outset may help alleviate some of the stress associated with job loss.

Start with a budget

Establish a budget for meeting your immediate and most important expenses such as food, clothing, utilities, housing costs, etc. Try not to accrue more debt. It's better to cut expenses first before relying on your credit cards.

Apply for unemployment benefits

Apply for unemployment compensation benefits if you're eligible, even if you don't expect to be out of work for long. If you're lucky enough to receive a severance package, it can help tide you over to your next job. And don't forget about unused benefits from your former employer such as unpaid sick or vacation time and personal days. Also, take stock of your available savings to supplement other sources of income.

Be sure you have continuous health coverage

If your group health insurance ends when your job does, you may be able to continue your coverage if you qualify for COBRA or a similar state-sponsored program. Also, check if you're eligible for coverage under your spouse's group plan.

It may not be easy, but you can do it

Make a plan and follow through with it. Try to make each day productive. That doesn't mean you need to schedule five interviews each day; rather, do something that is proactive. For instance, set up a daily schedule that might include working on your resume, making phone calls, researching jobs, and exploring educational or training opportunities. In addition, be good to yourself. Try to eat well, exercise, and do something enjoyable like watch a movie or play catch with your child. Finally, focus on your accomplishments and not the fact that you're currently out of work. Try to anticipate a future filled with more achievements than letdowns, and don't hesitate to seek professional help to cope with the stress you're feeling.

Options When You Can't Meet Your Financial Obligations

Introduction

If you're unable to meet your financial obligations, you have options. Which option or options you choose will depend on how severe your financial problems are and what resources you have. You should, however, act now. Delaying action could lead to further difficulties, including potential damage to your credit history, or even the possible loss of your home.

If you've lost income temporarily due to unemployment, reduced hours, separation or divorce, death of your spouse, or illness or injury, you may be able to survive for a period of time by collecting unemployment compensation, government assistance, or insurance, or by making lifestyle adjustments.

If overspending and mounting debts are a problem, you'll need to get your spending under control. You may want to consult a credit counselor to help you deal with creditors, reduce debt, and learn to manage your money better. And, if you can't get back on your financial feet again, either alone or with help, you may need to consider filing personal bankruptcy.

See [Dealing with Periods of Crisis](#), [Surviving a Financial Crisis Due to Illness](#), and [Surviving Financially When You're Unemployed](#).

How you can help yourself

Increase your income, decrease your expenses

If possible, one way to ease your financial distress is to increase your income. You and/or your spouse might increase your hours, get a better paying job, or take on a second job temporarily. Alternatively, you might consider taking in a boarder, having your children contribute, or converting assets to cash.

Another way to narrow the gap between income and expenses is to eliminate or reduce nonessential expenses such as dining out and entertainment, and reduce essentials if possible.

Restructure current debts

There are a number of ways to restructure your current debts. One way is to refinance a debt and increase the repayment term. It may take you longer to repay the debt, but your monthly payment amount will decrease. Refinancing may also be a good option if it lowers your interest rate on the debt, resulting in a lower monthly payment amount.

You might also consider consolidating debts, if possible. This can be a good way to catch up on overdue accounts and start fresh with a single creditor. If you can also extend the repayment period and lower your monthly payment, you may be able to keep from falling behind again.

If you can't refinance or consolidate, at least contact your creditors and let them know you are having financial difficulties. Try to work out an acceptable payment schedule. Most creditors will be receptive to your attempts, especially if you call before you fall too far behind on your payments.

For more information on what you can do to help yourself, see [Other Options When You Can't Meet Your Financial Obligations](#).

How others can help you

Credit counseling

If you're unable to restructure debt payments on your own, you may want to consult a professional credit counselor. Credit counselors will contact your creditors and attempt to negotiate affordable repayment terms for you. They may be able to negotiate a reduction of interest rates, a waiver of penalties and late fees, extended repayment terms, and, in rare cases, partial loan forgiveness. Some arrange for consolidation loans and offer other financial services and advice.

Consumer Credit Counseling Service

If you can't afford to hire a credit counselor, you may find help at your local Consumer Credit Counseling Services (CCCS) office or other nonprofit credit counseling service. These nonprofit companies basically provide the same services as a professional credit counselor but at little or no cost to you. Instead of billing you for services rendered, their operations are funded by creditor contributions. Typically, CCCS negotiates with your creditors to formulate an affordable repayment plan.

Tip: CCCS and other nonprofit credit counseling services can't force creditors to participate in repayment plans, but it will cost you little or nothing to explore this option.

Restructuring debt through bankruptcy

Both individuals and businesses can restructure their debts in bankruptcy. Under Chapter 13, an individual with a regular source of income may be able to gain court approval of a repayment plan over a period of three to five years. Chapter 12 provides the same basic relief, with some modifications, for family farmers and family commercial fishing operations. Under Chapter 11, a business can propose a plan of reorganization to its creditors. Chapter 11 debtors can continue operating the business, and use future earnings to pay past due amounts.

Tip: You should seek the advice of an attorney when considering bankruptcy.

Chapter 7 bankruptcy

If your income is less than a certain amount, you might be able to file bankruptcy under Chapter 7. Under Chapter 7, debtors can keep exempt assets, but non-exempt property is sold and the proceeds are distributed to pay creditors. Remaining debts are discharged (with some exceptions). Relieved of the obligation to repay certain debts, you get the opportunity for a fresh start. To find out if you qualify, contact an attorney in your state.

When borrowing money is an addiction

For many people, problems with money rise to the level of compulsive addictive behavior. For them, the need to incur debt is an uncontrollable urge. Compulsive debtors can get help through Debtors Anonymous, a twelve-step self help support group modeled after the program of Alcoholics Anonymous. If you are having trouble with debt and you are ready to admit that you are powerless over your problems with debt, then you may want to attend an open meeting of Debtors Anonymous and learn more about it.

Similarly, if other addictive behavior (such as alcohol abuse, drug abuse, compulsive gambling, or compulsive shopping) is causing you financial trouble, then you may want to check out the twelve-step groups that focus on these issues. Even bankruptcy will not solve your problems if your addictive behavior lands you back in the same financial predicament that you originally tried to avoid.

Tip: Twelve-step programs are free and self-supporting through voluntary member contributions. You can contact Debtors Anonymous, Alcoholics Anonymous, Narcotics Anonymous, Cocaine-Users Anonymous, and other twelve-step groups by checking in your local phone book or the phone book of the major town or city closest to your home.

Other Options When You Can't Meet Your Financial Obligations

What are your other options when you can't meet your financial obligations?

You have studied your financial picture carefully, and you realize that there is simply no way to make ends meet. You just can't pay all your bills. Maybe you're not ready to consider filing for bankruptcy and you don't want to use a credit counselor. What can you do? Fortunately, there are many steps you can take on your own to deal with your debt problem.

Reduce monthly payments

When you find yourself in financial trouble, your immediate concern should be to slash your cash outflow as much as possible. If you've been prepaying your mortgage, car loan, or other debts, put that plan on hold, at least temporarily. If you've been making more than the minimum payment on your credit cards, scale back to minimum payments until you get your finances straightened out. This small step may be enough to solve your problems, especially if your financial troubles are temporary in nature. Make sure you can comfortably make the required monthly payments on all your bills before you go back to making larger payments. If you don't have enough money to make even minimum payments, you'll need to take further action.

Consolidate debts

When you consolidate your debt, you take out one large loan to pay off all your smaller existing loans. This leaves you with one loan payment rather than many. For many people, debt consolidation is the answer to their financial troubles.

Types of consolidation loans

There are many ways to consolidate your debts. You might find a credit card with a high credit limit and a low interest rate and roll all your credit card balances onto the new card. Another way to consolidate debt is with a collateralized bank loan. The interest rate on these loans is generally 2-3 points above prime. You must provide security for the loan, however, in the form of securities, life insurance, or other property. You may also be able to get an unsecured personal loan, although the loan amount may be relatively small and the interest rate may be high.

Avoid home equity financing if you are already in financial trouble

Under normal circumstances, home equity financing is one of the best ways to consolidate your debt. Home equity interest rates are generally quite low, and the interest you pay is tax deductible. However, when you take out a home equity loan or line of credit, your home is the collateral for the loan. This means that if you fail to repay the loan as agreed, you could lose your home. If you are already having trouble meeting your financial obligations, it is probably unwise to put your house in jeopardy, as well.

Advantages of consolidation

The main advantage of consolidation is that your monthly payment on the consolidation loan is substantially lower than the combined payments of the smaller loans. You may be able to lower your interest rate as well.

Disadvantages of consolidation

The repayment term of a consolidation loan may be longer than the terms on your smaller existing loans. This means it will take longer to get out of debt. Additionally, you could lose any collateral you provide for a

consolidation loan if you default on the loan.

Beware of consolidation services

You have probably seen plenty of celebrities advertising debt consolidation services, promising to get you out of trouble by paying off your existing debts and leaving you with one low monthly payment. Don't be fooled. What the ads don't tell you is that they will charge you a hefty fee for this service and you can do exactly the same thing yourself for free.

Refinance to reduce the cost of debt

Almost any type of loan can be refinanced: mortgages, car loans, personal loans, even credit cards. Basically, all you are doing is taking out a new loan and using the proceeds to pay off the old loan. Sometimes, the lender will even do this for you. For example, when you refinance a car loan, you take out a used car loan from the new lender, and the new lender sends the loan check to your old lender to pay off your existing loan.

Under normal conditions, the main objective of refinancing is to lower your interest rate, thereby reducing your total repayment amount. However, when you are having difficulty meeting your financial obligations, your goal is more likely to reduce monthly payments. Refinancing to a lower interest loan can lower your payments slightly. But to get the desired results, you may have to extend the term of your loan. For example, if you have 24 payments left on your car loan, you might have to refinance to a 36-month or 48-month loan in order to substantially reduce your monthly payment amount. If you do this, your monthly payments will be less, but it also means it will take longer to pay off the loan. You should consider this a temporary measure. Once you have regained your financial stability, you should either refinance again (to a loan with a shorter repayment term) or prepay the loan by making extra payments or paying more than the minimum each month.

Prioritize repayment

Divide your debts into two categories

If you are unable to meet all your financial obligations, you may pay some bills and leave others unpaid for awhile. You will need to determine which of your debts are essential and which are nonessential. The general guideline is that an essential debt is one that could create serious or even life-threatening problems if it weren't paid. Failure to pay nonessential debts would have far less serious consequences. Whether or not a particular debt is essential will be dictated by your individual situation. Common essential debts include rent or mortgage payments, utilities, child support, school tuition, car payments, unpaid taxes, medical and auto insurance, and secured loans. Nonessential debts may include credit cards, loans from friends and family members, other unsecured debts, nonessential life insurance, and newspaper and magazine subscriptions.

Pay essential debts first

Your essential debts should obviously be paid first. If you can't pay all your essential debts, you may need to prioritize this list and move the least essential to the nonessential list. For example, if you can get around without a car, your car payment might be moved to the nonessential list.

Pay nonessential debts with any remaining money

You shouldn't pay any nonessential debts until your essential debts are all paid. If you have money left for nonessential debts, you should prioritize this list and pay the most important of the nonessential debts first. For example, life insurance premiums should generally be paid before magazine subscriptions.

Remember that you are still responsible for all your debts, whether or not you are currently paying them

Although you may not be able to pay all your debts at the moment, don't expect them to just go away. In most cases, interest and late fees will continue to accumulate, making the unpaid debts even larger. You will need to cut your expenses as much as you can in order to make repayment possible. You may need to negotiate new

repayment terms with your creditors in order to prevent even more serious financial troubles (discussed later).

Negotiate with creditors

Why negotiate?

If you are in financial trouble but you honestly want to do the best you can to pay off your debts, you may be able to negotiate with your creditors. In order to avoid the collections process, many creditors will reduce payments, extend your repayment period, waive late fees, or sometimes even accept less than full repayment. If you can negotiate your repayment terms, you may be able to get through your financial crisis without ruining your credit record.

Notify creditors of trouble as soon as possible

One of the keys to successful negotiations is to let your creditors know about potential problems as soon as possible. Explain the situation--job layoff, medical emergency, whatever. Let the creditor know what you're doing to remedy the problem (e.g., looking for work, cutting costs at home). Specify whether you need a temporary fix or long-term relief, and continue to send at least token payments as a sign of your good faith effort.

Don't expect perfect results

Unfortunately, many creditors refuse to negotiate with debtors. You may find that some of your creditors are not willing to accept partial payments or to extend your loan term. But it is still in your best interest to make an effort to negotiate. This could be your last chance before you are forced to file for bankruptcy.

Things you shouldn't do when you can't meet your financial obligations

Write post-dated checks

If you're dealing with collection agencies, they may try to convince you to write a postdated check to cover your debt. This is typically not a good idea, because when you write a postdated check, you are saying you will have the money in the account by the date on the check. If the funds are not in the account when the check is presented, it will bounce. The bank may cover the check, but you will be charged an NSF (not sufficient funds) fee.

Write bad checks

When you're desperate, writing a bad check might not seem like a bad idea. It's certainly better than having the electricity shut off, right? Wrong. In every state, writing a check when you know you don't have the money to cover it is a crime. If you are prosecuted, you could end up owing several times the face amount of the check. In addition, fraudulently contracted debts are nondischargeable in bankruptcy.

Shelter assets

If you are already in financial trouble, it's probably too late to start protecting your assets. Last minute efforts to set up trusts or give away your assets are usually disregarded by bankruptcy courts. To be safe, any transfer of assets should occur well in advance of your filing for bankruptcy (depending on your state's statute of limitations). Under the doctrine of fraudulent conveyances, you can't make an effective gift or transfer of your assets when you are insolvent or if such transfers or gifts will cause you to become insolvent. You also can't transfer your assets and keep your debts, knowing you need the money to pay the debts. Your attorney may be able to find legal ways to protect some of your assets, but there is no guarantee.

Unemployment Compensation

What is unemployment compensation?

Unemployment compensation (also called unemployment insurance) is a federal-state system of benefits that pays workers who are involuntarily unemployed a portion of their wages until they are able to find another job.

How is unemployment compensation funded?

Unemployment compensation is financed by employer contributions through a payroll tax in most states. Employees may also be required to contribute.

Who is eligible for unemployment compensation benefits?

You are an insured wage earner

You will be eligible for unemployment benefits if you are an insured wage earner. Almost all wage earners are insured because they have worked in a job covered by state laws.

Tip: Your state employment agency will also administer benefits payable to veterans with recent Armed Forces experience, former civilian federal employees, and individuals who lose their jobs due to the nation's trade policies or natural disasters.

You have a certain amount of covered earnings

Usually, you must have worked for a certain amount of time or had a certain amount of covered earnings for a year prior to the time you claim benefits. This varies--check your state's laws.

You are able to work

You won't be able to receive unemployment compensation if you are disabled or unable to work. You must be available to work and willing to take a job if offered. Some states, however, pay benefits to workers who become sick after they file an unemployment claim.

Example(s): Jo Beth suffered complications during her pregnancy and was unable to continue working. However, her employer paid her short-term disability benefits until she returned to work six weeks after her daughter was born. However, a month later, Jo Beth was laid off and decided to stay home with her child. She applied for unemployment insurance benefits but was turned down because she was not available or willing to work.

You involuntarily lose your job

Unemployment compensation was designed to protect workers who were laid off from their jobs until they could find new jobs or go back to work at the same job. However, unemployment benefits are also paid to workers who were fired as long as they weren't fired for misconduct connected with their job. You generally won't receive unemployment benefits if you:

- Quit your job voluntarily without good cause
- Refuse to look for another job or accept a suitable job offer
- No longer work because of a labor dispute in which you participate
- Are disqualified for other causes, as defined by your state's laws

Caution: If you are disqualified, your benefits may be postponed and/or reduced instead of being completely denied.

Example(s): Jessica quit her job at the end of December because she was moving out of state A. Although she applied for unemployment compensation benefits when she reached her new destination, state B, she was denied benefits because she had voluntarily quit her job, and state A did not recognize moving as good cause for paying unemployment compensation benefits.

You are at least partially unemployed

If you lose your job, you may be entitled to benefits until you begin working again. Usually, there is a benefit waiting period after you file your claim and before you can begin receiving benefits. This period is short in most states--only about a week. If you are only partially unemployed, you may be entitled to receive partial benefits.

Example(s): Hubert was laid off from his job on March 1. He immediately filed for unemployment benefits and became eligible on March 8, one week later. On April 1, Hubert started working 15 hours a week at an insurance company. Because he didn't have a full-time job in his field, Hubert remained eligible to receive partial unemployment benefits until he found a full-time job.

How much will you receive from unemployment compensation?

No matter where you live in the United States, you will receive a weekly benefit from unemployment compensation based on how long you were employed and your prior wages. However, each state, as well as the District of Columbia, Puerto Rico, and the Virgin Islands, administers its own unemployment compensation program, and state laws govern the amount of your weekly benefit.

Length of benefit period

In almost all states, you can receive benefits for 26 weeks. However, federal laws and some state laws provide for additional benefits to be paid to workers who exhaust their regular benefits during periods of high unemployment. These additional benefits may be paid up to 13 weeks (20 weeks in some states) and are funded partly by state governments and partly by the federal government.

Example(s): Because of competition from foreign automakers, autoworkers in Michigan were laid off in large numbers. Lee, who worked for Corporation X, was laid off for 32 weeks. Normally, he would have received unemployment benefits for only 26 weeks, but because of the abnormally high unemployment rate in Michigan during that time period, the state extended its benefit period to 39 weeks. Thus, Lee was able to receive benefits for the duration of his period of unemployment.

Applying for unemployment compensation benefits

Where to apply

You should contact your state's public employment office for specific information on where to apply. Look in the state government section of your phone book under Unemployment Insurance, Unemployment Compensation, Employment Insurance, or Employment Service. Your state office is in charge of handling your claim, determining your eligibility for benefits, and paying you a weekly benefit. You can file for benefits at the public employment office in the state in which you reside, even if you were employed in a different state. See Questions & Answers below.

How to apply

Several states allow you to provide initial application information by telephone, while most others require a written application (in person or by mail) to begin processing your request for benefits. You will be asked to provide information about your former employer, your salary, and yourself. Your former employer will be sent a written statement that he or she must return to verify the information you have given. This may take some time.

Receiving benefits

After your claim is approved, you will begin receiving weekly benefits. Your state office will require that you report periodically (in person, by phone, or by mail, depending upon the state) to verify that you are actually looking for work. The employment office is also responsible for referring you to possible job openings.

Tax considerations

Unemployment compensation benefits payable through state unemployment offices must be reported as income. For further information, check with your tax advisor.

Tip: The American Recovery and Reinvestment Act of 2009 temporarily changes the taxation of unemployment benefits. For 2009 only, the first \$2,400 of unemployment compensation received is exempt from federal income taxation.

Questions & Answers

Where should you file an unemployment claim if you were laid off in one state but then moved to another?

File the claim in your new state of residence and register for a job there. The state office will forward your claim application to your previous state of residence or will give you information about the state unemployment office there so that you can file directly with that state. Any benefits owed to you based on wages that you earned in your previous state of residence will be sent to you from that state, even though you now live in another state.

Early Retirement Considerations

What is it?

As you near retirement age, you may be offered early retirement by your employer who may refer to the offer as a golden handshake or a golden parachute. The offer usually consists of severance payments and post-retirement medical coverage combined with already existing retirement benefits. While many early retirement offers appear attractive, it is important for you to review an offer carefully to ensure that it is indeed offering a golden opportunity.

Early retirement, IRAs, and retirement plans

If you accept an early retirement offer, make sure that you're aware of all possible implications. If you're going to be using the money from your IRA or retirement plan to fund your retirement, remember that in addition to income taxes, there may be penalties if you withdraw the funds prematurely. Or, there may be a limit on what you can withdraw without penalties.

Traditional defined benefit pension plans may be adversely impacted by retiring early. One reason is that the accrual of benefits under such a plan is generally the greatest during the final few years before retirement, which in most cases are the highest earning years. As a result, early retirement can result in considerably lower monthly retirement benefits from such a plan. On the other hand, employers sometimes sweeten early retirement packages, increasing your pension benefit beyond what you've earned by adding years to your age, length of service, or both, or by subsidizing your early retirement benefit or your qualified joint and survivor annuity option. These types of pension sweeteners are key features to look for in your employer's offer--especially if a reduced pension won't give you enough income.

Also, employer-sponsored retirement plans are generally subject to the 10 percent premature distribution tax for distributions made before age 59½. However, there are a number of exceptions to this rule. One important exception is for distributions made from 401(k)s and other qualified plans as a result of separation from service in the year you reach age 55 or later (age 50 for qualified public safety employees participating in governmental defined benefit plans). Another important exception from the 10 percent premature distribution tax is for substantially equal periodic payments (sometimes called SEPPs). Substantially equal periodic payments are amounts you receive from your IRA or qualified retirement plan not less frequently than annually for your life (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. There is no minimum age requirement for this exception, but distributions from qualified retirement plans are eligible for the exception only after you separate from service.

Finally, if you're retiring early and plan on using your IRAs or retirement plans as a source of income, you should understand that you run the risk of depleting--or at least considerably reducing--such accounts. The reason is obvious: You have more years of retirement to fund than if you had waited to retire. Depending on how early you actually retire, you may find that you're going through those retirement accounts more quickly than you had originally intended. This could pose a problem both for your later retirement years when you need income the most, and for your plans to leave your beneficiaries with an inheritance. However, the possibility of depleting your retirement accounts may not be a major concern if you have no beneficiaries or if you have other income sources (such as job earnings or other investment assets) that will carry you through a lengthy retirement. But, you should at least be aware of the risk.

Severance payments

Severance payments are usually based on your salary and the number of years you have worked for the company. Severance payments can be distributed in either a lump sum or over the course of a number of years. A severance payment can provide you with a stream of income during your transition from one job to another. However, if you take another job soon after receiving the severance payment, it can put you into a higher tax bracket for the year.

Example(s): Ben has 30 years of service with the local utility company, and grosses \$675 per week before taxes. When Ben reaches age 57, his employer offers him an early retirement package. The package includes a severance payment based on two weeks' salary for each year that Ben has worked for the company ($\$1,350 \times 30 = \$40,500$).

Post-retirement medical coverage

Because of the high cost of medical care, you might find it hard to turn down an early retirement package that includes post-retirement medical coverage. These packages usually provide medical coverage until you reach age 65 and become eligible to receive Medicare.

Such post-retirement medical coverage is an important component to look for in an early retirement package. Without it, you will be forced to look into alternative sources of health insurance, such as the Consolidated Omnibus Budget Reconciliation Act (COBRA) or private health insurance to carry you through to the Medicare eligibility age. Unfortunately, COBRA provides only temporary benefits (up to a maximum of 18 or, in some cases, 36 months). And private health insurance premiums can be quite expensive, depending on such factors as your age and present health status. So, think carefully before accepting a package that doesn't include post-retirement medical coverage, especially if you have several years or more until you reach Medicare eligibility age.

However, don't make the mistake of assuming that all your health insurance needs will be met when you turn 65 and become covered under Medicare. The coverage provided by Medicare has gaps and often needs to be supplemented with a private individual policy and/or your own funds ("self-insure"). An early retirement package that provides medical coverage (full or reduced) well past the age of 65 (as some do) can be much more attractive than a package with coverage that ends at 65. You can sometimes negotiate for this extended medical coverage in an effort to sweeten the pot for yourself. Employers who feel strongly about having their offer accepted may very well agree to these terms.

Bridging

Another type of early retirement offer is the Social Security "bridge payment." Here, the employer provides you with temporary benefits to bridge the gap between early retirement and the beginning of your scheduled Social Security benefits. The temporary benefits are usually equivalent to the amount you will receive from Social Security at age 62.

Example(s): Ben, age 57, works for a local utility company. The company offers Ben an early retirement package that includes five years of temporary benefits. These temporary benefits are equivalent to the amount that Ben will receive from Social Security at age 62. The benefits serve as a "bridge" between the period of Ben's early retirement at age 57 and the period when he becomes eligible for early Social Security benefits at age 62.

Social Security benefits

In general

If you accept an early retirement offer, you should also consider applying for early Social Security retirement benefits. The Social Security Administration gives anyone who is eligible to receive Social Security benefits at the normal retirement age the option to receive his or her benefits beginning at age 62.

Tip: If you accept an early retirement offer from your employer, you are not required to receive early Social Security retirement benefits.

Basic calculation of benefits

Your Social Security benefits are based on what is known as the primary insurance amount (PIA). The PIA is based on your average indexed monthly earnings (AIME). If you retire at the normal retirement age (see the

following Social Security Administration chart), your monthly benefit will be equal to your PIA. However, if you receive your Social Security retirement benefits early, your monthly benefit will be less than your PIA.

See our separate topic discussion Electing Early Social Security Retirement Benefits for details.

Social Security Administration Chart--normal retirement age

Age for Receiving Full Social Security Benefits

Year of Birth	Normal Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Benefits reduced based on number of months before normal retirement age

If you retire early, you will receive more benefit checks than if you retire at normal retirement age. For instance, if your normal retirement age is 65 and you retire at age 62, you will receive 36 more benefit checks than you will if you wait until normal retirement age to retire. While this might seem profitable, you will suffer a permanent reduction in your monthly benefits. The reduced benefit is based on a deduction of approximately 5/9 of 1 percent (.0056) for each month you receive benefits prior to the normal retirement age, up to 36 months, and by 5/12 of 1 percent thereafter.

Example(s): John retires at age 62 and elects to receive his Social Security benefits early. If John had waited to receive his Social Security benefits until his normal retirement age of 65, he would have received 100 percent of his PIA benefit or \$800. Because John elected to receive his benefits at age 62, there is a reduction of 5/9 of 1 percent (.0056) for each of the 36 months that he receives benefits prior to his normal retirement age of 65. Thus, John will receive approximately \$640, which is 20 percent less (.0056 x 36) than he would have received at age 65.

Other matters

- The application process for early Social Security retirement benefits can take as long as three months. The Social Security Administration recommends that you contact its office before your 62nd birthday.
- Even though you can receive early Social Security retirement benefits, you are not eligible for Medicare benefits until age 65.

For a more in-depth discussion on receiving Social Security benefits early, see our separate topic discussion, [Electing Early Social Security Retirement Benefits](#).

Can you afford early retirement?

Whether you have the financial resources to retire early depends upon how much you expect to have in retirement income, and how much you plan to spend after you retire. Your early retirement income will include your early retirement package (severance payments and retirement benefits), Social Security (if you receive benefits before the normal retirement age), IRAs and employer-sponsored retirement plans, other savings and investments, and wages (if you work after early retirement). To determine how much you will spend, you must estimate your annual living expenses for early retirement. It is important to note that your annual living expenses during early retirement may differ from your expenses later in retirement. During early retirement, for example, you may find yourself still paying a mortgage, funding your children's education, or paying for medical coverage--if so, you may be free of these expenses during your later retirement years.

Tip: If you find it difficult to estimate your annual early retirement living expenses, the Bureau of Labor and Statistics publishes a table of annual expenditures according to age.

What if you can't afford to retire? Finding a new job

You may find yourself having to accept an early retirement offer, even though you can't afford to retire. One way to make up for the difference between what you receive from your early retirement package and your old paycheck is to find a new job, but that doesn't mean that you have to abandon your former line of work for a new career. You can start by finding out if your former employer would hire you as a consultant. Or, you may find that you would like to turn what was once just a hobby into a second career. Then there is always the possibility of finding full-time or part-time employment with a new company.

If you have been out of the job market for a long time, you might not feel comfortable or have experience marketing yourself for a new job. Some companies provide career counseling to assist employees in re-entering the workforce. If your company does not provide you with this service, you may want to look into outplacement firms and nonprofit organizations in your area that deal with career transition.

Caution: Many early retirement offers contain noncompetition agreements or offer monetary inducements on the condition that you agree not to work for a competitor. However, you should be able to work for a new employer and still receive your pension and other retirement plan benefits.

Considering an Offer to Retire Early: Should You Take It?

What is it?

In today's corporate environment, where cost cutting, restructuring, and downsizing are the norm, many employers are offering their employees early retirement packages. As you near retirement age, you may find yourself confronted with an offer from your employer for early retirement. Your employer may refer to the offer as a golden handshake or a golden parachute. While many early retirement offers seem attractive at first, it is important for you to review an offer carefully before accepting it to ensure that it is indeed a "golden" opportunity.

Typical elements of an early retirement offer

In general

An early retirement offer usually consists of severance payments and post-retirement medical coverage coupled with already existing retirement benefits.

Severance payments

Severance payments are usually based on your salary and the number of years you have worked for the company. Severance payments can be distributed in either a lump sum or over a number of years.

Example(s): John has 30 years of service with the local utility company, and grosses \$1,400 per week before taxes. When John reaches age 57, his employer offers him an early retirement package. The package includes a severance payment based on two weeks' salary for each year that John worked for the company ($\$2,800 \times 30 = \$84,000$).

Caution: In certain cases, severance pay is considered "deferred compensation" subject to the requirements of IRC Section 409A. Ask your employer if your severance package satisfies Section 409A. If it doesn't, you could be subject to a 20 percent penalty tax.

Post-retirement medical coverage

Because of the high cost of medical care, you might find it hard to turn down an early retirement package that includes post-retirement medical coverage. These packages usually provide medical coverage until you reach age 65 and become eligible to receive Medicare. However, some packages continue to provide full or reduced medical coverage past the age of 65.

Bridging

Another type of early retirement offer is the Social Security "bridge payment." Your employer provides you with temporary benefits to bridge the period between early retirement and the time when your Social Security benefits are scheduled to begin. The temporary benefits are usually equivalent to the amount you will receive from Social Security at age 62.

Example(s): John, age 57, works for a local utility company. The company offers John an early retirement package that includes five years of temporary benefits. These temporary benefits are equivalent to the amount that John will receive from Social Security at age 62. The benefits serve as a "bridge" between the period of John's early retirement, age 57, and the period when he becomes eligible for early Social Security benefits at age 62.

Evaluating an early retirement offer

In general

The decision of whether to accept an early retirement offer is not an easy one to make. Your company's personnel department may provide either individual or group counseling to guide you during this important decision-making process. If counseling is not available, you should speak to the person in charge of employee benefits at your company. Find out what amount you can expect to receive each year after you retire. Then, figure out the difference between what you would collect if you retire early and the amount you would earn if you continue working. Because they're often the numbers used by employers to calculate how much money you're going to receive, be sure that your company has your correct date of birth and starting date of employment.

Tip: If you choose to accept an offer for early retirement, some companies may pay (in the form of a bonus) all or part of the difference between what you would collect if you retire early and the amount you would earn if you were to continue working.

Caution: You should discuss your situation with an attorney and/or financial professional. Although a company-paid consultant may provide valuable information, they may not necessarily be acting in your best interest.

Tax/retirement plan implications

If you accept an early retirement offer, you should be aware of any possible tax implications. Defined benefit plans often contain provisions that reduce your monthly benefit when you begin distributions before a certain age. As a result, early retirement can result in lower monthly retirement benefits. Employer-sponsored retirement plans (such as 401(k)s) and traditional IRAs are generally subject to a 10 percent premature distribution tax for distributions made before age 59½. However, there are a number of exceptions to this rule. One important exception is for distributions made from 401(k)s and other qualified plans as a result of separation from service in the year you reach age 55 or later (age 50 for qualified public safety employees participating in governmental defined benefit plans). Another important exception from the 10 percent premature distribution tax is for substantially equal periodic payments (sometimes called SEPPs). Substantially equal periodic payments are amounts you receive from your IRA or qualified retirement plan not less frequently than annually for your life (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. There is no minimum age requirement for this exception, but distributions from qualified retirement plans are eligible for the exception only after you separate from service.

Provided that you're over age 59½ or meet one of the exceptions, you can make penalty-free withdrawals from your account/plan. However, you may still have to pay income tax on all or part of the withdrawal. Distributions from employer-sponsored plans are usually taxable, since contributions to most of these plans are made on a pretax basis (although qualified distributions from Roth 401(k)s and Roth 403(b)s are free from federal income taxes). IRA distributions may or may not be taxable, depending on whether or not the contributions you made to the account were tax deductible. Roth IRAs are subject to special rules of their own.

Tip: While withdrawals from an IRA or retirement plan can be a valuable source of retirement income, the need for current income should be weighed against issues such as: (1) the desire to defer income tax for as long as possible, (2) the desire to preserve the assets for your beneficiaries, and (3) the possibility that, with life expectancies on the rise, you may live into your 80s or 90s and may, therefore, need to draw on those retirement assets for a long period of time.

Consequences of saying no to an offer

If you're thinking about turning down your employer's offer to retire early, be aware of the consequences. If you're holding out for a better offer, keep in mind that the first offer is oftentimes the most generous. Also, if you think there is a good chance you might be let go anyway further on down the road, you may want to accept a sure thing right away rather than face the uncertainty of your company's future plans.

Consequences of saying yes to an offer

In general

After careful consideration, you may find that early retirement is the way to go. However, before you jump right into retirement, you'll want to be aware of the consequences of saying yes.

Less time to save for retirement

If you accept an offer to retire early, say at around age 55, you could be giving up 10 years or more of saving for retirement. Less time to save means you will have fewer savings available during retirement.

Example(s): John saves \$700 a month in a tax-deferred retirement plan at a 7 percent annual return for 20 years. At age 55, his retirement savings will have grown to approximately \$366,780. If John leaves that money in his account for another 10 years and earns the same 7 percent annual return, even without any additional contributions his savings will grow to approximately \$737,100. If John keeps contributing for the additional 10 years, his retirement savings could be even more. (This is a hypothetical example, and is not intended to reflect the actual performance of any specific investment, nor is it an estimate or guarantee of future value. Investment fees and expenses have not been deducted; if they had been, the accumulation totals would have been lower.)

Retirement savings will have to last for a longer period of time

A lower retirement age, coupled with generally increasing life expectancies, can result in your retirement years making up one-third of your total life span. In other words, you could spend as many years in retirement as you did in the workforce. Your retirement savings will have to last for a longer period of time than if you had retired at the normal retirement age. In addition, you should consider the effect of inflation, which could eat away at the purchasing power of your retirement savings.

Your pension may be smaller

If you participate in a traditional defined benefit plan, also known as a pension plan, accepting early retirement could result in a smaller pension. You should determine whether it is more valuable to have a smaller benefit over a longer period of time rather than a larger benefit over a shorter period of time. Generally, defined benefit plans are based on two factors: (1) length of service, and (2) salary during your highest earning period. If you retire early, your years of service are reduced. In addition, most employees' highest earning period occurs just before retirement, so early retirement can force you to give up your highest earning period. Furthermore, many companies impose early withdrawal penalties that can equal 5 to 7 percent of your pension for each year that you retire early.

On the other hand, employers sometimes sweeten early retirement packages, increasing your pension benefit beyond what you've earned by adding years to your age, length of service, or both, or by subsidizing your early retirement benefit or your qualified joint and survivor annuity option. These types of pension sweeteners are key features to look for in your employer's offer--especially if a reduced pension won't give you enough income.

Psychological impact

In addition to determining whether or not you have the financial resources to retire, you should also consider the psychological impact of retiring early. One of the first questions that you need to ask yourself is: Am I really ready to retire? Early retirement thrusts you into a lifestyle change that you may not have expected to encounter for another 10 to 15 years. You may find it difficult to adjust from a working environment to a relaxed, laid-back lifestyle. While many people will find it easy to adjust to a lifestyle that includes vacations and golfing, others may have a hard time dealing with all the free time.

Fortunately, there are ways for people who have a difficult time coping with this sudden change in lifestyle to ease themselves into retirement. Not only can a part-time job provide you with extra cash, but it can also help keep you busy.

Career counseling

What if you can't afford to retire? Finding a new job

You may find yourself having to accept an early retirement offer, even though you can't afford to retire. One way to make up for the difference between what you receive from your early retirement package and your old paycheck is to find a new job, but that doesn't mean that you have to abandon your former line of work for a new career. You can start by finding out if your former employer would hire you as a consultant. Or, you may find that you would like to turn what was once just a hobby into a second career. Then there is always the possibility of finding full-time or part-time employment with a new employer.

If you have been out of the job market for a long time, you might not feel comfortable or have experience marketing yourself for a new job. Some companies provide career counseling to assist employees in re-entering the workforce. If your company does not provide you with this service, you may want to look into outplacement firms and nonprofit organizations in your area that deal with career transition.

Caution: Many early retirement offers contain noncompetition agreements or offer monetary inducements on the condition that you agree not to work for a competitor. However, you should be able to work for a new employer and still receive your pension and other retirement plan benefits.

Retirement planning issues

Medicare--age 65

Even though you can receive early Social Security retirement benefits, you are not eligible for Medicare benefits until age 65. If your early retirement package does not include post-retirement medical coverage, you may have to look into alternative methods of obtaining health benefits, such as through COBRA (Consolidated Omnibus Reconciliation Act of 1985) or private health insurance, until you are eligible to begin receiving Medicare benefits.

Social Security--age 62

If you accept an early retirement offer, you'll want to consider applying for early Social Security retirement benefits. The Social Security Administration allows any individual who is eligible to receive Social Security benefits at the normal retirement age the option of receiving benefits beginning at age 62. However, if you decide to receive Social Security benefits before the normal retirement age, the benefits you receive will be reduced.

Tip: If you accept an early retirement offer from your employer, you are not required to begin receiving early Social Security retirement benefits before normal retirement age.

Can you afford to retire early?

Whether or not you have the financial resources to retire early depends on how much you have in retirement income and how much you plan to spend when you retire. Your early retirement income includes your early retirement package (severance payments and retirement benefits), Social Security (if you receive benefits before the normal retirement age), personal savings and investments, and wages (if you work after early retirement). To determine how much you will spend, you must estimate your annual living expenses for early retirement.

It is important to note that your annual living expenses during early retirement are likely to differ from your expenses later in retirement. During early retirement, you may find yourself still paying off a mortgage, funding your children's education, and paying for medical coverage. The worksheets that follow can help you to estimate your early retirement income and living expenses, and determine whether or not you can afford to retire early.

Annual Early Retirement Living Expenses	
Housing (mortgage, rent, homeowners/rental insurance, maintenance, furnishings, property taxes)	\$

Utilities (electricity, heat, water, phone, cable)	\$
Transportation (car payments, insurance, gas, repairs, etc.)	\$
Food	\$
Insurance (medical, dental, disability, life)	\$
Taxes (Federal/State income taxes, Social Security if you plan on working after early retirement)	\$
Education	\$
Clothing	\$
Travel and recreation	\$
Debts (loans, credit card payments)	\$
Gifts (charitable, personal)	\$
Savings and Investments	\$
Miscellaneous	\$
TOTAL	\$

Caution: If your early retirement package does not include medical coverage, remember to calculate the cost of health care into your early retirement living expenses.

Early Retirement Income	
Early retirement package (severance payments, retirement benefits)	\$
Social Security (if you receive your benefits before normal retirement age)	\$
Personal savings and investments	\$
Wages (if you work after early retirement)	\$
TOTAL	\$

Tip: When you estimate your early retirement living expenses and income, it is important to consider inflation, which has historically averaged three percent annually.

Financial concerns

Loss of health insurance

If your early retirement package does not include company-paid health benefits, you still may be eligible for health insurance through COBRA. You are entitled to COBRA coverage if you work for a company that provides employees with a group health plan and has 20 or more covered employees. COBRA allows you to pay for your health insurance at the same rate your company pays, plus a small administrative fee. COBRA coverage lasts up to 18 months from the date of retirement, and does not require you to qualify for coverage or worry about pre-existing conditions. Once your COBRA coverage runs out, you will have to purchase private insurance if you want to continue health insurance coverage until you are old enough to qualify for Medicare coverage.

Reduction in Social Security benefits

Your Social Security benefits are based on what is known as the primary insurance amount (PIA). The PIA is based on your average indexed monthly earnings (AIME). If you retire at the normal retirement age (see the following Social Security Administration table), your monthly benefit will be equal to your PIA. However, if you

receive your Social Security retirement benefits early, your monthly benefit will be less than your PIA.

Age for Receiving Full Social Security Benefits	
Year of Birth	Normal Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

If you elect to receive Social Security retirement benefits early, you can receive more benefit checks than if you retire at normal retirement age. While this might seem profitable, you will suffer a permanent reduction in your monthly benefits. The reduced benefit is based on a deduction of approximately 5/9 of 1 percent (.0056) for each month you receive benefits before the normal retirement age up to 36 months, and a deduction of 5/12 of 1 percent thereafter. Your total lifetime benefits would remain the same based on standard life expectancy assumptions. However, your benefits are spread out over a longer period of time, which results in lower monthly benefits.

Example(s): Mary retires from the local utility company at age 62, and elects to receive her Social Security benefits early. If Mary had waited to receive her Social Security benefits until her normal retirement age of 65, she would have received 100 percent of her primary insurance amount (PIA) benefit, or \$800. Because Mary elected to receive her benefits at age 62, there is a reduction of 5/9 of 1 percent (.0056) for each of the 36 months that she receives benefits prior to the normal retirement age. Thus, Mary will receive approximately \$640, or 20 percent less (.0056 x 36), than she would have received at normal retirement age.

Tip: The application process for early Social Security retirement benefits can take as long as three months. The Social Security Administration recommends that you contact its office prior to your 62nd birthday.

Dealing with Periods of Crisis

What is it?

By definition, a crisis is a turning point, a time when you have to make crucial decisions (often suddenly) that will affect your future. Although smart planning is the key to effectively dealing with periods of crisis, you may find yourself suddenly dealing with an unexpected event that you didn't prepare for, and you wonder what to do next. Whether you're planning ahead or dealing with a crisis now, take control. There's no escaping the fact that a crisis is a life-changing event, but how you handle a crisis will, in part, determine whether your life changes for the better or for the worse.

Planning for a future crisis

Identify and manage risk

What future crises are you likely to face? While you hope that the answer to this question is none, that's an overly optimistic thought. It's almost inevitable that you will face one crisis or more during your lifetime. While you can't have a plan to deal with all possible risks, you can plan for events that seem likely and for some events that may seem unlikely. You should, for instance, plan for events such as death, illness, and job loss. You may not, however, have to plan for crisis risks that are unlikely to affect you, such as divorce (if you are single or happily married), or natural disaster (if you live in a non-disaster prone area). Knowing that you have some plan will help you deal with a crisis if you ever do confront one.

Example(s): Jane and Hal built a beach house in Malibu. Their home was swept away in a mudslide, and they spent months replacing their personal possessions, as well as getting duplicates of their birth certificates, insurance policies, and other personal and financial records. Five years later after they had rebuilt their house, a fire swept through town, and their house was destroyed. Fortunately, this time they were ready. They had kept their important records and financial information in a safety deposit box, and had sent boxes of photos to Jane's mother for safekeeping.

Specific advice related to illness and job loss can be found in [Coping with Illness](#), and [Coping with Unemployment](#).

Plan for contingencies

Any plan you make for dealing with a future crisis should be flexible. Part of the stress you feel when confronting a crisis is because crises are unexpected and unpredictable. You won't know ahead of time how you'll react and exactly what you'll have to confront. One good approach is to plan for a worst-case scenario. For instance, if you plan for a period of unemployment that lasts for two months, what will you do if it stretches for six months? If you plan around a six-month period of unemployment, however, you'll know what to do if it only lasts for two months.

Organize your records

A key component of planning for a crisis is organizing your records and personal papers. This is particularly true if you become sick, incapacitated or die and your loved ones have to assume responsibility for your finances. You will also be able to readily access vital information instead of wasting time and energy trying to find it. At the very least, you'll want to set up a filing system and give a list of your important documents and advisors to a trusted friend for safekeeping. For more information on this topic, see [Organizing Important Records and Documents](#).

Plan your finances

Unless you have significant liquid assets, planning for a crisis means, in large part, planning your finances. Many financial professionals advise their clients to keep an emergency fund equal to at least three months worth of expenses, just in case your income flow stops or your expenses increase. This emergency fund can make a big

difference because many things can change in three months. If you don't have the emergency fund, however, you may have to make hasty decisions regarding your future, such as taking a new job you don't really want, selling prized personal possessions, or dipping into your college or retirement fund. You should also work up a bare-bones budget that reflects only your basic living expenses. Cut out all luxuries, and determine the least amount of income you need to survive. For more information see Cash Reserve, Budgeting, and Surviving Financially When You're Unemployed.

Quantify your plan

When you plan for a future crisis, don't be too general. Instead, be as specific as possible and write down your options. This way, you'll be less tempted to avoid decisions by thinking you'll deal with that when the time comes, and you'll have something concrete to refer to if you must deal with a crisis situation. You'll feel calmer, too, when you're facing the crisis. People who live in areas prone to natural disasters often keep emergency kits in their cars or homes in case they need to evacuate in a hurry--a good example of this principle.

Dealing with an immediate crisis

Act, don't react

Often when facing an immediate crisis, you want to do something, just about anything to solve the crisis, or you want to run away. While both responses are natural, neither is helpful. While you definitely need to do something in a crisis situation besides hide your head in the sand, you shouldn't do just anything. In fact, it may even be preferable to take no action for a few days to let your emotions cool a bit. Then, act, but don't react. To the extent possible, collect information and advice and formulate a plan. You may have only hours or days to do this, but some plan is better than none. If you feel that you can't keep your emotions separate from your actions, ask a friend, relative, or professional to help you sort through your options.

Make a list of things that you need to do

When you have to plan in a hurry, the easiest way is to make a simple list of things you have to do. List as many items as possible. Then, as you do them, you can check them off. This is important because when you're under stress, you may forget to do important tasks. In addition, a list will help you remember to focus on action, not reaction.

Find help

No one should have to weather a crisis alone. Even if you're alone in the world or if you don't want to burden your loved ones with details, there are community resources and individuals (paid and unpaid) who can give you general and specific advice.

Dealing with illness or disability

Harness your emotions

If you find out that you, or someone close to you is sick, hurt, or dying, you'll probably feel numb, scared, angry, sad, anxious, or even panicked. It's likely that your initial feelings will change, but you may never accept your situation. You don't necessarily have to accept illness and its consequences to deal with it, however, and you can control how you react to it. In fact, some people need to feel in control of everything when they become sick because they are unable to control their disease. Remember that this need for control is common, and it can be positive if you use your energy to make unemotional decisions that will affect you and your loved ones.

Find support

When you're sick or hurt or caring for someone else who is, it's vital to have a support network. Hopefully, you have close friends and relatives that will help you. But many people don't come forward to help and even well-intentioned friends and relatives may not give you as much help as you need. Fortunately, there are many community resources available to help you. For more information on this, see Setting Up a Support Network

When You're Sick and, if you're caring for an aging or ill parent, Caring for Your Aging Parent.

Find a way to pay your bills

Paying your bills when you're sick can be hard because you can't work at all or perhaps can work only part-time. If you own your own disability insurance policy, check your coverage and contact your insurance company for claims information. Your employer may have group disability insurance that you aren't aware of that will help you. If you were hurt or became sick from job-related causes, you may be able to collect benefits from workers' compensation. If your disability is expected to last a year or more (or even result in your death), you may be eligible for Social Security disability benefits. But if you have no hope of receiving disability insurance benefits, you'll have to cut your expenses and rely on your savings or spousal income. If you have limited income, you may be able to qualify for Supplemental Security Income (SSI) benefits or other government programs. For more information see Coping with Illness, Workers' Compensation, and Supplemental Security Income (SSI) Benefits.

Determine how the illness will affect your job

If you work and become sick or get hurt, or if you have to care for someone else who is ill, you're probably worried about how you're going to keep your job. First, talk to your employer about what benefits you are entitled to in the event you are disabled. Your employer may be used to dealing with situations like yours and may have programs in place that you don't know about. Next, be aware that if you work for a company that employs 50 or more people, you may be entitled to take up to 12 weeks unpaid leave under the Family and Medical Leave Act of 1993 if you need time off to recuperate or to care for someone else.

Example(s): When her mother was seriously injured in a car crash, Marcy wanted to fly to Dallas to take care of her. Because of the Family and Medical Leave Act of 1993, Marcy was able to take eight weeks of unpaid leave from her job, and she was restored to her former position at the same level of pay and benefits when she returned to work.

Plan for the future

Planning for the future is vital. When you're sick, you suddenly realize the limits of your own mortality and your priorities may become clearer. It's a good idea at this point to set new priorities and goals for the future. If you're terminally ill, this step is critical. You may also need to quickly revise your financial and estate plans. Even if you expect to recover from your illness, you'll benefit from reviewing your insurance coverage and your financial plans and by applying lessons learned from your illness to planning for the future.

Dealing with unemployment

Deal with your emotions

When you lose your job (unless you've quit), you're usually angry and discouraged. It's natural if your self-esteem is ebbing, and you may be tempted to run away from your problem instead of facing it. You may be tempted to make a drastic career change, start your own business, or continue your education. Although doing one of these things may be right for you, be careful. You may be reacting emotionally rather than logically. Following your dream can be wonderful, but it can also be a way to escape from the crisis that confronts you. Check out your options carefully, and don't forget that finding a new job is one of them.

Example(s): When Lou was 53, he was laid off from the automobile manufacturing plant where he had worked for 18 years. A month later while still depressed, Lou decided to take his life savings and invest in his dream. Six months later he opened Lou's Lakeside Restaurant. Unfortunately, Lou's restaurant failed because he hadn't taken the time he needed to plan his business or to learn about running a restaurant. He lost all his money.

Find support

If you're married, you may be tempted to rely upon your spouse for support, and he or she is probably happy to give it to you. Remember, though, the most loving spouse in the world can't solve all your problems and is probably more anxious over your job loss than you realize. Share your burden with your friends, a support group, a career counselor, or a financial professional. For more information on this topic see [Setting Up a Support Network When You're Unemployed](#).

Find a way to pay your bills

If you've lost your job through a layoff or because you were fired, immediately contact your state's unemployment office. You may be able to apply by phone or by mail, and you may receive benefits quickly once your application is verified. You'll also need to find ways to cut expenses or increase your income. If you know that you are losing your job a few weeks or months before it happens, you'll have time to restructure your debt, take a part-time job to fund your future unemployment, or borrow against your savings, home, or investments. If your job loss is sudden, however, you may need to rely upon your savings and find ways to reduce your payments on bills. For more information on this topic see [Coping with Unemployment](#).

Find a new job

One of the first things on your mind when you lose your job is finding another one. You may be surprised at how difficult this is, particularly if you've worked at the same job for a long time. If you've dealt with unemployment before, you probably know the drill: update your resume, check the want ads, begin to network, etc. Even if you're an experienced job seeker, there are resources that can help you. For more information see [Coping with Unemployment](#).

Dealing with the death of a family member

When your spouse or a family member has died, you may need to plan the funeral, organize your finances, and claim life insurance benefits. You may need to serve as executor of your loved one's estate, and you may need to be familiar with estate settlement procedures.

Starting a New Career

What is it?

Downsizing is one reason you may be seeking a new career. Reaching a professional plateau is another. The fact is, many people change careers, sometimes more than once. With proper planning, you can start a fulfilling new career without sacrificing your financial security.

Assessing your career path

Consider working with a professional career counselor

Working with a career counselor can ensure that you receive career-planning advice tailored to your individual needs and goals. Professional career counselors can help you explore your abilities and interests, clarify your life and career goals, help you decide whether you should find a new career, and teach you job-hunting skills. You should look for a career counselor who promises you more than a great job or fast results; although credentials and services offered vary, the counselor you choose should have extensive training, education, and experience. Professional counselors are often licensed by state counselor licensing boards. They may also be certified by the National Board for Certified Counselors and belong to a national or state career counseling professional association. To become a National Certified Career Counselor, an individual must have a graduate degree in counseling from a regionally accredited institution, have at least three years of full-time career development work experience, and have completed a certification exam.

To find a qualified career counselor, ask friends and family for recommendations and check with colleges and universities in your neighborhood. You can also check your phone directory or contact your state employment service. The National Board for Certified Counselors, which can be reached at (800) 398-5389, can also provide you with a list of nationally certified career counselors in your state.

Tip: Professional career counselors should follow the ethical guidelines established by organizations such as the American Counseling Association or the National Career Development Association. They should not charge exorbitant fees or make exaggerated promises. Before signing a contract with a career counselor, make sure you understand what services you will receive for your money.

Assess your skills, talents, interests, and goals

Many resources are available to help you assess your skills, talents, interests, and goals. If you decide not to work with a professional career counselor, you can explore your career options with the help of a book or an Internet site devoted to career issues. Such resources include tests and exercises that you can complete that will help you evaluate what you like to do best and what you are good at doing. You can then use this information to determine what career is right for you.

Research potential careers

Before deciding to switch careers, do your homework. What sounds like an ideal career for you may not be. For instance, you may love the idea of teaching but hate the idea of taking a big pay cut to become a teacher. Or, the idea of making a lot of money as an investment banker might appeal to you, but you may object to working long hours. When researching a new career, answer the following questions:

- Will this career be personally gratifying?
- How much money can I expect to make initially? In 5 years? In 10 years?
- Will I be able to find a job where I currently live, or will I have to relocate?

- Will I need to go back to school?
- What is the occupational outlook for this profession?

To find this information, you may have to consult several sources. If you have not yet decided on a career, check the employment section of your local newspaper for ideas on jobs available. If possible, talk to others who work in the career field you are considering and find out how satisfied they are with their career choice. They will be able to give you advice regarding the profession and information regarding the pros and cons of pursuing a career in this field. You can also find books on careers in your public library or local bookstore and locate a lot of information about careers on-line, including information on how much money you can expect to make. To find out what the occupational outlook is for the career you're considering, consult the Occupational Outlook Handbook, which is the official handbook of the Bureau of Labor Statistics. It is available at your local library or can be viewed on-line at <http://stats.bls.gov/oco/>. Another Internet resource that can help you evaluate career fields is America's Career InfoNet (www.acinet.org).

Tip: Starting a business is another option for someone looking for a new career. For more information on what's involved, see Starting or Buying a Business.

Decide whether you should start a new career

Once you've researched career options available to you, decide whether you should start a new career. First, make sure that you have thoroughly explored ways to make your current career more satisfying. For instance, moving to a different department within your company, taking professional development courses, and/or getting a promotion may change the way you feel about your career. Second, after exploring your interests, you may also discover that changing your career is not the best way to make your life more meaningful. Instead, you may decide to change your life outside of work, volunteer, turn a hobby into a part-time business, or take classes to develop new skills.

On the other hand, you may decide that it's time to change careers. Perhaps you're just not happy anymore working in your current field, and there's no way to fix it. Or, you may be facing early retirement and you see this as an opportunity to move into a new career field. You've done your research, and you're excited about the chance to put your talents and abilities to work in a new career.

Plan for the financial impact of starting a new career

Planning ahead can minimize financial losses

The best way to plan for the financial impact of starting a new career is to plan early. Don't quit your present job until you've determined how you will survive financially during your career transition. In particular, you should undertake the following actions:

- Determine how changing your career will affect your income and expenses.
- Save up an emergency cash reserve.
- Reduce any consumer debt you have by paying off credit cards and loans.
- Determine whether you can afford to be out of work temporarily in the event that you can't find a job in your new career field right away or if you go back to school. For more information, see [Can We Afford to Have One Spouse Stay at Home?](#) and [Second-Income Analysis](#).
- Figure out how you will pay for your education if you decide to return to school. You may be eligible for grants and financial aid. In addition, if your income is within certain limits, you may be eligible for a Lifetime Learning Tax Credit equal to 20 percent of your qualified education-related expenses up to \$10,000. You may also be able to deduct interest paid on qualified higher education loans.

Tip: If, at some point, you face unemployment while you're looking for a job in your new career field, you may face financial difficulties. For more information on this topic, see [Coping with](#)

Unemployment.

Changing careers means re-evaluating your insurance coverage

Consider how starting a new career can affect your insurance coverage. For instance, you will likely lose your employer-sponsored health insurance coverage when you resign from your present job. Although you may be able to continue coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA) for 18 months, it can be expensive to do so. If you have a disability insurance policy, consider the impact that changing your career may have. Your ability to get disability coverage and the premium you pay depend, in part, on your occupation. So, if you switch careers, your disability insurance coverage may be affected.

Changing careers may affect your retirement nest egg

Changing careers may affect your retirement nest egg in several ways. First, if you leave your current job before you have completed a certain number of years of service with the company, you may not be vested in the company's pension plan. If you are not vested, you will own none of, or only a portion of, the employer's contributions to the plan. Second, if you leave the company and don't properly roll over your retirement funds into an IRA or another corporate plan in a timely manner, then you may have to pay a 10 percent nondeductible penalty tax and 20 percent in federal income tax withholding. The funds that are not rolled over will also be included in your income for tax purposes. Finally, you may ultimately lose pension benefits because many plans calculate defined benefits using the employee's highest earnings years. This means that your pension at age 65 from at least one employer will be based on a salary that you earned years ago when you probably were not in your peak earnings years.

Tip: Sometimes employers use nonqualified deferred compensation plans as golden handcuffs to make sure that key employees stay with the company for a specified period of time. If you are a highly compensated or key employee and participate in such a plan, you may lose certain benefits if you leave the company prematurely under the terms of the plan. Since your monetary loss may be significant, consider this before changing careers.

Considering a New Employment Opportunity

What is it?

In the past, workers stayed with the same company for years and years, working their way up in the company. However, times have changed. Businesses facing hard economic times restructure, forcing employees to look for new jobs. It's also become common for workers to change jobs several times throughout their careers as they seek higher salaries and new professional opportunities. Whether you're forced to seek a new employment opportunity or are willingly doing so, you'll eventually be faced with an important decision: When you're offered a job, should you take it?

Make sure the offer is firm before you evaluate it

Although it may be useful to explore an employment opportunity, don't waste time dreaming about your new position until you have gone through the interview process, gathered data on the company, and received a firm offer of employment. Only then should you take time to compare the offer you've received against the job you already have or a job offer you've received from another company. You'll have the facts, and you can make a more informed, unemotional decision.

Investigate the company

Where to look for information

Gather some data that can help you evaluate what kind of future you can look forward to with the company you're investigating. It's a good idea to do some research on the company before you have an interview so you'll know what questions to ask and be able to fairly judge the answers you receive. There are many ways to get background information on a company. Here are a few:

- Check your local public or university library--Many references are available through public or university libraries that can help you obtain information about a company or an occupation. Following are references that can give you general information about the company (including some financial data):
Dun & Bradstreet's Million Dollar Directory
- Standard & Poor's Register of Corporations
- Ward's Business Directory
- Thomas' Register of American Manufacturers
- You should also look for information on a business in consumer or trade magazines and/or newspapers. Magazines and newspapers may contain up-to-date information about the company's future, its products and services, and its successes and failures. You may also be able to find out something about the company's key executives and philosophy. Rather than check the magazines individually, check one or more of the following indexes: Business Periodicals Index
- Readers' Guide to Periodical Literature
- Wall Street Journal Index
- Look for information via the Internet--If you have Internet access, you can use it to find information on a company without leaving your home or office. Many excellent resources exist, including the following: American City Business Journals, www.bizjournals.com --This site will search the archives of many weekly U.S. business journals, looking for the name of the company or organization you are researching. As a result, you may be able to access articles, press releases, and snippets of

information about the company.

- Dun & Bradstreet, www.dnb.com --At the Dun & Bradstreet site, you can find information (including financial) about millions of companies. If you want a detailed report, however, you'll have to pay. You may want to do this once you are seriously considering a job offer.

Tip: Whatever research method you choose, it's often easier to find information about public rather than private companies and well-established companies rather than new ones. To get hard-to-find information, you may want to contact the public relations liaison in the company and ask for general information and/or an annual report. You may also be able to get information by asking individuals who do business with the company or who have worked there in the past or by asking about the company at your local chamber of commerce.

What kind of information to look for

As you research a company or organization, try to find answers to some or all of the following questions:

- How strong is the company financially?
- Will the company be taken over by another in the near future?
- Is the company planning to expand?
- How many employees does the company have?
- How long has the company been in business?
- Is the company privately or publicly held and by whom?
- What successes and failures has the company experienced?
- What is the company's philosophy?
- Is the company a part of a growing industry?

Answering these questions can enable you to determine whether the company or organization is a good match for you and help you decide whether the company has a strong track record and an exciting future. Supplement the information you get via your own research by asking questions during your interview to fill in the gaps or to expand your understanding of the company. If possible, try to talk to one or more employees who currently work there to get a handle on the company environment and future.

Assessing the job offer

Salary and bonuses

You probably have some idea of what you want to earn, and the salary offered by the company you are evaluating may or may not match your expectations. Obviously, if the company offers you more than you expect, you have no problem. But what if the company offers you less? First, find out how frequently you can expect a pay review and/or a raise, and try to determine how much the pay increase is likely to be and on what is it based (e.g., merit, cost of living). In general, you should expect the company to increase your salary at least annually. Next, ask about bonuses, commissions, and profit sharing that can add a lot to your income. To fully evaluate the salary you're being offered, try to find out about the average pay for that job in your area. You can do this by talking to others who hold similar jobs, by calling a recruiter (i.e., headhunter), or by doing library or Internet research. The following resources can help you:

- Bureau of Labor Statistics, Office of Compensation and Working Conditions Phone: (202) 606-6225
Internet: www.bls.gov

- Bureau of Labor Statistics, Office of Employment and Unemployment Statistics Phone: (202) 606-6400
-
- JobStar Salary Info Internet: www.jobstar.org

Many salary surveys are available on the Internet that you can use to research salaries in your profession.

Benefits

Never overlook the value of good employee benefits. Benefits can add thousands of dollars to your base pay, and some benefits (including group health insurance and disability insurance) can be difficult to obtain privately at a reasonable price. Although many companies offer them, the type and quality of benefits vary widely from company to company. Find out what benefits the company offers and how much of the cost the employee must bear. For more information on types of benefits that may be offered, see Employee Benefits.

Future opportunities with the company

You'll want to find out what opportunities exist for you to move up in the company. This includes determining what the company's goals are and the type of employee the company values. Will you get to use skills you already have? Will you need more training and education? Is your philosophy regarding work in line with the company's? (If not, you may have trouble getting promoted or may end up leaving the company.) In addition, make sure the company has a future at all. If it's a new company, it may be at risk for folding in the near or distant future, so take time to evaluate the company's structure and plans and, if possible, to find out some information about the financial soundness of the organization. If the company is well established, determine if it is in a growth industry and try to find out (possibly by checking annual reports or articles about the company) what plans it has for the future.

Working environment

You may be getting paid well and the company may offer great benefits, but you still may not be happy working there if the working environment does not suit you. To evaluate the working environment, pay attention if you get a chance to tour the company's offices. Do employees seem extremely busy? Do they look happy? Bored? Is the office space cold or inviting? Do people seem relaxed and friendly? Tense? In addition, try to meet the individuals you will be working with closely. Do they seem like people you would be comfortable working with? Do you sense any hostility? Do they say they like their jobs? Finally, consider how much time you must spend at your job. Are the hours suitable? Will you work a lot of overtime? Will you have to punch a clock, or is the scheduling somewhat flexible?

Consider the financial and emotional impact of taking the job

Professional and personal consequences

To evaluate the professional and personal consequences of taking the job, consider the following questions:

- How will taking this job positively or negatively affect your finances? Consider increases or decreases in salary, cost and availability of benefits, and related costs of taking this job, including relocation, spouse potentially losing his or her job, and the cost of transportation.
- How will this job indirectly affect your finances? For instance, will taking this job lead to better opportunities in the future? Does taking this job mean taking on additional financial risk (e.g., if the job doesn't work out or the company downsizes or goes out of business)?
- Will taking this job make you happier? Aside from the financial implications of accepting the job, consider the emotional consequences, both personal and professional. Will you be happier than you are now? Will your family be happy with your choice? Will you work longer hours or have more time to relax? Will you be better respected or be able to expand your professional horizons?

Ramifications of golden handcuffs

Sometimes employers use nonqualified deferred compensation plans as golden handcuffs to make sure that key employees stay with the company for a specified period of time. If you are a highly compensated or key employee and participate in such a plan, you may lose certain benefits if you leave the company prematurely under the terms of the plan. Since your monetary loss may be significant, consider this before changing jobs.

Should you accept the offer?

Despite the time and energy you spend researching and evaluating, the hardest part is yet to come: deciding whether to accept the offer. Begin by assembling the facts, data, and information you have gathered. Think back to the interview, paying close attention to your feelings and intuition about the company and/or the position. Consider not only the salary offered to you but also what future you can expect with the company, and think about whether you believe you would be happy and excited working there. If you're having trouble making a decision, try writing down the pros and cons of accepting the job; it may then become clear whether the positives outweigh the negatives. Sometimes, you may really want the job, but you're unhappy with the salary or the benefits offered to you. If so, it's time for negotiation.

Making the job offer acceptable through negotiation

Some people are afraid to negotiate a job offer because they really want the job and are afraid that the company will rescind the offer or respond badly if they attempt to negotiate. However, if you truly want the job but find the salary, benefits, or hours unacceptable, it's better to face rejection than turn down what otherwise would be a great opportunity. The first step in negotiating is to tell your potential employer what it is that you want. Make it clear that you are immediately willing and able to accept the offer if this aspect of the offer could be changed. Be specific. Name the amount of money it would take or the exact hours you would like to work. However, don't threaten the company, and if you really want the job, don't imply that you'll walk if the offer remains unacceptable. Stay neutral.

What will happen? The company may refuse your request, either because company policy does not allow negotiation or because the company is not willing to move from its original offer. Or, the company may make you a second offer, perhaps offering you more money but not as much as you requested or offering to make up to you in benefits what they can't give you in salary.

In either case, the ball is back in your court. If the offer is still unacceptable, you may have to turn the job down. However, if the offer is better but not exactly what you want, ask for a day or two to think about it.

It's also possible that the company will accept your counteroffer outright, especially if you have unique talents or experience. At this point, there isn't much else to say except, "Thank you, I look forward to working here."

Changing Jobs Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered? • Names, ages • Children and other dependents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has financial situation been assessed? • Income • Expenses • Assets • Liabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Employee benefits	Yes	No	N/A
1. Has a benefits package been discussed with the new employer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. If yes, are there restrictions or a waiting period for all benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is health insurance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are short- and long-term disability offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Is a Section 125 or flexible spending account offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is dental insurance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is vision insurance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Is life insurance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Is a retirement plan offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Is adoption assistance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Is long-term care insurance offered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Other insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Has vacation/time off been reviewed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			

Financial picture	Yes	No	N/A
1. Has annual compensation been determined?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. If married, will spouse work outside the home?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. If there are children, will day care be necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Will living expenses be affected?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Money management	Yes	No	N/A
1. Has budget been updated to reflect changes in income and expenses? <ul style="list-style-type: none"> • Housing costs • Transportation costs • Food, clothing, and other household expenses • Health-care expenses • Life and disability insurance premiums • Child-care costs 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has an emergency fund been established?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Housing situation	Yes	No	N/A
1. Is relocation an issue?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is there a home that needs to be sold?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is a home purchase planned?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Have the advantages and disadvantages of buying a home versus renting a home been discussed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Have other expenses been reviewed? <ul style="list-style-type: none"> • Mortgage origination fees • Real estate agent fees • Attorney fees • Moving expenses • Potential increase in real estate taxes • Cost of living in new location 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Will the new employer pay all relocation expenses?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Insurance planning	Yes	No	N/A
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1. Is a current health insurance plan in place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has spouse's coverage been evaluated?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Will COBRA be needed during the job transition period?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Is an individual (non-employer-sponsored) life insurance policy in place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does life insurance need to be upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does automobile insurance need to be purchased/upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does homeowners/renters insurance need to be purchased/upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does disability income insurance need to be purchased/upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does personal liability insurance need to be purchased/upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Does long-term care insurance need to be purchased/upgraded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Are beneficiary designations up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Notes:

Investment planning	Yes	No	N/A
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1. Has liquidity need changed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has risk tolerance been determined?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Have investment goals been considered/prioritized?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Has size/frequency of investments been determined?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Has current asset allocation been reviewed? • Stocks • Bonds • Mutual funds • Annuities • Real estate • Art/collectibles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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6. Will job change affect existing employee stock options?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Retirement planning	Yes	No	N/A
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1. Is a retirement plan available? • Employer-sponsored retirement plan • Beneficiary designation updated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. If a 401(k) is offered, will the employer match employee contributions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3. Are IRAs being effectively utilized?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. Will all available plans be funded?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Tax planning	Yes	No	N/A
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1. Will withholding change?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. Is the maximum tax advantage of employee benefits realized?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3. Will child care be needed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. Will there be a home office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5. Have home office deductions been discussed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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6. Is there self-employment income?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Notes:

Starting or Buying a Business

Planning for your own business

Before you start your own business or buy an existing business, you should do some initial planning. You may have already decided what type of business you want--your own restaurant, retail outlet, service, or manufacturing plant. You need to choose a suitable location--can you work from home, or do you need a separate facility? You should assess your financial requirements, schedule daily activities, and plan for contingencies, which may be included in your business plan. Planning your business usually requires the help of any number of professionals--an attorney or accountant, for example. The success or failure of your business may depend upon your initial planning, but how do you plan and what do you plan for?

Factors to consider when starting your own business

Legal structure

You will have to decide upon the legal structure of your business. For example, will you conduct business as a sole proprietor, or will you instead create an entity separate from yourself, like a corporation, partnership, or limited liability company? Each type of entity has its own attributes, and the structure you choose will depend upon which of these attributes you desire. Certain forms of business entity offer limited liability protection, allowing you to protect your personal assets from lawsuits involving the business.

Taxation

Uncle Sam takes a special interest in your business! How you and your business will be taxed is an especially important factor to consider. For example, if you choose a C corporation as your legal structure, you may be subject to a double tax--one tax when the corporation makes a profit and another when those profits are distributed to the owners (shareholders). Alternatively, if you choose a partnership, only the owners (partners) are taxed. For this and many other reasons, tax considerations must be weighed carefully.

Accounting and record keeping

Contrary to what many may believe, accounting is very important and serves an important purpose. It is a source of information from which one can discover how the business is doing--it's like keeping track of the statistics of your favorite sports team. To keep this source up-to-date, as well as to prepare for an unexpected visit by the Internal Revenue Service (IRS), you must be sure to keep thorough records.

In addition to record keeping, you'll need to choose a method of accounting, such as cash-basis or accrual method. Moreover, you must decide when your business's financial or fiscal year begins and ends. Usually businesses use the calendar year (January 1 to December 31) as their fiscal year, though your accountant or the IRS may suggest otherwise. Check with both.

Insurance

You will need to purchase different types of insurance. Your insurance needs may include property and casualty insurance, life insurance, and liability insurance. If you have employees, you need to think about whether to provide medical insurance and benefits; worker's compensation insurance is typically required.

Staffing

Are you going to do all the work in your business yourself? If not, whom will you hire? What skills must your employees possess? What tasks will they be responsible for? Keep in mind that the more employees you hire, the more your company will be subject to laws at the state and federal level. Some federal laws that address discrimination in the workplace are based on the number of employees in the business. Certain employee

benefits may be mandatory depending upon the size of your company. You may be subject to certain tax rules when employing family members.

Marketing and advertising

Every business markets and advertises. Whether by word-of-mouth for a sole proprietor or by a global campaign in the case of a giant corporation, marketing and advertising are invaluable ingredients for success. Be prepared to answer questions like the following: How will you compete with similar businesses? How will you penetrate your target market? How will you price your product or service? How will you promote your product or service? Part of your marketing plan will probably be to promote name recognition, adding importance to the task of choosing a name for your business or product.

Financing

Insufficient financing is probably the most common obstacle to starting a business. In addition to calculating how much money (capital) you'll need to start and run your business, you have to figure out where to get the funds. Will you borrow from a bank or family member (debt), or will you take money from investors in exchange for a share in the ownership of the business (equity)? If you intend to seek equity financing, you will be subject to securities regulations. Moreover, you have to decide on how to structure the financing--will you have more debt than equity, for example?

Patents, trademarks, and copyrights

How will you protect your intangible assets--your company's name, for example (trademark)? Perhaps you have an invention you wish to protect (patent). Or maybe you've written a book and wish to protect your written words (copyright). Whatever your concern, you'll need to think about protecting your creation. An experienced attorney can help you with these issues.

Licenses, permits, and registration

You may need to obtain licenses or permits, or even register with a governmental agency. For example, if you choose to create a corporation, you must register with the secretary of state. If instead you are a sole proprietor, you might be required to obtain business permits from, and/or register your business's name with, the municipality. To find out more, contact the office of the secretary of state or the chamber of commerce in your state or municipality.

Factors to consider when buying an existing business

In addition to all of the factors to consider when starting your own business, there are other considerations when buying an existing business --is it a stock purchase or are you buying company assets? How is the business being valued? In addition to finding a business and arranging for the purchase and financing, you may also be reconsidering the form of business entity. Just because you bought the assets of a sole proprietorship doesn't mean you can't change the entity to some form of corporation.

Factors to consider when buying a franchise

If you are considering buying a franchise, there are important additional considerations. In exchange for assistance from the business granting you the franchise, you are obligated to pay certain fees and accept a certain level of control from the franchisor.

COBRA Coverage: Health Care During Transitional Periods

What is COBRA?

The term "COBRA" is commonly used to refer to certain provisions of Title X of the Consolidated Omnibus Budget Reconciliation Act of 1986. This law provides an opportunity for employees and their dependents who have been covered by an employer-sponsored health insurance plan to continue coverage under circumstances where such coverage might otherwise have been terminated. The covered employee is entitled to COBRA coverage only in cases of termination or reduction in hours. In addition, there are several situations in which an employee's spouse and dependent children may be eligible for COBRA benefits. The duration of COBRA coverage is limited and depends on the reason why existing coverage is being terminated.

COBRA can be an invaluable resource, particularly for those who find themselves without health insurance due to circumstances beyond their control (e.g., layoff or reduction in working hours). Because individual health insurance is generally much more expensive than comparable group insurance, many of these individuals might otherwise be forced to go without health insurance. This can be a dangerous gamble. COBRA provides a way to retain health insurance coverage at a reasonable rate.

Are all employers subject to COBRA requirements?

COBRA requirements apply only to employers who have 20 or more employees on at least 50 percent of working days during the previous calendar year and who provide an employer-sponsored group health insurance plan. COBRA requirements also apply to state and local governments (but not the federal government). Employers who fit this description are required to offer continuation of coverage to employees and their dependents under the circumstances described in the following.

Who is eligible for COBRA benefits?

To be eligible for COBRA benefits, you must be a "qualified beneficiary." A qualified beneficiary is any individual who is covered under the group health insurance plan as of the day before a qualifying event and who fits into one of the following three categories:

- Employees and their spouses and dependent children who have lost employment-based health insurance benefits due to a change in their employment status
- Divorcees, widows, and their dependent children who have lost employment-based health insurance benefits as a result of divorce or the death of the covered spouse
- Spouses and dependent children who have lost employment-based health insurance benefits because the covered family member has become eligible for Medicare benefits, while the spouse remains ineligible

What are the "qualifying events" that trigger COBRA eligibility?

Any of the following events causing a loss of health insurance coverage will trigger COBRA eligibility for qualified beneficiaries:

Termination of employment or reduction in hours

The covered employee and other qualified beneficiaries become eligible for COBRA benefits if the employee's employment is terminated. This is true whether the termination is voluntary or involuntary, unless the reason for

termination is "gross misconduct" on the part of the employee. The covered employee and other qualified beneficiaries also become eligible for COBRA coverage if the employee experiences a reduction in working hours that results in a loss of coverage.

Example(s): Willy B. Sick's employer reduces Willy's hours as part of a companywide cutback, changing Willy's status from full-time to part-time. If Willy was covered under an employer-sponsored health insurance plan as a full-time employee but loses this coverage as a result of his new part-time status, Willy would be eligible for COBRA benefits.

Death

A covered employee's dependents become eligible for COBRA benefits if the covered employee dies.

Divorce or legal separation

If a spouse or dependent child loses health-care coverage as a result of divorce or legal separation from the covered employee, these dependents become eligible for coverage under COBRA.

Eligibility for Medicare benefits

Group health coverage is terminated if the covered employee's condition qualifies him or her for Medicare benefits. Medicare benefits do not extend to the covered employee's spouse and dependent children, so the spouse and any dependent children become eligible for coverage under COBRA.

Loss of dependent child status

If a child loses coverage because he or she no longer fits the definition of "dependent child" under the terms of the employer's health insurance plan, the child becomes eligible for coverage under COBRA. This most often occurs because the child reaches the age of majority, but it may also be the result of emancipation. In other words, the child is no longer a dependent and thus cannot be covered under a parent's health insurance.

How long does COBRA coverage continue?

COBRA coverage begins on the day the qualifying event occurs and continues for up to 18 months in the case of termination of employment or reduction in hours or up to 36 months for any other qualifying event. COBRA coverage may expire before the end of this 18- or 36-month period if any of the following events occur:

- The employer terminates the employer-sponsored group health insurance plan for all employees.
- Coverage lapses due to nonpayment of the premium.
- A qualified beneficiary becomes eligible for Medicare benefits.
- A qualified beneficiary becomes eligible as an employee under another group health plan.
- Coverage is obtained under another group health plan that does not contain any exclusion or limitation with respect to any pre-existing condition. The occurrence of any of these events during the 18- or 36-month COBRA coverage period terminates COBRA eligibility immediately.

If you are eligible, how do you decide whether to accept COBRA coverage?

As a general rule, you should accept COBRA coverage if you are eligible and you don't have other medical coverage. It can be very dangerous to go without health insurance coverage, even for a short time. COBRA coverage may cost more than you were previously paying, but this is far better than being uninsured.

Keep in mind that you should begin to look for other coverage as soon as possible. COBRA only covers you for a limited period of time. If your health deteriorates while you are on COBRA, you may find yourself unable to get

other insurance when your COBRA coverage runs out.

How do you elect COBRA coverage?

The administrator of your health insurance plan is required to notify you of your rights to continue coverage under COBRA. However, in some cases (such as divorce, legal separation, or emancipation of a minor), the plan administrator must first be notified that a qualifying event has occurred. You have at least 60 days to elect coverage. The clock starts ticking either the day your coverage is terminated or the day you receive notification of your COBRA continuation rights, whichever occurs later.

Although the law does not require your election to be made in writing, it is advisable to do so. Whether you accept or decline coverage, it is safer for all parties involved to get this decision in writing. Also, it is presumed that if a covered employee or spouse elects to continue coverage, this election applies to all qualified beneficiaries. If any qualified beneficiary wishes to be excluded from coverage, this information should be presented in a written waiver.

Tip: The Trade Act of 2002 (H.R. 3009) provides special temporary COBRA election rules for individuals who lost their jobs due to trade-related reasons and are eligible for trade adjustment assistance.

How much should you expect to pay for COBRA coverage?

If you continue your health insurance benefits through COBRA, your employer will no longer pay for any part of the premiums. Thus, you will be expected to pay the full cost of your coverage. You may also be charged a fee of up to 2 percent of this amount for administrative expenses. You may have to pay for a full year's coverage in one lump sum, although in some cases you are given the option of paying in monthly installments. COBRA may cost considerably more than you were paying for coverage before termination, but it is probably significantly less than you would pay for comparable individual coverage.

Tip: Certain workers who lose their jobs due to trade-related reasons and are eligible for trade adjustment assistance under the Trade Act of 2002 may be eligible for a tax credit equal to 65 percent of the cost of COBRA coverage. Consult a tax professional for additional information.

Tip: The American Recovery and Reinvestment Act of 2009 provides that, for involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010, assistance-eligible individuals will only need to pay 35 percent of COBRA premiums for a period of up to nine months. The remaining 65 percent of COBRA premiums will be subsidized. However, this premium subsidy may need to be repaid in some cases.

Will your COBRA coverage be the same insurance you had through your employer?

COBRA coverage must be identical to the coverage that is provided to other employees and their dependents who have not experienced a qualifying event. You may, however, be given the option to waive certain types of coverage to reduce the cost of your premium.

Example(s): Before she divorced her husband Willy, May B. Sick was covered under Willy's employer-sponsored health insurance plan. May was entitled to hospital expense, surgical expense, physicians' expense, major medical, and dental coverage. After her divorce, May must be offered identical coverage through COBRA. However, May could be given the option of dropping the dental coverage to lower her premium.

What happens when your COBRA coverage expires?

At the end of your COBRA coverage period, depending on the terms of your employer's group policy, you may

have the right to convert your group coverage to an individual policy without taking a physical examination or answering medical questions. An individual policy obtained through COBRA will almost certainly cost more than a policy obtained on your own, and it may be somewhat limited in terms of coverage. However, if you are unable to obtain other medical insurance due to poor health, this can be a valuable option.

Health Insurance During Transition Periods

Introduction

Periods of transition can occur when you least expect them. Your company might go through a period of downsizing that results in your layoff. You could suffer a serious injury and become disabled. Your spouse could suddenly pass away, or your marriage could end in divorce. Fortunately, there are several options for continuing health insurance coverage that may be available to you during these transition periods.

In 1986, the federal government passed COBRA, a law that provides for (among other things) continued access to health insurance for people who lose their coverage due to termination of employment or a reduction in work hours, or certain other triggering events. In addition, state law may contain additional provisions.

In 1996, the Health Insurance Portability and Accountability Act (HIPAA) expanded on COBRA and made it easier to continue health-care coverage during transition periods.

In 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the health savings account (HSA), a tax-advantaged vehicle that permits individuals to save money that can be used to pay medical insurance policy premiums and certain uncovered medical expenses. These savings can help you weather transition periods.

COBRA

This law provides an opportunity for employees and their dependents who have been covered by an employer-sponsored health insurance plan to continue coverage under circumstances that would otherwise cause them to lose this benefit. The covered employee is entitled to COBRA coverage only in cases of termination or reduction in hours. However, an employee's dependents may be eligible for COBRA benefits in cases of divorce, death, and in certain other situations. Employers with 20 or more employees are required to offer COBRA coverage.

The duration of COBRA coverage is limited and depends on the reason existing coverage is being terminated. If you accept COBRA coverage, you can be required to pay up to 102 percent of what your employer pays for this coverage. In other words, your employer is not required to pay any part of the premium, and you may be charged up to 2 percent of this cost as an administrative fee. Although this is almost certainly more than you paid for health insurance during your employment, it is likely less than you would pay for individual coverage.

Tip: The American Recovery and Reinvestment Act of 2009 provides that, for involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010, assistance-eligible individuals will only need to pay 35 percent of COBRA premiums for a period of up to nine months. The remaining 65 percent of COBRA premiums will be subsidized. However, this premium subsidy may need to be repaid in some cases.

Health Insurance Portability and Accountability Act of 1996

HIPAA has far-reaching consequences for many facets of the health insurance industry and includes provisions that are extremely beneficial for self-employed individuals and other consumers. Two major provisions of HIPAA do the following:

- Allow workers to move from one employer to another without fear of losing group health insurance
- Require health insurance companies that serve small groups (2-50 employees) to accept every small employer that applies for coverage

Archer medical savings accounts

Medical savings accounts, called Archer MSAs, were also authorized by HIPAA. Archer MSAs are tax-advantaged individual savings accounts that can be used to cover qualified medical expenses. The Archer MSA program expired on December 31, 2007 (no new Archer MSAs can be created).

Health savings accounts (HSAs)

You may be able to contribute to a health savings account (HSA) if you are covered by a high-deductible health care plan and otherwise qualify. Created under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, an HSA is a medical savings account that you own and that stays with you regardless of employment. An HSA will permit you to set aside tax-deductible money for routine medical care or health insurance premiums. Plus, contributions earn interest that is tax deferred while in the account.

Tip: An individual can roll over funds from an existing Archer MSA to an HSA.

Receiving Unemployment Benefits

Do you worry about changes in the economy? Have you recently been fired or a victim of downsizing? Whatever your situation, you may be wondering if you're eligible for unemployment benefits. For a basic understanding of how unemployment benefits work, read on!

Am I eligible?

Although specific eligibility requirements vary from state to state, most states have the same basic standards for collecting unemployment benefits. They include:

- You must be unemployed or working less than full time
- You must meet certain income requirements
- You must be ready, willing, and able to work
- You must have involuntarily left your job

In general, you won't be eligible for benefits if:

- You quit your job simply because you didn't like it
- You're fired for committing a crime (e.g., stealing)
- You've never worked before

For more information, contact your state's local employment office. You can also look in the state government section of your phone book under Unemployment Insurance, Unemployment Compensation, Employment Insurance, or Employment Service. Or, you can try surfing the Internet using these same key terms.

Where does the money come from?

In most states, unemployment compensation is financed by employer contributions through a payroll tax. In a few states, employees are also required to contribute a minimal amount to the fund.

How do I apply?

Most states will allow you to apply for benefits:

- In person
- By telephone
- By mail

When filling out the application, you'll be asked a lot of questions, so have the following information handy:

- Your Social Security number
- Your last employer's name, address, and phone number
- Your last day of work and the reason that you're no longer working

- Your salary history
- Your proof-of-citizenship status

How are benefits calculated?

Regardless of which state you live in, you'll receive a weekly unemployment benefit based on how long you were employed and your prior wages. The state will calculate your average weekly wage, and you will receive a percentage of that wage based on your state's formula. You can figure out your average weekly wage by adding up 12 months' worth of pay stubs and dividing that number by 52. If you were salaried, just divide your annual salary by 52.

How long can I receive benefits?

In most states, you can receive benefits for up to 26 weeks. However, federal laws and some state laws provide for additional benefits to be paid to workers who exhaust their regular benefits during periods of high unemployment. These additional benefits may be paid up to 13 weeks (20 weeks in some states) and are funded partly by state governments and partly by the federal government.

Are unemployment benefits taxable?

The answer to this question comes as a big surprise to many people. Yes, the unemployment compensation you receive is taxable. It's not a free gift from Uncle Sam, and you must report this money as income. In some states, you can ask that taxes be withheld from your unemployment check. This could save you from a big tax bill at the end of the year. For more information, consult your tax advisor.

Evaluating a Job Offer

If you're considering changing jobs, you're not alone. Today, few people stay with one employer until retirement. It's likely that at some point during your career, you'll be looking for a new job. You may be looking to make more money or seeking greater career opportunities. Or, you may be forced to look for new employment if your company restructures. Whatever the reason, you'll eventually be faced with an important decision: When you receive an offer, should you take it? You can find the job that's right for you by following a few sensible steps.

How does the salary offer stack up?

What if the salary you've been offered is less than you expected? First, find out how frequently you can expect performance reviews and/or pay increases. Expect the company to increase your salary at least annually. To fully evaluate the salary being offered, compare it with the average pay of other professionals working in the same field. You can do this by talking to others who hold similar jobs, calling a recruiter (i.e., a headhunter), or doing research at your local library or on the Internet. The Bureau of Labor Statistics is a good source for this information.

Bonuses and other benefits

Next, ask about bonuses, commissions, and profit-sharing plans that can increase your total income. Find out what benefits the company offers and how much of the cost you'll bear as an employee. Don't overlook the value of good employee benefits. They can add the equivalent of thousands of dollars to your base pay. Ask to look over the benefits package available to new employees. Also, find out what opportunities exist for you to move up in the company. This includes determining what the company's goals are and the type of employee that the company values.

Personal and professional consequences

Will you be better off financially if you take the job? Will you work a lot of overtime, and is the scheduling somewhat flexible? Must you travel extensively? Consider the related costs of taking the job, including the cost of transportation, new clothes, a cell phone, increased day-care expenses, and the cost of your spouse leaving his or her job if you are required to relocate. Also, take a look at the company's work environment. You may be getting a good salary and great benefits, but you may still be unhappy if the work environment doesn't suit you. Try to meet the individuals you will be closely working with. It may also be helpful to find out something about the company's key executives and to read a copy of the mission statement.

Deciding whether to accept the job offer

You've spent a lot of time and energy researching and evaluating a potential job, but the hardest part is yet to come: Now that you have received a job offer, you must decide whether to accept it. Review the information you've gathered. Think back to the interview, paying close attention to your feelings and intuition about the company, the position, and the people you came in contact with. Consider not only the salary and benefits you've been offered, but also the future opportunities you might expect with the company. How strong is the company financially, and is it part of a growing industry? Decide if you would be happy and excited working there. If you're having trouble making a decision, make a list of the pros and cons. It may soon become clear whether the positives outweigh the negatives, or vice versa.

Negotiating a better offer

Sometimes you really want the job you've been offered, but you find the salary, benefits, or hours unfavorable. In this case, it's time to negotiate. You may be reluctant to negotiate because you fear that the company will rescind the offer or respond negatively. However, if you truly want the job but find the offer unacceptable, you may as well

negotiate for a better offer rather than walk away from a great opportunity without trying. The first step in negotiating is to tell your potential employer specifically what it is that you want. State the amount of money you want or the exact hours you wish to work. Make it clear that if the company accepts your terms, you are willing and able to accept its offer immediately.

What happens next? It's possible that the company will accept your counteroffer. Or, the company may reject it, because either company policy does not allow negotiation or the company is unwilling to move from its original offer. The company may make you a second offer, typically a compromise between its first offer and your counteroffer. In either case, the ball is back in your court. If you still can't decide whether to take the job, ask for a day or two to think about it. Take your time. Accepting a new job is a big step.

Health Insurance and COBRA: Sometimes You Can Take It with You

If you're like most Americans, you count on your employer for health insurance coverage. But what would happen to your health insurance if you suddenly stopped working or no longer qualified for benefits? No one can predict the future. It's possible that your company could lay you off or reduce your hours to part-time, your spouse could die, or your marriage could end in divorce. If something unexpected happened, you could be left without health benefits. And remember, buying private health insurance on your own can be pretty costly, especially if you're out of work.

Fortunately, there's the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA). COBRA can prove to be a real lifesaver for you and your family when your health coverage is jeopardized. You may also benefit from the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which took some further steps toward health-care reform.

The Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) may help you continue your health insurance coverage for a time

COBRA is a federal law designed to protect employees and their dependents from losing health insurance coverage as a result of job loss or divorce. If you and your dependents are covered by an employer-sponsored health insurance plan, a provision of COBRA entitles you to continue coverage when you'd normally lose it. Most larger employers (20+ employees) are required to offer COBRA coverage.

As an employee, you're entitled to COBRA coverage only if your employment has been terminated or if your hours have been reduced. However, your dependents may be eligible for COBRA benefits if they're no longer entitled to employer-sponsored benefits because of divorce, death, or certain other events.

Unfortunately, you can't continue your health insurance coverage forever. You can continue your health insurance for 18 months under COBRA if your employment has been terminated or if your work hours have been reduced. If you're entitled to COBRA coverage for other qualifying reasons, you can continue your coverage for 36 months.

- **Divorce:** If your former spouse maintained family health coverage through work (and works for a company with at least 20 employees), you may continue this group coverage for up to 36 months after the divorce or legal separation. You'll have to pay for this coverage, though. Your cost of continuing coverage cannot exceed 102 percent of the employer's cost for the insurance. COBRA coverage will terminate sooner than 36 months if you remarry or obtain coverage under another group health plan.
- **Company goes out of business:** Unfortunately, you may be out of luck here. If your company goes out of business and no longer has a group health insurance policy in force, then COBRA coverage will not be available. (A possible exception involves union employees covered by a collective bargaining agreement.)

Keep in mind that, whatever your circumstances, you'll have to pay the premium yourself for COBRA coverage--your employer is not required to pay any part of it. However, if you're eligible for COBRA coverage and don't have any other health insurance, you should probably accept it. Even though you'll pay a lot more for coverage than you did as an employee, it's probably less than you'll pay for individual coverage. You won't be subject to any health screenings, tests, or other pre-existing medical condition requirements when converting to a COBRA contract. Your COBRA benefits and coverage will be identical to those provided to similarly enrolled individuals.

The American Recovery and Reinvestment Act of 2009 provides that, for involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010, assistance-eligible individuals will only need to pay 35 percent of COBRA premiums for a period of up to nine months. The remaining 65 percent of COBRA premiums

will be subsidized. However, this premium subsidy may need to be repaid in some cases.

The Health Insurance Portability and Accountability Act of 1996 expanded COBRA

In 1996, HIPAA expanded certain COBRA provisions and created other health-care rights. In many ways, HIPAA took a significant step toward health-care reform in the United States. Some of its provisions may affect you. The major provisions of HIPAA:

- Allow workers to move from one employer to another without fear of losing group health insurance
- Require health insurance companies that serve small groups (2 to 50 employees) to accept every small employer that applies for coverage
- Increase the tax deductibility of medical insurance premiums for the self-employed
- Require health insurance plans to provide inpatient coverage for a mother and newborn infant for at least 48 hours after a normal birth or 96 hours after a cesarean section

For example, assume you're pregnant and covered by a group health insurance plan at work. You decide to take a job at another firm. Under HIPAA, pregnancy cannot be considered a pre-existing condition for a woman who's changing jobs if she was previously covered by a group health insurance plan. So if you had insurance at your old job, you can't be denied health insurance coverage at your new job simply because you're pregnant.

However, many companies require you to be employed for 30 days or more before you become eligible for coverage. If you are nearing the end of your pregnancy, and that requirement poses a problem for you, you may be eligible for coverage under COBRA through your former employer.

I can't pay my bills. Should I declare bankruptcy?

Question:

I can't pay my bills. Should I declare bankruptcy?

Answer:

If you're unable to meet your financial obligations, you should investigate a number of options before considering bankruptcy. If your income has been reduced (e.g., because of illness or unemployment), you might consider cutting down on your monthly expenses, taking advantage of unemployment and public assistance, and liquidating assets. Another option is to restructure your debts. Debt restructuring involves negotiating new repayment terms with creditors so you can meet your monthly expenses and pay off your debts within a reasonable amount of time.

You should consider hiring a professional credit counselor to assist you in restructuring your debts. Professional credit counselors will contact your creditors and attempt to negotiate affordable repayment terms for you. If you can't afford to hire a credit counselor, you may find help at your local Consumer Credit Counseling Service (CCCS) office or other nonprofit credit counseling service. These nonprofit companies provide basically the same services as a professional credit counselor but at little or no cost to you. Hiring a credit counselor now will help you even if you decide to declare bankruptcy later, because you may need to submit a certificate to the bankruptcy court that states you've received a briefing from an approved credit counselor in the six-month period prior to filing.

If you decide that bankruptcy is your only option, you may file for personal bankruptcy under Chapter 7 or Chapter 13. Chapter 7 bankruptcy can remove obligations to repay certain outstanding debts but requires you to liquidate certain assets and use the proceeds to pay creditors. You can only file under Chapter 7 if you pass an income eligibility test. Otherwise, you must file under Chapter 13 for relief, which institutes a payment plan to repay creditors over a three- or five-year period. A bankruptcy attorney can help you sort out your options.

I am behind on my mortgage payments. Will my lender begin foreclosure proceedings?

Question:

I am behind on my mortgage payments. Will my lender begin foreclosure proceedings?

Answer:

When you buy a home using a mortgage loan, your home becomes collateral for the loan. If you do not repay the mortgage loan as agreed, your lender has the right to take your property and sell it to satisfy the debt, also known as foreclosure.

Whether or not your lender will begin foreclosure proceedings depends on exactly how far behind you are on your mortgage payments. If you are only a month or two behind on payments, your lender will not likely begin foreclosure proceedings. Typically, a lender will not file for foreclosure unless the lender is absolutely certain that the borrower is defaulting on the loan.

It is important to remember, however, that late mortgage payments can damage your credit rating. If you are more than 30 days late on a mortgage payment, it will appear on your credit report and can remain there for up to seven years. In addition, most lenders will charge a late fee if you miss the due date for your mortgage payment.

If you are in a situation that will impact your ability to make timely payments (e.g., you or your spouse has become disabled), you should seek advice on how to deal with your creditors rather than wait until you are at risk of losing your home.

How can I reduce my spending?

Question:

How can I reduce my spending?

Answer:

To reduce your spending, you first need to know where your money goes. Start out by keeping track of all of your expenses for a month. None are too small or insignificant: the daily newspaper, coffee on the way to work, an extra gallon of milk, that burger at the fast-food outlet. Next, categorize the expenses so you can see what you spend and where you spend it. Be sure to factor into your monthly expenses a prorated portion of the annual cost of your irregular expenses (e.g., clothes, gifts, car maintenance, insurance premiums).

Expenses generally fall into two categories. Essential expenses are ones you can't avoid (e.g., rent, utilities, groceries, car insurance). Discretionary expenses are ones you choose to incur (e.g., eating out, entertainment, gifts, cigarettes, videos). Discretionary expenses are the ones over which you will have the most control. Do you buy a lot of books? Try the library instead. Take coffee or lunch to work rather than buy it once you get there. Limit eating out to once a week rather than twice. Quit smoking, or at least begin to cut back on the number of packs you smoke each week.

Although essential expenses are fixed, there may be ways to reduce them. Make sure you shut off the lights and TV when you leave the room. E-mail your distant friends and relatives rather than call them long-distance. Change the oil in your car on a regular basis to avoid more costly repairs due to neglect. Review your insurance policies: Can you save on your premiums by taking a nonsmoker discount or increasing your deductibles? Clip the grocery store coupons, always shop from a list, and avoid the impulse items at the end of the aisles.

Pick a realistic goal for your monthly spending reduction and try not to make too many changes all at once. To see how big a difference this can make, do the math. If you start by committing to reduce your spending by \$2 a day, that's \$730 a year! Set the saved money aside, perhaps in a savings account for your planned vacation, or use it for a specific purpose, such as reducing debt faster.

If I leave my company, can I take my life insurance policy with me?

Question:

If I leave my company, can I take my life insurance policy with me?

Answer:

If you leave your company, you can often continue your life insurance coverage with the same insurance company. The group life insurance contract under which you are insured may have a conversion privilege available to all employees who are insured under the employer's group plan. A conversion privilege will be subject to certain conditions described in the master contract. Typically, these conversion rates are more expensive than an individual policy you could buy on your own if you are healthy.

You generally have 31 days from the day you leave your employer to submit an application. In most cases, you can apply for any kind of individual life insurance that the company offers. The insurance company generally will not include any supplemental coverages, such as disability insurance, that may have been included with your group life coverage.

If you decide to convert to a permanent life insurance policy, the premium will be based on your current age and the same amount of insurance that your group policy provides. The premiums must be based on standard or regular rates. No medical exam is generally required. This is especially important if you are not in good health when you leave employment.

Even if you don't take advantage of a conversion privilege when you leave your company, your group life coverage generally continues for 31 days after your last day of work.

Check with your human resources manager or financial advisor.

If I leave my job, will I lose my employer-sponsored health insurance?

Question:

If I leave my job, will I lose my employer-sponsored health insurance?

Answer:

If you leave your job, voluntarily or otherwise, you may be able to continue your employer-sponsored health insurance under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985. Eligibility does come with some restrictions, however.

Employers with 20 or more employees are required to offer continued health insurance for up to 18 months to employees who leave the company. The employer must make this offer in writing within 14 days of an employee's last working day. To qualify, you, the employee, must have been covered by the employer's health plan on the day before your employment status changed. There may also be state laws that affect your options. You should be aware that you are responsible for paying the premiums for COBRA, and the coverage is usually expensive. Your employer may also charge a fee, up to 2 percent of the monthly premium, for administrative costs.

If COBRA is not applicable in your case, other options are available. For example, you may be able to convert your employer-sponsored health plan to an individual health plan. Although you may not have to pass a medical exam, a pre-existing condition could be excluded.

Another option is to purchase a short-term health policy that covers your health costs on a temporary basis, usually two to six months. Short-term policies are generally not expensive, but you will not be covered for any pre-existing conditions. Insurance companies provide this coverage at reduced administrative costs and then pass the savings on to their customers.

A fourth option is to continue your health coverage through a professional association that offers health insurance to its members at reduced rates. This is a particularly good option if you are self-employed.

Can I take money from my IRA without any penalty?

Question:

Can I take money from my IRA without any penalty?

Answer:

It depends. If you are 59½ or older, you can take money from your IRA without penalty. In contrast, if you withdraw from your IRA before age 59½, you may be hit with the 10 percent penalty on top of whatever income taxes you owe on the distribution. This penalty, known as the premature distribution tax, is intended to discourage people from exhausting their IRA funds before they retire.

However, there are some exceptions to this rule. Premature IRA withdrawals made by a disabled person may be exempt from the penalty. If an IRA owner dies before age 59½, distributions paid to you as a beneficiary of the account are not subject to the penalty. If you need supplementary income, you can take IRA distributions as a series of "substantially equal payments" over your life expectancy or the joint life expectancy of you and your beneficiary. These distributions will avoid the penalty as long as you don't modify the payments within certain time frames. Subject to limits and conditions, the penalty tax generally will not apply to IRA distributions taken to pay qualifying medical expenses, health insurance premiums while unemployed, higher education costs, and first-time home-buyer expenses. It also does not apply to amounts rolled over from one IRA to another (assuming you follow the rules for rollovers), or to amounts that the IRS levies from your IRA to cover your tax bill.

Other exceptions may also apply. Finally, Roth IRAs and education IRAs may be subject to special rules of their own.

I need money--can I take funds from my IRA?

Question:

I need money--can I take funds from my IRA?

Answer:

Yes, but you may be subject to a 10 percent penalty for early withdrawal if you're not yet age 59½. If you are 59½ or older and take money from your IRA, you will not be assessed a penalty, though you may still have to pay income tax on all or part of the distribution. The purpose of this premature distribution tax is to discourage you from exhausting your IRA savings too soon. However, the penalty can be a significant drawback if you need money to meet unexpected expenses.

If you are experiencing a cash crunch, it's usually better to draw on other investments before dipping into your IRA. However, if your IRA is your only sizable asset, you may have no choice. If that's the case, be aware that there are a number of exceptions to the premature distribution rule.

If you are disabled, you are exempt from the penalty, as long as you meet the IRS definition of disability. If an IRA owner dies before reaching age 59½, and you are a beneficiary of the account, distributions that you receive are exempt. If you need supplementary income, you can take IRA distributions as a series of "substantially equal payments" over your life expectancy or the joint life expectancy of you and your beneficiary. These distributions may avoid the penalty as long as you don't modify the payments within certain time frames.

Subject to limits and conditions, the penalty tax generally will not apply to IRA distributions taken to pay qualifying medical expenses, health insurance premiums while you're unemployed, higher education costs, and first-time home-buyer expenses. It also does not apply to amounts rolled over from one IRA to another (assuming you follow the rules for rollovers), to amounts that the IRS levies from your IRA to cover your tax bill, or to qualified reservist distributions.

Other exceptions may also apply. Finally, Roth IRAs may be subject to special rules of their own.

What's a premature IRA distribution, and what happens if I make one?

Question:

What's a premature IRA distribution, and what happens if I make one?

Answer:

A premature IRA distribution occurs when you take money from your IRA before reaching age 59½. If you are under 59½ and withdraw funds from your IRA, you'll probably have to pay a 10 percent penalty tax on top of whatever income taxes you owe on the distribution. This can be a major drawback for IRA owners who need money and have few other assets to draw on. There are a number of exceptions to this rule, however. You may qualify under one of these exceptions to make penalty-free IRA withdrawals.

Premature IRA withdrawals made by a disabled person may be exempt from the penalty. If an IRA owner dies before reaching age 59½, distributions paid to you as a beneficiary are not subject to the penalty. If you need supplementary income, you can take IRA distributions as a series of "substantially equal payments" over your life expectancy or the joint life expectancy of you and your beneficiary. These distributions will avoid the penalty as long as you don't modify the payments within certain time frames.

Subject to limits and conditions, the penalty tax generally will not apply to IRA distributions taken to pay qualifying medical expenses, health insurance premiums while you're unemployed, higher education costs, first-time home-buyer expenses, and qualified reservist distributions. The penalty tax also does not apply to amounts rolled over from one IRA to another (assuming you follow the rules for rollovers), or to amounts that the IRS levies from your IRA to cover your tax bill.

Other exceptions may also apply. Finally, Roth IRAs may be subject to special rules of their own.

I'm getting laid off. How am I going to survive financially until I find another job?

Question:

I'm getting laid off. How am I going to survive financially until I find another job?

Answer:

There are a number of ways you can smooth the transition to your next job. To begin, you'll want to plan on your job search taking six months and budget accordingly. Your budget should reflect the money you'll need to use while looking for your new position.

Because you're being laid off, you may be eligible for unemployment benefits from your state as well as severance pay from your employer. If you have an emergency reserve set up, you can count on that, as well. Otherwise, you might have to dip into your savings account. You can consider taking a part-time job to supplement your income. If your search takes longer than expected, you may have to consider more radical ways to come up with income, such as borrowing against a life insurance policy that has cash value, borrowing from relatives, or withdrawing money from a tax-deferred retirement account. Each way has its drawbacks, but you'll want to be particularly careful with retirement accounts because you may incur fees and penalties.

Review your budget to identify where you can lower or perhaps cut out expenses for entertainment, dining out, and vacation or holiday travel, for example. You can also reduce expenses in small ways that add up: cancel magazine subscriptions, eliminate extra phone services, and stop your cable service. Negotiate with your creditors to lower interest rates or receive temporary deferments, and review your car insurance policies to increase your deductibles or drop certain coverages.

If you have time to prepare for unemployment, you can take some steps immediately to help yourself. A home equity line of credit can give you funds to draw on (though you'll have to make monthly payments) and may allow you to pay off credit card loans with higher interest rates. You can reduce or stop contributions to retirement or education funds and put the extra money into your emergency funds. Finally, you can also consider increasing your withholding allowances to reduce the amount taken from your paycheck.

I don't have the cash to pay my taxes. What can I do?

Question:

I don't have the cash to pay my taxes. What can I do?

Answer:

If you don't have the cash to pay your taxes and are unable to borrow the money from a relative or friend, you still have a few options. You can pay by credit card, propose an installment payment agreement or an offer in compromise to the IRS, or declare bankruptcy if you qualify. If you ignore your tax bill entirely, not only will interest and penalties accrue, but the IRS's tax enforcement and collection powers include the ability to record liens on your property and levy to secure or satisfy such liens.

If you're short on cash, you can pay your taxes with a credit card. This will allow your tax bill to be paid on time. Therefore, you'll avoid penalties and interest for late payment of taxes. However, the interest rate that the credit card company charges is often higher than what the IRS charges on late payments. You can make credit card payments through certain tax software programs or by calling (888) 272-9829. A fee may apply.

An installment agreement is a monthly payment plan with the IRS. You enter into an installment payment agreement by informing the IRS that you are unable to make full payment of taxes. Your tax liability may be spread out over three years, and payments can be made through payroll deduction. You will generally be expected to pay the maximum installment amount that you can afford. You will not avoid interest and penalties with this payment method, but you will avoid more severe collection action.

An offer in compromise is a negotiated settlement between you and the IRS, whereby the IRS agrees to accept a lesser figure from you in full satisfaction of your tax debt. You must meet certain criteria to qualify for offer-in-compromise treatment. Along with lowering your tax liability, an offer in compromise can help you avoid severe collection actions.

Bankruptcy is a way to resolve your debts when you are unable to pay them. Many taxes cannot be avoided in bankruptcy; however, bankruptcy will suspend most collection activities by the IRS. In addition, reducing your overall debt burden by eliminating unsecured debt (such as credit card balances) through bankruptcy can make more money available to pay your IRS tax bill.

What penalties and interest will I be charged for paying and filing my federal income taxes late?

Question:

What penalties and interest will I be charged for paying and filing my federal income taxes late?

Answer:

If you fail to file your federal income tax return and pay your tax by the due date, you may have to pay one or more penalties, plus interest. Although you are allowed an automatic extension for filing your return if you mail in the appropriate form, you are not allowed an extension for paying your taxes. Interest is charged on any unpaid tax from the due date of your tax return until the date of payment. The interest rate is determined every three months.

- **Filing late:** If you do not file your return by the due date (including extensions), you may have to pay a failure-to-file penalty. The penalty is based on the tax not paid by the due date (without regard to extensions). The penalty is usually 5 percent of the tax due for each month or part of a month that a return is late, but not more than 25 percent. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$100 or 100 percent of the unpaid tax. (Exceptions: You will not have to pay the penalty if you show that you failed to file on time because of reasonable cause and not because of willful neglect. Also, you will not be subject to a late filing penalty if you do not owe any tax.)
- **Paying tax late:** You may have to pay a failure-to-pay penalty of one-half of 1 percent of your unpaid taxes for each month (or part of a month) the tax remains unpaid. The penalty can increase to 1 percent if you've been sent several notices to pay the overdue tax and still have not paid. In general, this penalty cannot be more than 25 percent of your unpaid tax. You may not have to pay the penalty if you can show that your failure to pay was due to reasonable cause and not due to willful neglect. This failure-to-pay penalty is added to interest charges on late payments.
- **Combined penalties:** If both the failure-to-file penalty and the failure-to-pay penalty apply in any month, the 5 percent failure-to-file penalty is typically reduced by the .5 percent failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$100 or 100 percent of the unpaid tax. You may not reduce the failure-to-file penalty by the failure-to-pay penalty.

Are withdrawals from a cash value life insurance policy ever tax free?

Question:

Are withdrawals from a cash value life insurance policy ever tax free?

Answer:

First of all, certain types of cash value life insurance policies (e.g., variable and traditional whole life policies) may not allow you to withdraw from your cash value at all. If your policy does allow such withdrawals, any withdrawal you make will typically be tax free up to your basis in the policy. Your basis is the amount of premiums you have paid into the policy, minus any prior dividends paid or previous withdrawals. You already paid income tax on those dollars once, so they won't be taxed again when you withdraw them from the policy.

But keep in mind that your policy's cash value consists of your basis in the policy, plus any earnings. Because the earnings grow tax deferred while inside the policy, they will be subject to income tax when you withdraw them. This means that if you make a withdrawal over and above your basis in the policy, a portion of the withdrawal will be considered taxable income. Withdrawals are generally treated as coming out of your policy basis first.

For example, you have a cash value life insurance policy with a cash value of \$18,000. Your basis in the policy is \$12,000. If you make a withdrawal of \$12,000 or less, there will be no income tax consequences. However, if you withdraw \$15,000 from the policy, you'll have to pay income tax on \$3,000 of it (at ordinary income rates, not at capital gains rates).

Be aware that surrender charges may also apply when you withdraw from your policy, even if you withdraw only up to your basis. One way to avoid this and still access your money is to take a policy loan from the insurance company, using the cash value in the policy as collateral. The amount you borrow is generally not treated as taxable income as long as you repay the loan, and there are no surrender charges because you're not actually withdrawing your money. But you'll have to pay interest on the loan, which is not tax deductible.

I'm looking for a job. How can I tell if an employer is offering a good insurance benefit package?

Question:

I'm looking for a job. How can I tell if an employer is offering a good insurance benefit package?

Answer:

Ultimately, an employer is offering a good insurance benefit package if it's one that appeals to you and meets your needs. But here are some specific things you might look for.

Perhaps the most important piece is the health insurance offered. You'll want coverage that adequately meets your medical needs. Hopefully, it will also allow you to continue seeing your current doctors and health-care providers. A complete package would offer dental, vision, and prescription drug coverage as well. And don't forget to find out how much you'll pay for health insurance--ideally, the employer will pay all or most of the premium cost for a single person.

Most large employers offer some group life insurance coverage. A basic package would provide term insurance coverage on your life in an amount at least equal to your annual salary. A more generous package would provide coverage for your spouse, domestic partner, or children, and would allow you to purchase low-cost supplemental life insurance.

If you get sick or injured and can't work, disability insurance replaces a portion of your income. Many employers offer short-term disability insurance that covers you for up to two years, but a good benefit package will also include long-term disability coverage. Again, the best package is one for which the employer pays all or most of the insurance premium.

Finally, a good benefit package might also offer you the chance to buy other types of coverage (e.g., long-term care or auto insurance) at group rates.

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