

Changing Jobs: Fine Tune Your Financial Plan

Starting a new job can be an exciting experience. But as you look forward to a new career challenge, you should consider carefully how you will manage your finances while making the transition from one employer to another.

When you leave a job, your employer-provided benefits generally come to an end, unless you take action to have them continued. While you will likely receive benefits from your new employer, they may not be identical to the benefits your previous employer provided. Before leaving your job, think about whether there are certain benefits you want to take with you. If you have accumulated money in a 401(k) or similar retirement account, you will also have to decide how to handle those funds.

Keep Insurance Up-to-Date

If the employer you are preparing to leave provides you with health insurance, you should consider your options carefully before canceling your coverage. Your new employer may not offer medical insurance, or there could be a waiting period before health coverage begins. The new company's plan may also exclude coverage of certain pre-existing conditions. If both employers offer health plans, compare the cost and coverage levels of both policies before making your move.

Under a federal law known as COBRA, you are permitted to remain a member of your previous company's health plan for up to 18 months after termination of employment. Because you are responsible for paying the employer's contribution to the insurance, COBRA premiums are usually expensive. But, depending on the coverage available from your new employer, COBRA may be your best choice for a limited time period.

You may also have the option of converting some other types of insurance that you have with your current employer into individual policies. Depending on the group plan, you may be permitted to convert life insurance, disability income insurance, or long-term care insurance when leaving your job.

Managing Retirement Plan Rollovers

If you have money saved in your current employer's 401(k) or comparable retirement account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track and to avoid paying taxes, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. It is essential, however, to do this correctly. If you fail to roll over your savings into the new account within 60 days after the distribution, you will become liable to pay tax on the funds, and sometimes a penalty. Taxes will also be owed if your previous employer makes the distribution check payable to you, instead of to a trustee of an IRA or qualified plan.

There are alternatives to the rollover IRA. Depending on your circumstances, you may want to roll over your money into a Roth IRA or use the funds to purchase an annuity.

Another option is to transfer your funds from your previous employer's retirement plan into your new company's plan. In some cases, however, it may make sense to leave the funds where they are. Find out whether one or both plans place restrictions on these options.

It is, of course, possible to take the funds in your 401(k) account as a cash distribution. For most people, however, it is better to resist this temptation. When cashing in, you will take a large tax hit and be forced to pay an additional 10% penalty if you are under age 59½. Moreover, you will forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult for you to accumulate later the resources you will need in retirement.

How you handle these issues when changing jobs can have a major impact on your financial future. Before making important decisions, you may want to discuss your individual circumstances with benefit administrators at both companies and seek advice from your financial professional.

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