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FISCALLY FIT
By TERRI CULLEN

Don't Wait for the Pink Slip To Start Plans for a Layoff

Andy Hatchett had a stroke of good luck last year that has helped him enjoy a comfortable early retirement. He got laid off.

Enraged after a subordinate repeatedly challenged his authority, Mr. Hatchett stormed into his supervisor's office last September, fully intent on quitting his job.

"At the time, my supervisor was away at a meeting, and later I cooled off and had second thoughts. I was called into a meeting 20 minutes later and I figured they wanted to talk to me about quitting," the 59-year-old former lab technician says. "But when they started talking about severance and retirement accounts I suddenly realized I was being laid off."

Rather than panic at the prospect of being jobless several years from his planned retirement, Mr. Hatchett went home and looked over the severance and benefits package his employer was offering. After crunching some numbers on where his retirement savings and investments stood, and what he thought he might need to live on in retirement, he went back to his employer with a counter-proposal -- which the company eventually accepted. Now, he's enjoying the early retirement he often dreamed of.

Mr. Hatchett, however, is rather exceptional. The ugly truth is few people walk away from a layoff feeling good about the experience or financially secure. But by keeping a cool head and evaluating your options before you sign any layoff agreement, you may be able to take some of the fear and financial uncertainty out of the equation.

Like estate planning, layoff planning is something most people put off until they have no other choice but to face it. But with few concrete signs of economic recovery, the pink slips keep on coming: In the first two quarters of 2002 alone, U.S. companies engaged in 3,423 mass layoffs -- job cuts of more than 50 workers -- which sent more than 693,500 people to the unemployment lines, according to the Bureau of Labor Statistics.

By making yourself familiar with your legal rights and your company's worker-separation policies prior to a layoff, you can put a financial plan in

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PREPPING FOR A PINK SLIP

This is the first in a two-part series on getting your finances in order before a layoff.

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ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" column every Thursday for the Wall Street Journal Online. Terri is an assistant managing editor and one of the original team of editors who helped launch the online Journal. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best financial

place to help you prepare to face the prospect of being out of work. And preparation may also enable you to argue for a better severance package.

No two companies are the same, and myriad state laws affect your rights and benefits eligibility during a layoff. But let's look at some common elements of company benefits policies that may help you get a handle on what financial resources you'll have at hand after a layoff.

columnist.

A New Jersey native and graduate of Rutgers University, Terri also is a contributor to the book, "The Wall Street Journal Online's Guide to Online Investing," which was published in 2000.

Send your comments about "Fiscally Fit" to Terri at fiscallyfit@wsj.com[17].

Severance

No sooner does the hint of an impending layoff ripple through the office than workers start guesstimating how many weeks of pay the company will offer in its severance package.

John Beck, vice president for global relations at Drake Beam and Morin, a Hong Kong-based career-management consulting firm, says the average worker usually gets two weeks' compensation for every year they have been with the company. Senior managers usually receive one month's pay for each year of service. (See a DBM survey that looks at how the job search went for executive clients[1] who were involuntarily separated from their companies.) Severance payments usually come in the form of weekly payments or as a lump sum, and are taxed as personal income.

And don't kid yourself: There's no guarantee a company will offer severance, or even match the same rate of severance paid to employees laid off in previous rounds of cuts. Unless you have a labor-union contract or individual employee contract that specifies a set amount of severance you'll be paid in case of a layoff or job elimination, you're at the mercy of the company's generosity at a time when most companies really can't spare the cash.

Companies with more than 100 employees are required to give two months' notice under the Worker Adjustment and Retraining Notification Act when making mass layoffs in which entire divisions or units are closed, so at the very least you'll know you can count on that cash while you begin looking for another job.

To get some idea of what your severance paycheck might look like, check with your employee-benefits department to determine how many weeks of pay, if any, you may be entitled to during a layoff. Then plug those numbers, along with any remaining sick leave or vacation days you may have coming to you, into this severance-estimator calculator[2], offered by the Virginia Department of Human Resource Management.

Severance packages sometimes come with strings attached, as well. Most commonly, companies will ask that you sign a contract agreeing to a severance package, to ensure that they won't be sued later on for any alleged malfeasance. Also, you may be asked to sign a contract that prohibits you from working with a competing company -- in return for a handsome lump sum, of course. Before agreeing to sign this kind of contract, ask yourself whether you'll be able to find work in a non-competing field that would offer you a comparable paycheck and benefits. If the answer is no, you may want to consult an attorney to help you determine whether it's a good idea to sign the severance agreement.

SEPARATION ANXIETY

Question of the Day:[3] Are you financially prepared for a layoff? Vote, and then join the discussion[4].

* * *

Finally, do yourself a favor and don't plan on taking that fat severance check and blowing it on a long vacation. The longer you're out of the job market, the harder it will be to find another job and the more strained your finances will become. The last thing you want a prospective employer to sense is any desperation on your part.

See a chart[5] showing how some junior, mid-level and senior executives fared after being laid off earlier this year.

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Calculate how much severance you might expect to get with this severance-estimator calculator[6], offered by the Virginia Department of Human Resource Management.

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Sue Shellenbarger gives advice on finding jobs that encourage flexible work schedules in her Work & Family Mailbox column[7]. Also, find more calculators, worksheets and advice on how to prepare for the job market at CareerJournal.com[8].

Mr. Beck advises instead that you begin your job search immediately, using the severance as a financial bridge to get you from one job to the next. Then, he says, "Try to negotiate a later start date with your new employer, that way you can take a few weeks off to unwind with the security of knowing you'll have a job waiting."

Unemployment Insurance

How many weeks your unemployment insurance will cover depends on your state, though the average is around 26 weeks. Washington state, which currently has the second-highest unemployment rate in the country (7%), also has one of the most generous benefits plans -- 30 weeks of coverage at a maximum of $496 a week.

Once you've exhausted your unemployment benefits, you may also be eligible to get extended benefits, which often are offered by states during periods of high unemployment. There also are additional benefits available to workers who have lost their jobs as a direct result of a major disaster declared by the president of the U.S., including a special fund set up to assist those affected by the terror attacks of Sept. 11. Contact your state unemployment insurance agency to ask whether you qualify for extended benefits. The Department of Labor's Web site has contact-information links[9] to all state agencies.

And remember that unemployment insurance is taxed as regular income. Unlike your former employer, however, the government doesn't withhold those taxes for you. So be sure to set aside a portion of your unemployment check each week in a savings account so you'll have the cash available to pay the tax bill come April 15.

Retirement Accounts

Some of the biggest financial flubs surrounding a layoff are made with retirement savings accounts.

"After a layoff, there can be a big temptation for a worker to want to retain his standard of living, and when there's access to a large pool of retirement money it can be tough to be conservative," says Roberta Casper Watson, head of the ERISA Practice Group at Trenam, Kemker, in Tampa, Fla. "Many lose sight of the fact that the money is so much more valuable when it stays in the plan."

But some individuals who are dealing with difficult family situations -- a child with a debilitating illness or an elder-care arrangement -- don't have the luxury of having a huge sum of cash in reserve. Whether or not you'll be able to tap your retirement account for cash depends on whether you have a defined contribution plan or a defined benefit plan. A defined contribution plan is an individual account in your name that grows tax-deferred as long as your company manages the plan in accordance with federal regulations; a defined benefit plan is a group account where individuals in the plan are entitled to receive a fixed benefit upon reaching retirement age, most often at age 65, regardless of when they left the company. If you're not sure which plan your retirement savings fall under, check with your employee-benefits manager or human resource department.

With a defined contribution plan, including 401(k)s, 403(b)s, profit-sharing plans and the like, you are entitled to take all of your own contributions, and the vested portion of any employer contributions, with you when you leave the company. If you absolutely must tap the savings, remember that the you'll be hit with a 10% penalty that will be withheld from the account immediately.

If you can make do without tapping your retirement savings account, be sure to roll it into an individual retirement account, or IRA, or your next employer's plan to avoid any tax consequences. Ask your plan administrator for an individual benefit statement to determine how much money you have accrued and your vested benefits. Keep in mind, you're almost always better off rolling your 401(k) into an IRA because you'll have many more investment options available to you. For more on how to roll over retirement accounts, see this excellent article[11] by Barron's reporter Lesley Alderman. (Barron's is also owned by Dow Jones & Co., publisher of the Wall Street Journal and all its online and international editions.)

Also remember that if you have any outstanding loans with your retirement plan, you'll be required to pay back the entire balance on the loans once you've left the company. If you can't afford to pay back those loans, the loan balance will be considered distributions from the plan by the Internal Revenue Service, and you'll be hit with a 10% penalty on the balance.

Next in the two-part series: Terri wraps up her layoff-planning primer with a look at stock options, health benefits, outplacement services and other benefits that may be available to you after you've received a pink slip.

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