

## ***Laid Off! What's Next? Key Decisions to Make***

Janine Purves, CFP, CSA, November 12<sup>th</sup>, 2008

You're at home. You're still dazed as you've just been laid off.  
What does the future hold? Where will you work? What will you do?  
Most important and worrisome, how will you manage financially?

Being laid off is one of the top 5 events in terms of "most stressful" in our lifetime. Needless to say, it's also a time when solid logical decisions are critical. It's strongly recommended that you seek financial assistance to help you in making the best decisions for both present and future & not let your emotions get in the way of planning.

Ideally, it's best to consult a lawyer to ensure you are being compensated fairly and with enough flexibility to ensure you can take advantage of potential tax savings & personal needs. The company has certain legal responsibility and that offers you some protection, but beyond that you're on your own. That's where the services of a lawyer and financial advisor can help. They will assist you in ensuring your legal requirements are met, and that your personal situation is considered by coordinating how the package is received and managed.

When assessing these items, it's good to plan for the worst case scenario. While this doesn't usually happen, it allows you to better manage all scenarios by taking that position.

What's most critical when reviewing your "termination package"?

### **Key Issues:**

1. Your personal financial situation. Cashflow needed to live. Debt position.
  2. Tax implications of current income and package offering.
  3. Legal requirements and fairness
  4. Flexibility of how you can accept the package
  5. Potential career and employment choices
  6. Pension decisions
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- 1) **Your Personal Financial Situation:** Know what you need to live on. Know how you will pay the bills. This is important for managing in a day-to-day life, and even more so when going through an income and potential career change. Do a budget and assess what's necessary to get by. Review where you can reduce payments, or eliminate higher interest charges. All this will help you be best prepared for the worst case scenario, even though that may not happen.
  - 2) **Taxes can have the biggest impact on benefiting from your package.** Whenever lump sums are paid, you are taxed as if the income is earned in 1 year with no opportunity to get the tax back. Therefore, if your average salary is \$60,000, you usually pay about \$13,000 in tax (or 22%). By choosing to take a lump sum option on a package, in

December, you could receive an additional \$120,000 (for a 2 yr package), which would bring your taxable income to \$180,000 for that calendar year. This means you pay \$65,000 in tax, an average rate of 36%, and a rate of 46% on the last dollar earned. You paid \$26,000 more to the government than necessary at a time when you need to **maximize return** on every dollar to help your money go further.

While most of us want out and do not want salaries to continue from our ex-employer, ensuring it is paid out promptly, yet still be taxed most efficiently is critical. Therefore, while taking lump sums is often most desirable from a protection stance (get your money & run), and beneficial if you start another job quickly, it may not be the best way for you to get the highest return on your money.

One of the best kept secrets for those that have been employed at the company since 1995 & earlier is taking advantage of the 'Retiring Allowance'\*\*. It allows you to contribute a lump sum to your RRSP on a 1-time basis, above your standard RRSP contribution room. If you do not take advantage of this option, you will never have it again as it's no longer offered. If you don't qualify for this perk, then you can certainly use RRSP room available to save tax in the short-term.

One common misunderstanding is that if you put money into the RRSP you cannot withdraw it. You can, but it's taxable. Most of the time, we want RRSP money to stay invested for the long-term until true retirement. But if you can save 46% tax now and withdraw the funds in 1 or 2 years at a 20% tax rate, it may still be worth doing.

As tax has the single biggest impact on maximizing your income in these situations, ensure you review your options with a financial advisor to maximize the dollars received from your package for your personal situation.

- 3) Legal requirements need to be met, and a lawyer will help to ensure your rights aren't being violated and that the company is offering a fair package.
- 4) Some packages offer no flexibility, but as explained in #2 above, how we accept the package, and future employment will have a huge impact on getting the most money from the package offered. My experience is most companies will allow some flexibility to you, and therefore, reviewing the options and risk/reward thoroughly is worth doing. This is another area where an experienced financial advisor can assist in maximizing how your benefit from this package.
- 5) You know your business and career opportunities best. So, factoring the ability for new work and income into the equation is important. This assessment ties into the tax and cashflow management decisions and should be discussed thoroughly.
- 6) Pension decisions are important. Most critical is ensuring the company is honouring any pension contributions for the duration of the termination period and within the legal guidelines. You don't want your pension to be cut back because of a payout decision you made on the package.

While this is secondary, you need to review the risk/reward of leaving the pension with the company vs. moving it to a different Locked-in account or pension plan. This must usually be done within 60-90 days after departure.

As you can see there are a number of items well worth reviewing to maximize your package dollars and allow you the comfort of knowing how you will move forward. Speak with some experts to help make the best decision for you at this time of heightened emotion. With the right decisions and a little luck, this could be the opportunity that allows you to prepare for retirement well ahead of schedule.

\*\* For a brochure on Retiring Allowances and how they work, please contact our office and we'll be happy to mail or e-mail you a copy.

*Janine Purves is a Senior Financial Advisor at Assante Capital Management Ltd (Member CIPF)  
Specializing in wealth planning for business owners, professionals and seniors. Please call for your  
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