

The Five Biggest Retirement Mistakes Made After Being Laid Off

Lay-offs are showing up everywhere. This is a time where prudent decision-making is critical. In almost 17 years of managing money and working with people who have faced a lay-off, the following are the biggest mistakes I have come across. If you know someone going through a lay-off, please forward this to them.

(1) *Leaving 401(k) plan at former company*

I have a rule of thumb for anyone who leaves a company, either voluntarily or involuntarily. ***Always take everything with you.*** You wouldn't leave your personal belongings in your desk and you shouldn't leave your 401(k) plan either. There are several reasons why it makes sense to take it with you.

First, expenses are probably eating you alive. Expenses are something rarely disclosed by company benefit plans. Most 401(k) plans have very high internal expenses. Leaving money invested in a high expensed plan when other options are available makes no sense.

Second, when out of sight, a 401(k) plan can be out of mind. I have come across many individuals who have an abandoned 401(k) plan and very little knowledge about how it is invested or the latest account value. In addition, it is easy to fall off of statement mailing lists and become disconnected with the latest information on the 401(k) plan.

Finally, if the account balance is below \$5,000, the company can automatically distribute the money to you after a certain time period. Before cutting a check directly to you, 20% will be withheld and sent to the IRS. It will be up to you to get that money back into an IRA within 60 days and then account for the withholding on the following year's tax return.

(2) *Incorrectly taking distributions from your 401(k) plan*

The ideal scenario would be not touching your retirement money. Unfortunately, going through a lay-off situation is never ideal and sometimes involves taking money out of your retirement account in order to stay afloat. Two mistakes occur when this happens.

First, people will take out too much at one time. Look forward over the next two months and figure out at a bare minimum that you will need in order to survive the lay-off period. You can always go back and take another distribution. It is much better to reassess every few months rather than take out money that you end up not needing. Remember, if you are under 59 ½, you will be assessed a 10% penalty AND owe taxes on the distribution.

Second, be careful when making permanent decisions. In order to avoid the 10% penalty, people will take out a 72-T distribution. This allows an individual to take out money monthly in equal amounts. The IRS established this payment arrangement allowing an individual to avoid paying the 10% penalty. Unfortunately, there is no

looking back once this decision is made. That distribution must continue to come out for the latter of 5 years or until one reaches the age of 59 ½. If the distributions are stopped for any reason, you will get penalized on all of the money that has been taken out. Once again, take it as you need it.

(3) *Not handling a 401(k) loan correctly*

If you have a loan against your 401(k) plan, check with the administrator and find out if you have any options. In the majority of situations, the loan will be due within a short time period following the lay-off. If the loan is not paid back, the money will be deducted from the 401(k) plan and treated as a distribution. Income taxes and a 10% penalty (if under the age of 59 ½) will be due. That turns out to be an expensive loan. Given some time, you might be able to arrange for other means to pay back the loan and avoid the taxes and penalties.

(4) *Transferring a 401(k) plan into an illiquid investment plan*

This is where you have to be very careful. Most commission-based financial advisors are going to recommend a plan that either has a hefty surrender charge attached to it or hefty upfront commissions. In either case, it makes it cost prohibitive to get to your retirement money in the event that you need it. ***The key to weathering a lay-off is remaining flexible.*** Hopefully you will not need to dip into retirement. In the event that it is necessary, you want to make sure that you can get access it without taking a big hit.

You are going to be hard pressed to find a commission-based advisor recommending anything but investing the money. Flexibility is the key. This is another reason [fee based money management](#) is a better alternative. This type of investment management has a large degree of flexibility with it. If you find a commission-based advisor that you really like, just make sure that you leave a portion of the money in a money market in the event that you need it.

(5) *Paying off debt*

When a lay-off occurs, there is a tendency to panic. If you have debt, do you just pay it off? What about paying off your mortgage? The best course of action is to not make drastic moves. There is a high price to pay for taking money out of a retirement account to pay off debt. Once again, being jobless can be a temporary situation. You would regret making an irreversible decision and then becoming employed again.

If you are laid-off, it is very important to remain confident and positively expectant that this is just one door that has closed and God has another wonderful opportunity ahead for you. Don't just jump to the assumption that it will take a long time to find something and/or that you will take a cut in pay in a different job. It is critical to watch your expenses and do whatever you have to do during this transition period to make sure that

the bills are paid and your family cared for without creating debt. If that means getting a part-time job to bring income in the door, then do it. The worst action is no action at all.