WEALTH MATTERS®
FOR YOUR LIFE

Managing Your Career Transition

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What's inside

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Managing Your Career Transition

On average, people will change jobs 10 times during their lifetime.[1] Whatever your reason for switching jobs—whether it be a desire for a new career path or the result of a downsizing effort—it can be a stressful time. If you find yourself at a career crossroad, the first thing you can do is take control of your finances. This brochure can help you sort out the issues you may face before and after leaving your job, including what to look for in a severance package, your health care options, budgeting, managing debt while between jobs, and more.

1. U.S. Bureau of Labor Statistics, 2011

In Danger of Being Downsized

If you think you may be in danger of losing your job, consider taking the following three steps:

- Find out if your company has a severance plan in place;
- Figure out if you are eligible;
- Figure out what your severance payment would be (typically derived from a formula with minimum amount plus years of service).

Find Out More About Severance Packages

By law, organizations are not required to offer severance packages to downsized employees. If they do offer packages, most companies compute severance payments based on a formula, years of service, and other factors. Some pay for untaken vacation time, others don't. In short, packages vary. You may even be able to negotiate a better severance package, but make sure to consult a lawyer.

Whether you elect to take a lump sum severance payment, or opt for salary continuation payments, depends on many factors. These factors include:

- Do you need immediate funds? If so, the lump sum option may be the better choice.
- Do you need health insurance? If so, salary continuation may be the better choice.
- Do you have a certain amount of time before you qualify for pension or retirement benefits? Again, salary continuation might be the better option in this case.

Severance options may also have big tax consequences, depending on whether you choose a lump sum payment (you may want to consider investing it in a mutual fund, annuity, or IRA), or salary continuation payments. Depending on your investment vehicle, the money may be taxed as income, or the earnings may be tax-deferred. To lower the immediate tax bite, you may be better off taking salary continuation, which would lower the income taxes due, as the amount is spread over a period of time.

Severance payments may also disqualify you from unemployment benefits. Typically, if you are receiving severance payments in the form of salary continuation and those payments equal or exceed your previous weekly wages, it qualifies as income. But unemployment benefit eligibility requirements vary by state, so check with your local unemployment office (search the internet or look in the phone book under "Unemployment" or under "Bureau of Employment Services" for office locations).

Did You Know…

If you are a foreigner working in the U.S. with an H1B visa, being downsized can mean being deported. Here are some web sites that provide helpful information:

- **Basic facts about H1B visas from Employment Standards Administration (U.S. Department of Labor web site at dol.gov).**
- **Go to visaportal.com, a service-oriented association of immigration lawyers that was established to offer general guidance and specific legal services on matters related to U.S. immigration laws.**

Taking the lump sum option may not be a shortcut to your first unemployment check, either. Typically, the government will determine how many weeks of wages your lump sum amount is worth. You may not be eligible for unemployment benefits until afterwards.

If you do qualify, unemployment payments are generally 50% of your recent salary, and depending on years of service, regular payments can extend up to six months or longer, depending on state or federal benefit extensions. Unemployment benefits are regulated at the state level, so check with your state's Department of Labor for details specific to your state. Most states have a waiting period of one week after you are terminated.

Did You Know...

Unemployment insurance was created by the 1935 Social Security Act. The program is largely run through the Federal Unemployment Tax Act (FUTA). Each state follows minimum federal guidelines, but each has its own program. Basically, qualifying companies pay unemployment tax to help displaced workers.

A word of advice: Start the paperwork immediately, even if you're not sure of your eligibility. Any delay in filing your request may mean a delay in receiving your benefits.

Although unemployment payments can end, ideally they are there to tide you over until you find a job. Most states require you to furnish proof of looking for a job as well, so keep notes. Remember, if you refuse a suitable job opportunity, you may endanger your eligibility for unemployment benefits.

If you think you were terminated unlawfully, visit the web site for the U.S. Equal Employment Opportunity Commission at eeoc.gov. According to the site, the following federal laws prohibit job discrimination:

- Title VII of the Civil Rights Act of 1964 prohibits employment discrimination based on race, color, religion, sex, or national origin;
- The Equal Pay Act of 1963 (EPA) protects men and women who perform substantially equal work in the same establishment from sex-based wage discrimination;
- The Age Discrimination in Employment Act of 1967 (ADEA) protects individuals who are 40 years of age or older;
- Title I and Title V of the Americans with Disabilities Act of 1990 (ADA) prohibit employment discrimination against qualified individuals with disabilities in the private sector, and in state and local governments;
- Sections 501 and 505 of the Rehabilitation Act of 1973 prohibits discrimination against qualified individuals with disabilities who work in the federal government; and
- The Civil Rights Act of 1991 provides, among other things, monetary damages in cases of intentional employment discrimination.

Your Health Insurance Options

There are two laws that may protect your rights to continued health insurance coverage: COBRA (1985) and HIPAA (1996).

COBRA

Whether you're laid off, choose to leave, or even if your hours are reduced, the 1985 Consolidated Omnibus Budget Reconciliation Act (COBRA) may give you the opportunity to continue your health insurance benefits for a limited time, typically 18 months for those who qualify.

If your company employs more than 20 people, it is required to give you information about your COBRA rights after your termination. You normally have 60 days to accept coverage (if you don't, you lose your right to coverage). Election is not automatic—you have to sign up for it. Payment is required within 45 days after election. You will pay the full premium, but at a group rate. You may also need to pay a 2% administration fee. In most cases, it's still cheaper than buying an individual policy on the open market.

Your spouse and dependent children may also be entitled to continued COBRA benefits due to circumstances such as: the case of your death, if you are currently covered, or if you qualify for Medicare (in which case you have to stop your COBRA benefits). The U.S. Department of Labor site offers more details at dol.gov.

HIPAA

In addition to COBRA, the 1996 Health Insurance Portability and Accountability Act (HIPAA) provides new rights to group and individual plan members.

- HIPAA can limit exclusions of pre-existing conditions to 12 months until January 1, 2014. The exception to this is that no preexisting condition limit is permitted for a dependent child under age 19. Beginning on January 1, 2014, under present law, no preexisting condition limitations would be permitted. The 12-month waiting period must be reduced by the amount of time you have "credible coverage," such as a group health plan, COBRA, HMO, Medicaid, or Medicare, etc. Typically, you can receive credit for coverage in place for 63 consecutive days, or more.
- HIPAA also prohibits discrimination based on health status and offers special enrollment opportunities to group health plans under certain circumstances.

For more information, see the U.S. Department of Labor web site at dol.gov.

Did You Know...

Four Exceptions to COBRA:

1. **If your company files for bankruptcy and its health plan is terminated, you can't get continuation of those benefits because they no longer exist.**
2. **If you were fired for gross misconduct, you may not be eligible for COBRA benefits.**
3. **If you work for the federal government or church-related organizations, you do not qualify.**
4. **If your company has less than 20 employees, you don't qualify (but you may qualify for other continued coverage per state law).**

The Effect on Your Retirement Account

Essentially, access to your retirement money depends on whether you have a defined contribution plan (for which you have an individual account) or a defined benefit plan (under which you receive a fixed benefit), according to the U.S. Department of Labor.

Typically, benefits under a defined contribution plan can be taken as a lump sum, whereas a defined benefit plan begins benefits at retirement age, usually 65, regardless of when your employment is terminated. Look closely at your summary plan description (you can get it from your employer or pension plan administrator) for distribution rules.

If you receive a distribution, you might want to consider rolling the amount directly over into an IRA or your new employer's plan. Otherwise, ordinary income taxes will apply, and withdrawals before age 59½ may result in a 10% early-withdrawal penalty.

What if your company files for bankruptcy? Is your money safe? It depends. Defined benefit plans are guaranteed by the Pension Benefit Guaranty Corporation (PBGC), a federal government entity. PBGC-insured means the government acts as a trustee for the fund, paying up to a certain amount if the company is unable to do so. Defined contribution plans are not PBGC-insured.

Understanding ERISA

The 1974 Employment Retirement Income Security Act, better known as ERISA, protects people's retirement funds in case of job change or loss.

ERISA does not require a company to create a pension fund, but if they do offer one, the federal law requires it to meet minimum standards. According to the U.S. Department of Labor, ERISA:

- Requires plans to disclose information about plan funding and features to participants;
- Sets minimum standards for participation, vesting, benefit accrual, and funding;
- Requires accountability of plan fiduciaries;
- Gives participants the right to sue for benefits and breaches of fiduciary duty;
- Guarantees payment of benefits, through the Pension Benefit Guaranty Corporation, if a defined benefit plan is terminated.

Some Budgeting Tips

The first step to budgeting is to determine how long your severance payments will last. Determine fixed costs, such as rent, car payments, insurance, etc. You might also want to track expenses closely for at least a month to figure out where your money is going. By determining spending patterns, you can pinpoint solutions for a tighter budget. The following tips will help you become more financially sound:

- **Take up the challenge of money management.** Attitude is crucial. If you're married, talk it over with your spouse. Try to reach consensus of the importance of cutting back. This is important because your success will require some sacrifice, and that means cooperation from other members of your family.
- **Plot your position.** Create a balance sheet with income on one side and all expenses on the other. Determine what your monthly expenses are.
- **Set up a budget that enables you to manage your expenses each month.** Keep it simple and practical.
- **Distinguish between necessities and luxuries.** Many of us believe we can't possibly live without dinner out twice a week or two new video games a month for the kids. Make a list of luxuries, then bite the bullet and cut that list in half. (Even if you cheat a little, you're moving in the right direction.) If nothing else, postpone all optional major expenditures for the next three months. For example, eliminate one $50 dinner out each week—that gives you $2,600 more in a year!
- **Practice the virtue of frugality with pride.** Find ways to have fun without spending money—a day at the beach versus shopping at the mall; a walk in the park versus going to a movie. Plus, don't be afraid to shop around for the best price. Make it a game. See how much you can save. Then stick that amount into the "Wild Weekend" jar in the kitchen. (After all, you have to have some fun, right?)
- **Do not liquidate investments or lapse insurance coverage.** These can help protect you for the long term.

Reduce Your Debt

Getting into debt is easy. Getting out, though, can be a struggle. But you're not alone. As of December, 2010, Americans were sitting on around $2.4 trillion in consumer debt, according to the Federal Reserve Board.

Whether your debt load is $1,000 or $100,000, you can bring it down to zero.

Here are the steps to help make it happen:

- **Pinpoint your position.** Excluding mortgage, determine how much you owe between cars, credit cards, and other debt. At the same time, calculate how much discretionary income you have to begin whittling away at your debt load.
- **Map out your strategy.** Establish a "Zero Debt Day" to celebrate your freedom from debt. Base your plan on three factors: time, discretionary dollars, and total debt. For instance, if you owe $2,000 and can allocate $100 a month exclusively to debt reduction, you'll be debt free in around two years, depending on interest. Also, getting out of debt requires a sacrifice, one that will affect all members of your household. Enlist your partner's support or risk defeat.
- **Make the plan realistic.** Be willing to do what it takes to get out of debt ASAP. Consider this: If you allocate $500 a month to debt reduction, when you're finally free and clear, you'll have $6,000 additional cash a year for lifestyle enhancements, or to save for retirement. At the same time, if you make yourself miserable, your plan will fail. Consider splitting discretionary cash in half—part for debt elimination and part for living (and playing) expenses.
- **Put away the credit cards.** Too often, we pay off one bill, then pick up new debt in the process. A better way is to adopt a cash-only policy.
- **Gradually build up a cash cushion for emergencies and regular expenditures.** This way, you earn interest rather than pay it. Some people pay for vacations and new cars in cash, using money they saved in advance, rather than borrowing.

Did You Know…

There are regional non-profit Consumer Credit Counseling Service offices that give counseling and ideas to help pay off debts. Visit the Money Management International site at cccsintl.com, for more information.

Looking for a Loan

Tapping into your 401(k) plan could be an option, but you may want to take a loan rather than a withdrawal to avoid tax consequences. Of course, a loan will impede the potential growth of your retirement nest egg.

Loans are also available from credit cards and banks, but often at a high, fixed rate. Be sure to research all of your options and find the loan that best suits your personal situation.

Permanent life insurance products, such as whole life, universal life, and variable universal life not only provide death benefit protection, they also offer access to your policy's cash value through policy loans to help meet unexpected financial needs. And the interest rates on these policy loans may be lower than a loan from a bank, but be aware that unpaid loans and the accrued interest will reduce the death benefit and the policy's cash value and may cause a policy to lapse.

Helpful Hint…

If you're considering going back to school while between jobs, the following resources can help with financial assistance or student loans.

- **FinAid's web site at finaid.com lists details on loans for graduate, business, law, or medical schools.**
- **The Student Guide is the most comprehensive resource on student financial aid from the U.S. Department of Education. Grants, loans, and work-study are the three major forms of student financial aid available through the Department's Student Financial Assistance Office. It is updated yearly. Visit that web site at studentaid.ed.gov**
- **The College Board's (collegeboard.org) "Pay for College" section has a lot of general loan information.**

Tips for Surviving a Volatile Economy

As a nation, we've witnessed dramatic financial swings over the last few years—from boom times to economic lassitude. Most frustrating of all, there's no foolproof way to predict the economy's next move. The only thing that is certain is change.

A good way to survive these changeable times is to practice smart money management, and to position yourself to help provide maximum financial security, regardless of where the economy goes. Here are some suggestions:

- **Reduce your expenses.** Good advice at any time; it's doubly valuable now. Start by examining your budget. Look for ways to cut back on unnecessary expenses. If luxury items became commonplace for you, redefine what is necessary. Revise your attitude toward spending. Be a bit cautious regarding big expenses, at least until the economy decides where it is going. This will help you weather tough times, as well as position you to capitalize on opportunities as they arise down the road.
- **Keep whittling away at debt,** reducing your balance a little each month. There's a great deal of truth in the saying: It's better to earn interest than pay it.

Set debt-reduction goals and, if necessary, make some short-term sacrifices. In the end, you'll find that your standard of living will increase just by paying down your debt load. Most of all, don't add new debt. More and more people are proving that it is possible to live a credit-free existence. They live by a simple philosophy: If I can't afford to pay cash, I can't afford to buy it.

- **Secure your job by making yourself indispensable.** It seems that the name-your-price days for job seekers have come to an end. Businesses often take a wait-and-see approach to hiring in changeable times. The best approach: look for ways to emphasize your unique skills and your value to your employer. Also, if you're thinking about a career change, keep in mind that it puts you at the bottom of the seniority list, which may make you the first to go, if another round of layoffs starts.
- **Don't ignore your bills if you get caught in a financial bind.** You'll only accumulate interest fees, jeopardize your credit rating, and compound your problems. If necessary, contact the lender and explain your situation. Most may accept a revised payment plan, with no penalty or additional interest.
- **Preserve your future assets.** Try to avoid making withdrawals from IRAs and other retirement plans unless absolutely necessary. If you do start cashing in your retirement plan money, you may be penalized for early withdrawals at the expense of your own future financial security. Worst of all, you'll consume retirement dollars you have been accumulating for years and may have a hard time replacing.
- **Keep your insurance in-force, including your medical, life, and disability insurance coverage.** It's tempting to let your coverage lapse when forced to choose between paying insurance premiums and paying the mortgage. But financial protection is particularly important during difficult economic times.

Overall, the best way to weather an uncertain economy is to protect what you have and reduce your expenses. Most of all, keep in mind that downturns are normal, temporary phases of the economic cycle, historically followed by economic upswings. Just remember that if you maintain financial self-discipline when times are tough, you'll probably be way ahead of the game when the financial climate turns around.

GUARANTEED INCOME[2] | PROVEN WEALTH-BUILDING TOOLS | MUTUAL FUNDS[3]

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NYLIM-22513 SMRU-446369 MS376-10 MSWM41o-06/11