RETIREMENT

Ask an advisor: I was laid off. How can I keep saving?

By Nathan Place February 28, 2024 9:00 AM

In 2023, about 722,000 Americans were laid off from their jobs. *Adobe Stock/Malik E/peopleimages.com* advice on advising.

Both financially and emotionally, few life events are more disruptive than losing a job. But in the United States, it's a common experience — 40% of Americans have been laid off or fired at some point in their lives, according to the Bureau of Labor Statistics.

And in recent years, it's been happening more often. U.S. companies announced 721,677 job cuts in 2023, according to the research firm Challenger, Gray and Christmas — a 98% increase from the year before.

And of all America's industries, tech suffered by far the biggest bloodletting: 168,032 layoffs in one year.

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One of those unlucky workers was a Financial Planning reader in New York City, who until recently was a video producer at a prominent tech company. Newly unemployed and not sure when she'll find her next job, she wonders how to stay on track with her long-term savings — or whether it's worth it to keep saving at all.

For guidance, she turned to the experts. Here's what she wrote:

Dear advisors,

I recently got laid off, and I'm wondering how to pick up the financial pieces.

In particular, what do I do about my retirement savings? When I was let go, I had about $19,000 in my 401(k). Separately, I also have a Roth IRA with about $40,000 in it.

Should I roll my 401(k) into the IRA? Or wait until I get another job, and roll my savings into the 401(k) there? Or is there another option? And in the meantime, should I keep contributing to my Roth IRA or hold off for now?

I have $18,000 in severance, and my husband still works. I'm fairly confident I can survive for the present — I just want to make sure I'm not damaging my future. What should I do?

Sincerely,

Asking in Astor Place

Hit the 'pause' button

Anna Sergunina, certified financial planner and president of Main Street Financial Planning in Los Gatos, California

Leave your 401(k) where it is for now. You can always roll it over to the next one at the new job if investment choices are inexpensive and diversified. Also, having a larger balance in the 401(k) that you are participating in allows you to have an option for 401(k) loans for any hardship situations.

Rolling it over to an IRA is always an option as well, but you will not have a "loan" option, as you would with 401(k).

As for the Roth IRA, leave it as is for now. It grows tax-free and could possibly be a source for emergency money in the future.

I don't recommend making any more contributions to any accounts until you find your next job. You can always contribute to a Roth IRA, up until you file your 2024 tax return by April 15, 2025. That way you will be certain that your income is not over the limit and you actually have funds to pay your bills.

Build a budget

David Haase, CFP and founder of RPT Wealth Strategies in Hillsborough, New Jersey

Great questions and knowing to ask them shows you are interested in solving your financial puzzle. There is a lot to unpack with your specific inquiries, and my first recommendation, if you have not already done so, is create a budget identifying your monthly expenses and your household income. Information gained from your budget will better determine the appropriate strategy you take with your retirement savings and whether or not to rollover the employer account. It will also help determine whether you can afford to continue contributing to your individual account. If your budget is stressed, what sense would it make if you made contributions to a retirement account now and in a few months need to withdraw from it because of a cash flow crunch during a time you are seeking new employment?

Don't be afraid to scale back

Andrew Herzog, CFP and associate wealth advisor at The Watchman Group in Plano, Texas

I am sorry to hear about the layoff — I know it can be tough. But for you, your husband is still generating income, you have a severance and some savings as well. That's about as good as anyone could hope for in such a situation!

That being said, I usually recommend people roll old 401(k)s into IRAs because most of the time you will have more investment options in an IRA than an employer-sponsored 401(k) program, and that's important for diversification and expense purposes. Do not take a distribution from the 401(k), unless you want to pay penalties and more taxes now.

If you anticipate finding a new job within a few months then you can continue contributing to your Roth. But if your timeline is unknown, be safe and halt contributions in order to shore up monthly cash flow during this time.

Lots of choices

Kashif Ahmed, CFP and president of American Private Wealth in Bedford, Massachusetts

You have several options with respect to your old 401(k). You can certainly leave it there. It's possible it offers good, cost efficient options to pick from. Also, you are reasonably confident in your ability to select and systematically rebalance.

Your second option is to roll it over into an IRA. If you roll it into an independent platform that offers virtually any investment allows rollovers, and it may very well not have a robust choice of investments. The absolute worst option is to cash it out, which it seems you are not likely to do, as you seem to have adequate emergency savings.

With respect to Roth contributions, you can certainly continue making those as long as your husband still has earned income, you file joint taxes and your overall income is below the permissible amount to make Roth contributions.

You are wise to be seeking guidance! Good luck, and remember to never make important financial decisions in a hurry — and most certainly never emotionally!

Take care of yourself first

Ryan Johnson, financial planner and founder of Hundred Financial Planning in Grand Rapids, Michigan

First of all, sorry to hear that you got laid off! I have been in that position before and the uncertainty is the hardest part.

When you are in a season of life without active employment, simply getting by is a victory! Contributing to your retirement should be a secondary priority behind making sure you and your family's basic needs are met. Since you aren't sure how long this period of unemployment will last, I would hold off on contributing to your Roth IRA. However, if you do feel super confident about your situation, you can continue to contribute to your Roth IRA, because you also have the ability to take out contributions at any time without taxes or penalties.

Most 401(k) plans allow former employees to keep their accounts with the plan, but check the plan's details to make sure there aren't extra fees associated with doing so. You should be able to ask your former benefits coordinator for information about that as well. If there are excessive costs associated with the 401(k) from the old employer, I would strongly consider rolling it over to either a traditional IRA or your current Roth IRA. Note that whether or not your 401(k) assets are traditional or Roth may have a tax impact. For example, if all $19,000 was in traditional contributions and you rolled it into your Roth IRA, that would create $19,000 additional taxable dollars. If you don't want to think about tax consequences right now, you can simply roll the traditional 401(k) assets to a traditional IRA and the Roth 401(k) assets to your Roth IRA and figure it out later.

My biggest piece of advice would be to focus on making sure you're OK. Unplanned transitions can take a toll on your mental health or be a breath of fresh air. I hope you get some time to recharge and find an opportunity that is an even better, long-term fit for you. Good luck!

Nathan Place Retirement Reporter, Financial Planning