NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

CAN YOU AFFORD TO CHANGE CAREERS?

Planning and Patience Are Vital to Making a Financially Sound Decision

ENGLEWOOD, COLORADO—With the unemployment rate declining only slightly during the first few months of 2004,[1] now may not seem like a wise time to change jobs, let alone careers. Still, life is short and job burnout is a reality, so if you feel the need for a major shift in your work life, you may want to go for it—just go for it slowly and deliberately to keep your financial footing.

"Pursue your career dreams, but think through the financial implications," says William L. Anthes, Ph.D., president and CEO of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is an independent foundation whose mission is to educate Americans about personal finance. Anthes offers suggestions for staying on course financially while setting a new career direction.

Do Your Research

Instead of throwing caution to the wind and quitting your current job, hold onto it while you research opportunities in the field you want to pursue. You may want to log onto to the Web site of the U.S. Department of Labor, Bureau of Labor Statistics. It provides a wealth of information about the fastest growing occupations in your state and average wages. Two critical questions to keep in mind as you research are: Will I find a job in this new field, and will the salary and benefits support my lifestyle?

Attending trade meetings and interviewing people in the field can provide additional insights about a new career. "Invite an individual you know in the field to lunch or request a few minutes by phone to ask about job opportunities, earnings potential and job satisfaction," Anthes suggests. "And don't hesitate to ask what the individual does *not* like about his or her career. You could gain some important information that might cause you to rethink your plans."

Take a Trial Run

Ideally, try on a new career before committing to it. For example, if you think you want to become a teacher, volunteer in a classroom during your vacation so you can observe what a teacher's day really is like. Ask someone you know who works in your field of interest if you can shadow him or her for a day, or if internships are available. If so, take advantage of these opportunities while you still are employed—again, using vacation days, evenings or weekends. Also, find out if you can moonlight in the field on a part-time basis.

"If at all possible, maintain your ties to your job while you explore a new career," Anthes recommends. "Don't quit until you have a position lined up so you can make the shift with minimal disruption to your salary and benefits."

Get the Education You Need

Assuming you still want to pursue your new career after doing your research, the next step may require going back to school for additional education or training. "A good way to uncover gaps in your education—and to identify skills you already possess—is to write a resume as though you're applying for a job in the new field," Anthes suggests.

If you discover additional schooling is necessary, consider community colleges, which charge significantly less tuition than four-year public universities or private colleges. (Average tuition and fees at two-year public colleges are less than $2,000 per year, according to the College Board.) In addition, community colleges have the added advantage of offering evening and weekend classes so you can continue to work during the day. Online courses are another option for gaining further education while working full-time. Also keep in mind that adults can apply for grants, scholarships and loans just like younger students.

Plan an Exit Strategy

Strategically planning when and how you'll leave your current job can make a big difference in your financial bottom line. Consider the following:

- **Use time to your advantage.** If you expect a year-end bonus or will be vested in your employer's retirement plan soon, try to remain at your current job until then. The same holds true for any vacation pay or sick leave pay that may be coming available to you.

- **Arrange what you will do with your retirement plan.** For example, will you have the option of leaving your money in the existing plan, transferring it to a new employer's program or placing the money in an IRA Rollover Account—and have you talked with a financial advisor about the advantages and disadvantages of each? "If you decide to roll over your retirement funds, first open a new account at a bank, mutual fund or brokerage firm so the custodian of your current plan can send the funds *directly* to that account when you quit your job. This is known as a direct transfer," Anthes says. "Don't take possession of the check and deposit it yourself, because that could result in a 20 percent withholding for income taxes and a 10 percent penalty on the money if you are under age 59 1/2."

- **Avoid spending your retirement money.** If you withdraw the money when you quit, you'll pay income tax on all of your pre-tax contributions, your employer's contributions and all earnings. If you take money out before age 59 1/2, there's an additional 10 percent federal tax penalty, and you may owe state income taxes, too. "When you do the math, half of your early withdrawal amount could be lost to taxes and penalties," Anthes warns. "People who have withdrawn their retirement money when they changed jobs often report that it was the biggest financial mistake they ever made."

- **Maintain health insurance.** If you won't be covered immediately by a health insurance plan at your new job, try to keep your current employer's coverage in force. A federal law known as COBRA may allow you to continue coverage under a previous employer's medical plan for up to 18, 29 or 36 months, depending on the circumstances. In general, COBRA applies to group health plans maintained by employers with 20 or more employees. You must pay the full cost of coverage (at the group rate) plus up to 2 percent to cover administrative costs. If your employer is not subject to COBRA, talk to an insurance agent about a temporary health insurance policy to bridge the gap between your old and new employer. "Never go without coverage for more than 62 days, to avoid any exclusion for a pre-existing health condition," Anthes says.

- **Review your other benefits.** For example, if you currently have a child-care benefit, how will you manage without it when you quit? Can you convert your former employer's group term life insurance or disability insurance to a private individual policy without proof of insurability and, if so, how much more will this insurance cost?

- **Have a reserve fund.** Try to save three to six months' income before you quit, so you'll have money to tide you over while you get started in your new career. "Everyone should have a reserve fund, but it's especially important if you are already on a tight budget and you know there will be a time lag between paychecks," Anthes says.

Have a Backup Plan

After all this planning, you may conclude that it's too risky financially to make an abrupt career change right now. That's why a backup plan is important. For example, you might opt to stay at your current job for another few years while you get your children through school, and then make a change. Or, you might keep your day job and dabble in your dream career on a part-time or volunteer basis.

"You may be disappointed that you didn't take the plunge, but, in fact, congratulations are in order," Anthes says. "You are to be commended for thinking through the financial implications and making a sound decision that's grounded in what's best for you and your family."

On the other hand, you may find that a career change fits well with your life goals. "If you decide, after thorough consideration and financial planning, that a new direction is needed, you can be confident that you made a decision grounded in careful professional and personal analysis," Anthes says.

[1] Source: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/.