A STRATEGICPOINT WHITEPAPER

Calculating the Value of Career Change

A Financial Planning Guide for Professionals on the Move

StrategicPoint
INVESTMENT ADVISORS

Career change is a fact of life in today's job market. Americans trade jobs more than *11 times* before age 50—with some experts actually recommending a switch every three to four years[1]. There's a whole industry devoted to helping lawyers get out of the profession[4]… even the most established professionals (ages 40 to 48) now cycle through 2.4 jobs on average[5].

Bottom line: a lot of successful people are surveying the landscape for new career opportunities. If you're one of them, or if you've recently been approached with a promising job offer, this guide can help you weigh the different factors involved—including two major decision drivers: financial considerations and quality of life considerations.

Financial Considerations

Total Compensation

Salary is just one piece of a compensation package—especially for senior executives. Besides salary, offers should be evaluated based on the following financial factors:

- Benefits (healthcare, insurance, tuition reimbursement)
- Retirement contributions and eligibility terms
- Profit sharing options
- Bonuses, incentive compensation, and executive SERPs
- Equity/stock options
- Deferred compensation
- Paid time off
- Remote or hybrid options
- Executive perquisites (car allowances, executive physicals, health club membership, etc.)

You should review any potential compensation package alongside your balance sheet (a current list of all assets and liabilities). You'll want to focus on both your nonqualified assets (individual bank accounts and certain individual/joint accounts that you can draw on without generating additional income taxes), and qualified assets (401(k)s or IRAs). By reviewing your financial picture, you'll be able to prioritize the various forms of remuneration.

65% of Americans surveyed said they would consider taking a new job in the very near term.

-www.zippia.com, February 2023

For example, if you're someone with high current expenses (children's schooling costs or elevated debt) you may need a job that provides a more generous base salary. Meanwhile, someone who is looking for the greatest possible payout, and who can afford to take on more risk (thanks to fewer immediate obligations or a stronger balance sheet) may be attracted to a startup that pays out upon a liquidity event.

Now it's time to complete a side-by-side comparison among offers, or between your current job and a new job opportunity. Even when the financial choice seems obvious, doing the math can reveal a surprising picture. Here's a list of major variables to compare:

Variables	Position 1	Position 2
Salary		
Bonus Criteria		
Stock/Incentive Units		
Health Care Package		
401(k) Match		
Life and Disability Insurance		
Perquisites (use of car, cellphone allowance)		
Location/Commuting Costs		
Relocation Costs/Allowances		
Cost of Living Differential		
Cost of Housing		
Schooling Costs		

Assigning numbers to these variables can get tricky, especially if you don't yet have a formal job offer in hand. Work with a financial advisor to ensure you're making an apples-to-apples comparison.

Next, get ready to negotiate. Find out if the offer is comparable to what other professionals with your experience, in your geography, are earning. (As a baseline, sites like Salary.com can be helpful. For more refined comparisons, your industry's major trade organization may provide better data.)

Still, don't forget to keep your family's goals at the forefront. Knowing what you can and can't afford—based on current and future financial needs—takes the subjectivity out of compensation negotiations.

Negotiating a job offer works: 85% of Americans who counteroffered were successful.

-CNBC, May 2022

Relocation

When a new job lands you in a new city, even a significant pay raise may not offset the cost of relocation. Consider the following major expenses:

- Buying/selling property
- New mortgage rate (most likely higher than what you currently have)
- Split living arrangements (i.e. renting in a new city, while maintaining property in former city)
- Frequent travel (in scenario above)
- Private school tuition
- Cost of living differential

Before accepting a job out of town, your household budget needs to be revisited. CNN Money offers a helpful cost-of-living calculator that highlights not only how much more you'll spend on things like groceries, housing, transportation, and utilities; it also reveals the "comparable" salary you'll need to make in a new city, in order to sustain your current lifestyle.

Tax Planning Implications

Many people enter new career roles only to discover (come April), their income tax picture looks very different. For example, a higher salary, bonus pay, even relocation benefits (all current taxable income) could land you in a higher marginal tax bracket. It's important to anticipate these changes, and practice proactive tax planning with your financial advisor and accountant.

If a new job means your projected tax obligation will be higher, it might make sense to push deductions (medical expenses, charitable giving, capital losses) into that year. Conversely, if you're moving into a role with a lower base salary and vested stock, you might take capital gains in the year(s) with the lower expected income.

As a reminder, maximizing pre-tax retirement contributions for you and your spouse can be helpful at any tax bracket. And a pay raise offers an excellent opportunity to increase retirement contributions if they are not already maximized.

A specific note on non-qualified stock options or restricted stock units (RSUs): if the rewards keep coming every year, you'll need an ongoing plan to sell some of the options/units as they become vested, in order to reduce the risk of a high concentration of holdings in one asset. This will generate additional taxes, but is necessary so that the proceeds can be redirected to other goals—like paying down debt, college funding, purchasing a second home, retirement, etc.

Additionally, if the job does not pan out, options and RSUs may need to be forfeited or cashed in all at once, changing current and future tax obligations.

Be mindful when changing jobs in the middle of a calendar year not to over contribute to your 401ks. Your new employer will NOT know how much you already contributed to your former plan, so you will have to figure this out yourself and adjust the contributions to your new plan accordingly.

Insurance Implications

For the right candidate, *everything* is negotiable—including insurance benefits. In fact, senior executives can put very specialized insurance needs into their compensation negotiations. And there's a lot to tease out, depending on individual circumstances. To keep things general, we'll focus this section on health insurance considerations. Here are four key questions every job applicant should ask:

- When am I eligible for health benefits?
- What's the summary on co-pays, deductibles, and maximum out-of-pocket expenses?
- Do you offer dental and vision insurance and/or a flexible spending account?
- Does the plan include my current healthcare providers?

If you need to bridge a health insurance gap between jobs, ensure that you have access to COBRA or a spouse's plan. If neither is available, access an Affordable Care Act plan. Under no circumstances should you allow your family to go without health insurance, even for a short period of time.

Some quick notes on employer-sponsored life and disability insurance: since most employer life insurance is group term (i.e. not portable at a reasonable price), it's usually not worth holding onto your previous employer's life insurance benefit. In addition, employers increasingly offer disability coverage of only around 60 percent of your salary.

If you have a high insurance need (either for life insurance or disability insurance), and your employer does not offer supplemental insurance at a reasonable price, you should not rely solely on employer benefits to fill that need. Don't wait to get additional private insurance until it becomes unaffordable. Adequacy of insurance should be an ongoing discussion with your financial advisor, whether or not you are thinking of changing jobs.

About one in four American adults is covered solely by an employer-based life insurance policy.

-Forbes, 2023

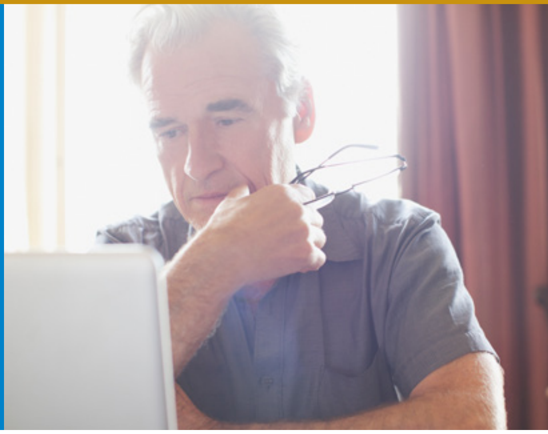
Retirement Implications

In addition to assessing how a new employer might help build your retirement savings (matching your contributions at a certain level from day one or at some point thereafter), you'll also want to think about how a career change might affect you retirement *timeline*.

Plenty of executives downshift into teaching or social service roles in the later stages of their careers; the gap in earnings sometimes means postponing retirement beyond age 65. Conversely, accepting a high-stress position may be setting yourself up for burnout. You'll need to ramp up retirement contributions to account for an early exit. In any case, a financial advisor should help you run retirement projections using your current compensation package versus your new offer.

50% of Americans who have participated in an employer-sponsored retirement plan left money in a previous employer's plan. Unfortunately, most (30%) did so because they didn't understand their options, "didn't have time" for a rollover, or simply forgot about the account.

-ING DIRECT USA survey



Finally, while a transition plan for your current 401(k) accounts won't materially affect your job decision, it is something to keep in mind during this process. There are four different ways to handle your existing 401(k):

1. **Leave It.**
   If you like the plan and it's easy to manage, you can leave your money where it is. Many people choose to retain their account balance with a former employer, especially if the plan offers an adequate number of diversified investment options at reasonable costs. You cannot add to your former 401(k) but you can also use this option while you wait for eligibility to participate in your new employer's plan.

2. **Roll It.**
   Roll the old 401(k) into your new 401(k)—after checking to ensure the new plan isn't too expensive or inflexible. Right now plans are required to detail underlining costs, which helps you and your advisor to better compare the fund choices you have.

3. **Opt for an IRA.**
   An IRA could be one that you manage or one that's managed by an advisor. A direct IRA rollover ensures that your retirement savings remain tax deferred without interruption. In addition, an IRA may offer more investment choices and lower fees than your retirement plan options, and can provide advantages that come from consolidating accounts.

4. **Cash Out.**
   We would not recommend this option in most circumstances—particularly if you're younger than 59 1/2, in which case you would have to pay a 10% premature distribution penalty tax, in addition to regular income tax. Although, if your account holds less than $5,000, your employer can automatically cash it out and send you the proceeds.

Job Security

There's a whole wide world of employers out there. A lot of career changers are drawn to entrepreneurial opportunities—especially a startup they want to join or build themselves. While it's very exciting to be part of a new idea, the reality is that most new ventures don't make it.

Even among established companies, opportunities can be deceiving. Some corporations hire senior executives despite knowing the future is in jeopardy. You may be brought aboard to right a sinking ship, or you may sign on just in time to see your job description rewritten after a takeover. So employer research is critical.

Plan for an unplanned exit

Millennial workers stay in a job for an average of 2 years and 9 months. With about 72 million millennials in the U.S., this generation is the biggest of the working population.

-Forbes, 2021

How can you evaluate a prospective employer's stability? First, don't take its offer at face value. If possible, look up financial statements and annual reports on the company website and/or the SEC's website. If you're interviewing with a private company (i.e. financial statements aren't publicly available), try asking the following questions:

- What are some main components of your sales or marketing strategy in the next few months?
- Who are your top three clients? What percentage of sales do they account for?
- Which key roles (besides this one) are you looking to fill in the near term?
- How has headcount changed over the past 12 months?
- When was your last round of funding received?

This doesn't mean you should avoid untested companies or ignore your startup ambitions. On the contrary, the move you're considering may be a perfect segue to your ultimate goal. But you'll need extra cushion in your financial plan to protect against an unplanned exit. Cash has to be accessible—money in the bank, not qualified accounts. Work with a financial advisor to account for worst case scenarios.

Quality of Life Considerations

Career Advancement

A new job represents a new chapter in your life. It should be a positive move—with plenty of opportunity to grow and advance. What's more, a new role should provide mental stimulation and personal fulfillment. Some companies are more or less equipped to facilitate these benefits.

You might remember how Google used to nurture its employees' passion projects by freeing up 20 percent of their work hours for side-line pursuits. Some companies keep employees engaged and fulfilled by encouraging charity work. If you're someone who needs to see real-world impact, or reset with side projects, you'll want to vet new employers with this kind of culture in mind.

Before accepting a desired role, you may also need to reinvent yourself through schooling or certification. You may need to accept a lesser paying position (with promising career mobility) inside a desired firm. If this type of move is under consideration, some current assets may need to be expended to cover advanced degree tuition or basic costs of living until your desired position is achieved.

To summarize: if this next job isn't going to be your last job, be certain it's a solid stepping stone to the next phase of your career.

More than 80 percent *of employees report feeling positive about their work culture due to well-being programs.*

-Virgin Pulse, Workforce magazine survey

Health & Wellbeing

If you've taken the time to invest in retirement planning, you owe it to yourself to actually *reach* retirement, feeling healthy in body and mind. Health and wellness are too often shrugged off as "subjective" employment benefits, but the findings are pretty concrete when it comes to organizations that believe in employee health programs versus those that create a churn and burn environment.

Some things to consider on this point:

- Have you met all the people you'll be working with? Do they seem friendly and upbeat, or competitive and frazzled?
- Does the company prioritize health and wellness? Does it provide everyday resources like healthy snacks, stand up desks, discounted gym memberships?
- Beyond physical health, are there programs to support employees with financial and mental health? Any trainings available on stress or time management?
- Are there generous paid-time-off benefits? And are people genuinely encouraged to use their PTO?
- Is there an option to work remotely in any capacity?

In many organizations, executives end up forfeiting time off because the culture frowns on people who aren't constantly "on." Getting a clear picture of culture isn't always easy; employers tend to put their best feet forward during the interview process, just like applicants. Try requesting a reverse interview with one or two folks who work at your level.

Personal Relationships

In all the excitement of a new career opportunity, it's easy to overlook job factors that might affect your personal relationships. We already know that most Americans bring work home with them. In particular, people who are well-educated and managing others report that their work interferes with their personal lives more frequently, reflecting a phenomenon known as "the stress of higher status."

Before adding to a plate that's already full, consider the following:

- Will you need to relocate ahead of your family—possibly renting space in a new city until your home sells or your kids' school year ends?
- Will your business travel increase, taking you away from kids' events and everyday household responsibilities?
- Will your new commute eat up extra hours of your day, precluding some of the things that make you happiest (your fitness routine, your role as a coach or Scout leader, your Board membership)?
- Will you need to rethink childcare arrangement? Does your new employer provide any childcare options?

Alternatively, you may be eyeing a new position for the increased *flexibility* it provides—like a four-day work week, or work-from-home potential. "Flexibility" is a change like any other; it has its pros and cons. For example, many people who are new to virtual employment struggle to define professional/personal boundaries. Maybe your at-home office will serve double duty as a playroom. Maybe your 4:30 conference call will always get interrupted by the after-school crowd. These are challenges you need to anticipate.

Whatever your new job looks like, it makes sense to talk to friends with similar schedules, commutes, or work-life balance struggles. From there, you can organize a family meeting and hash out everyone's concerns, while highlighting the benefits that come with your transition.

Conclusion

Some of these issues may seem out of place in a financial planning guide, but they're all worth exploring in the context of your wealth management plan. At the end of the day, we all have very personal perspectives on money—including how we *earn* money, along with how and why we *spend* it. A good financial advisor should help examine your attitudes on risk and reward—beyond your portfolio—to bring the greatest value to your family and your life.

Need help evaluating a job opportunity or your financial plan in general?

Email us your questions:
info@strategicpoint.com

Call to schedule a meeting with a StrategicPoint advisor:
800.597.5974

Learn more about our team and our services:
www.strategicpoint.com

1 http://www.fastcompany.com/3055035/the-future-of-work/you-should-plan-on-switching-jobs-every-three-years-for-the-rest-of-your-
4 http://www.theatlantic.com/business/archive/2014/07/the-only-job-with-an-industry-devoted-to-helping-people-quit/375199/
5 http://www.bls.gov/news.release/pdf/nlsoy.pdf
Table 1: http://www.forbes.com/sites/alanhall/2013/03/11/im-outta-here-why-2-million-americans-quit-every-month-and-5-steps-to-turn-the-epidemic-around/#28c4c417f9fe

Table 2: http://onlinelibrary.wiley.com/doi/10.1002/job.671/abstract

Table 3: http://www.limra.com/Posts/PR/News_Releases/Ownership_of_Individual_Life_Insurance_Falls_to_50-Year_Low,_LIMRA_Reports.aspx

Table 4: http://www.prnewswire.com/news-releases/ing-direct-usa-survey-complexity-and-confusion-cause-americans-to-leave-big-retirement-money-at-past-jobs-106442578.html

Table 5: http://www.bls.gov/news.release/pdf/nlsoy.pdf

Table 6: http://community.virginpulse.com/businessofhealthyemployees15/

Table 7: https://www.sciencedaily.com/releases/2010/01/100112135038.htm

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