THE IMPACT OF LATE-CAREER CHANGES

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Whether forced or planned, a career change deep into the back half of your working years represents a life-altering transition. How does a shift in your career trajectory—perhaps an intentional downshift—affect your financial plans?

First, a few hard facts, courtesy of the Urban Institute's December 2018 report on employment security at older ages. The survey groups involuntary job separations into two main camps—*"employer-related"* (like layoffs and other causes) and *"for personal reasons"* (primarily poor health and family concerns).

- Two-thirds of workers experience at least one involuntary separation after age 50. Employer-related separations accounted for about 85% of these, while poor health covered most of the rest.
- There's not much difference between employer-related separation rates by education level. However, separations driven by poor health were much more prevalent at lower education levels.
- Only about 10% of respondents fully recovered from an earnings standpoint following an employer-related separation. Here, more education is detrimental, as those with four or more years of college had a lower full-recovery rate.

These figures tell us that a large majority of us will experience first-hand the limitations of our control over our career paths after 50. More educated workers are typically better paid, which might explain why they have a harder time re-attaining peak earnings after a job separation.

On a brighter note, 14% of those aged 50 to 64 are self-employed, along with 24% of those 65 and over, according to the AARP Public Policy Institute's analysis of 2014 U.S. population data.

There's also a perception that seniors prefer part-time work, and that's true. AARP found that *"39 percent of workers ages 65 and older worked part time, compared with 14 percent of workers ages 50 to 64 and 13 percent of workers ages 25 to 49."* There's almost no difference between the ages of 25 and 64, while the 65-plus cohort essentially triples in incidences of part-time employment.

The Risks Remain the Same | Forced and planned career changes develop in different ways—the first is a product of circumstances outside your control and the second is a result of your decisions—but they carry the same risks.

Obviously, a planned career change provides more runway to accommodate financial planning steps that can help ensure a smooth transition. But getting back to our original question—how a career change impacts your plans—we think these ideas can help keep your financial house in order and make even an involuntary career change a manageable affair.

Fund the Gap | If you're planning a career change, then it's important to consider your anticipated downtime, if any. Determine how much savings you should set aside to cover the gap and approach it like any other financial goal by making periodic contributions.

If unplanned, you'll learn to appreciate the wisdom of maintaining a well-stocked emergency fund. It will double as your *"gap fund"* while you evaluate your eventual return to work.

If you think it would be hard to find comparable employment, due to either your line of work or geographic constraints, then you should increase the number of months of income replacement that you have in savings.

The Benefits of Work | Standard job-change advice applies here. Roll over 401(k) assets rather than cashing them out to eliminate the possibility of negative tax consequences. If planned, review your vesting schedule for matching retirement contributions, stock options or other compensation, and consider whether it's worth delaying your plans to capitalize on these payouts.

Age matters when it comes to health benefits. Medicare begins at age 65 (or earlier for those receiving Social Security disability benefits for at least 2 years), and private-market health insurance can be expensive, especially as you get older. Signing on to your spouse's plan as a dependent or retaining access to your former employer's plan through COBRA for a limited period of time can help bridge the gap.

Practical advice aside, it might be helpful to approach any downtime as a dry run for how you'll fare in retirement. From dispensing with a schedule, to shifting into a different financial mindset, this period can present you with a valuable opportunity to preview and think about how you want to plan for your post-work life.

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