Managing Your Benefits When Changing Jobs

Starting a new job can be exciting. But, as you look forward to your new opportunity, consider carefully how you will manage your employer-provided benefits while transitioning from one workplace to another.

When you leave a job, your employee benefits generally end, unless you elect to continue them. While you may receive benefits from your new employer, they will most likely differ from your previous employer's benefits package. So, if there are any benefits you want to take with you, for example, accumulated savings in a 401(k) plan or similar retirement account, you will need to decide how to manage those funds before you exit.

Insurance Conversions

Your new employer may not offer **health insurance**, or there could be a waiting period before health coverage begins, which sometimes can be from 30 to 90 days. To avoid becoming uninsured, even for a short period of transition, explore the possibilities of continuation or conversion under your former employer's health insurance.

Under a Federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), you are permitted to continue as a member of your previous company's health plan for up to 18 months after termination of employment, unless you are terminated for cause. Under COBRA, you are responsible for paying the entire premium, including the employer's contribution to the insurance, making COBRA premiums generally expensive. However, premiums may be less than you would pay for an individual policy. To continue coverage under COBRA, you must advise your employer that you are electing COBRA coverage.

COBRA continuation rights may not apply if you work for an employer with fewer than 20 employees. But, you may be able to convert your group health insurance policy to an individual policy without having to undergo a separate application for individual coverage. There may also be "interim" or "short term" policy options that could provide coverage for a couple of months for people between jobs. Or, you may need to secure individual health insurance coverage with a new provider that is not tied to your place of employment.

You may also have the option of converting other types of employer-sponsored insurance into individual policies. Depending on the group plan, you may be permitted to convert **life insurance**,

disability income insurance, or **long term care insurance**. Be sure to talk with your benefits administrator about all your options.

Retirement Plan Rollovers

If you have a retirement savings account in your current employer's 401(k) plan or comparable account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. There are two ways to roll over funds. With an indirect rollover, your former employer makes the distribution payable to you, less 20%, which is withheld for Federal taxes. You must then reinvest the distribution into an IRA or other qualified plan within 60 days. In order to achieve a tax-free rollover, you must reinvest the full distribution amount, which includes the 80% you receive in cash, as well as 20% from your own funds to cover the amount that is withheld. Your withheld funds are refunded after you file your tax return, provided your rollover occurred within the 60-day time limit. Failure to reinvest the 20% withheld may result in income tax and a tax penalty if you are under the age of 59½.

To avoid the 20% withholding requirement, you may request a direct rollover to an IRA set up in your name or another qualified plan. Be aware that not all qualified plans accept this type of transfer. Because this method is considered a distribution option, spousal consent and other similar participant and beneficiary rules of protection may apply.

Another option is to roll over your funds from your previous employer's retirement plan into your new company's plan. In some cases, however, it may make sense to leave the funds where they are. Ask both employers about restrictions on these options, as well as any tax implications.

You have the option to take the funds in your 401(k) account as a cash distribution. For most people, however, this is not the best choice. After cashing in, you owe taxes on the funds, and you may also be required to pay a 10% tax penalty if you are under age 59½. Further, you forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult to build the financial resources for your retirement income.

Your decisions regarding benefits when changing jobs can have a great impact on your financial future. Before making such important decisions, be sure to discuss your circumstances with the benefit administrators at both companies and consult your professional advisors.

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