Middle-aged and out of work: When clients over 50 lose their jobs, advisers become a lifeline

Financial advisers are a valuable resource during trying times, and are in a unique position to help clients navigate the situation while minimizing the financial damage

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By **Greg Iacurci**

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Gail House was forced into retirement last year at age 58, after serving two decades as the principal safety manager for her Orlando, Fla., employer.

Ms. House, who'd been earning a low-six-figure salary, hasn't received a paycheck in almost half a year. A single woman, she doesn't have the cushion of a second household salary and she may need to tap her 401(k) for income in three months' time if she's unable to find another full-time job. That could delay her retirement beyond age 62, her goal.

The situation would be far worse if it weren't for Dennis Nolte, Ms. House's financial adviser of 15 years, who she says has proven invaluable during this transition.

"All I have to say is, thank God for Dennis," said Ms. House, a 30-year-plus veteran of the occupational safety and health profession. "I would never have gotten this far without him."

Ms. House is just one of many middle-aged women and men confronted with job loss and the resulting hardships.

According to **a recent analysis conducted by ProPublica and the Urban Institute**, 56% of older workers suffer at least one layoff or other type of involuntary job separation between turning 50 and reaching retirement. After that job loss, only 1 in 10 ever earns as much as they had previously, the analysis found.

56%

PORTION OF WORKERS WHO WILL GO THROUGH A LAYOFF OR OTHER JOB SEPARATION AFTER AGE 50

These individuals are at a vulnerable point in their lives — approaching retirement age, likely financing a kid's college education and helping care for an aging parent. A long stretch with zero income can blow a big hole in clients' finances at a time when it's hardest for them to make up a shortfall in savings and more difficult to get rehired into the workforce.

Advisers' clients, who are among the wealthiest Americans, are one of the more vulnerable groups since they're often in high-paying jobs that management aims to eliminate first if cutbacks are necessary.

"It's a population that definitely feels the pinch," said Kerry Hannon, a work and jobs expert for AARP. "They often find themselves out of work or accepting an early buyout package before they had planned to step out of the workforce."

Financial advisers are in a unique position to help middle-aged clients navigate the situation while minimizing the financial damage.

Short-term plan

Advisers can offer financial structure for clients who undergo such a turbulent event. Since a client may be daunted by thinking about the long-term financial picture when confronted by the immediate shock of losing a job, advisers should first take a short-term view and establish short-term goals, experts said.

That means examining the client's finances over the next few months — looking at where clients can cut expenses, identifying where cash reserves are located, determining how an employer payout such as severance should be allocated (for example, for income or as payment toward any large, troublesome debts), and assessing whether clients should try finding a lower-paying or part-time job to tide them over.

Mike Alves helped one middle-aged client, who lost his job as an IT executive making $300,000 a year. He cut his client's life insurance premiums in half — from $25,000 to about $12,000 annually — by reevaluating and ultimately reducing the death benefit. The adviser also cut the family's travel budget in half, by recommending coach instead of business-class travel and reducing the scope of their trips. He was careful not to suggest eliminating travel outright, since it was a cherished family activity.

"You have to get creative," said Mr. Alves, vice president of financial planning at Marquez Private Wealth.

Monica Dwyer, wealth adviser at Harvest Financial Advisors, has a set of preferences for how to generate income for clients in the most efficient manner. After cutting unnecessary expenses, advisers should first look to after-tax pots of money like savings accounts. Then they should consider assets that can be liquidated, life insurance cash value, taxable distributions (asset growth) from an after-tax deferred annuity, and withdrawals of prior contributions to a Roth IRA.

Ms. Dwyer recommends tapping the Roth contributions last, even though the distribution is tax- and penalty-free, since she considers the

Roth to be a more valuable long-term asset in retirement. However, this order isn't steadfast — it depends on the client's situation, she said.

Home equity

Clients who think it's possible that they'll be laid off should prepare by opening a home equity line of credit ahead of time to draw from, according to advisers, who also said retirement accounts should be used only as a last resort.

"The last thing he wants me to touch is my retirement account, because I'm only 58," Ms. House said of her adviser.

Ms. House's pension from her prior employer is returning a 7% compound annual rate of return, and tapping it before age 65 would be like "cutting off your nose to spite your face," said Mr. Nolte, her financial planner at Seacoast Bank.

If tapping retirement accounts is unavoidable, however, there are strategies to make the distributions more advantageous for the client.

For example, being unemployed means clients can no longer take a loan from their prior company's 401(k) plan. But clients could set up a Solo 401(k) plan, Mr. Nolte said, if they treat unemployment and the process of trying to find a job like self-employment. They could roll over their 401(k) assets and take a loan from the Solo 401(k) instead. While the client would eventually have to pay the money back into the 401(k) with after-tax dollars, there wouldn't be any immediate tax consequences from the withdrawal.

Clients can also turn to the "age 55 rule," which allows individuals between the ages of 55 and 59½ who are laid off, fired or quit a job to draw from their 401(k) without penalty. (There would normally be a 10% early-withdrawal penalty.) The client has to pay income tax on the distribution.

The age 55 rule doesn't apply to IRAs. However, clients can avoid an early withdrawal penalty from IRAs via 72(t) payments, also called substantially equal periodic payments, or SEPP, which can be taken at any age. These come with strict rules — for example, the fixed annual payments must continue for at least five years or until age 59½ (whichever is longer) and payments generally can't be changed or stopped during that period.

Arguably, advisers can help as much — if not more — with aspects of a client's job loss that have nothing to do with finances.

"Leaving the workplace in an unplanned fashion can be a true shock to somebody," said Ms. Hannon of AARP, author of the book **"Great Jobs for Everyone 50+" (Wiley, 2012)**. "Even if they accepted the buyout package, it's psychologically as well as financially challenging."

Don't forget the empathy

Indeed, advisers say the first important thing to do, before worrying about how to shore up a client's finances, is to lend an empathetic ear. An employment gap serves as a good time for clients to reflect on what they enjoy doing and their vision for their career moving forward, and advisers can help tease out these feelings.

"I'm big on helping the client not just financially but however you can, like a member of the family," Mr. Alves said. "My job is to ask the right questions and help them dig deep."

Some clients decide they'd like to start their own business and be their own boss. That was the case for Mr. Alves' IT executive client. Mr. Alves helped the client set up his business by counseling him on where to draw financing (a combination of funds from his personal savings, portfolio assets and the sale of stock options), in addition to introducing the client to private-equity contacts.

Robert Falcon decided to become a financial adviser as a result of the turnover he experienced in the pharmaceutical industry. Having been laid off a decade ago at age 49 from Wyeth, where he helped forecast future revenue streams from drugs in development, and then again in 2015 from a smaller firm, he decided to change career paths.?"I thought, 'I'm going to get whacked again, and I don't want that to happen when I'm 57, 58 years old and my kids are going to college,'" Mr. Falcon said.

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>
> MICHAEL ROSS, PRESIDENT FINANCIAL CONNECTION

Unfortunately, three years later following an acquisition by Wealth Enhancement Group, OneSource Retirement Advisors, Mr. Falcon's first advisory employer, cut his pay by about half. He launched his own firm, Falcon Wealth Managers, in October and focuses on pharma and biotech clients.

Mr. Falcon and others argue that advisers should be pushing middle-aged clients to join networking groups and take other steps to prepare ahead of time for the possibility of losing their job.

"I think you need to remind your client that you don't have this cradle-to-grave job security anymore," said Michael Ross, president of Financial Connection Inc. "The reality is, you have to know if you will retrain, go back to school, do something different. Talk to recruiters when they call, even if you don't take the job."

Ageism still exists

The bad news for middle-aged clients, advisers say, is that ageism still exists in the workplace, even though it's illegal, which means older people seem to have more trouble finding a new job than younger workers. But the current strength of the job market somewhat eases that concern.

While some advisers may feel that helping a middle-aged client weather a job loss in nonfinancial ways is outside the purview of their duties, the benefits of doing so may tilt the scales.

First, the client's job loss connects to the adviser's bottom line: If a client draws down assets for income during a job transition, the adviser's fee payments could suffer.

Beyond that, helping a client succeed in this arena will foster lifelong loyalty as well as potential referrals for prospects in similar life situations.

"They'll be your biggest advocate," Mr. Nolte said.