Facing record job losses, are you prepared to guide your clients?

September 22, 2020

A separation of service can trigger workplace wealth distributions. Even highly compensated employees benefit from conversations on financial and emotional readiness.

Preparing for job loss is never easy to think about. But as COVID-19 grinds on, more companies — even those with stable or surging profitability — are reassessing the way they work, including staffing plans. Many are announcing furloughs, terminations and early retirements, and we expect more to follow this trend. The Department of Labor reports that, as of September 17, 2020, 28.8 million workers are either on or have applied for unemployment benefits. And this number far exceeds the claims filed during the Great Recession.

Clients need advisors to help them prepare for a job loss and navigate the process of separation, including adjusting their financial plan. This can be a singular moment to demonstrate an advisor’s value.

“Financial advisors who are prepared to lean in and demonstrate their value by helping clients manage these stressful events have the opportunity to significantly deepen their client relationships.”

-- Abram Claude, Head of Value-Add and Consultative Services, Columbia Threadneedle Investments
Understanding workplace compensation is critical

Advisors who understand their clients’ specific situation usually bring the greatest value. But there’s a general roadmap that advisors should be prepared to discuss — and it covers all aspects of compensation, including:

- Deferred compensation
- Vesting of equity grants
- Potential sources of income — and the tax implications of accessing it
- The need for interim health care coverage if the client is not granted extended employer coverage or eligible for Medicare

For highly compensated and executive employees, establishing the full clinical picture includes understanding which distributions triggered by separation of service can be controlled (or scheduled) and which cannot.

Potential sources of income in the event of a job loss

<table>
<thead>
<tr>
<th>Work-related assets</th>
<th>Non-retirement assets</th>
<th>Retirement assets</th>
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</thead>
<tbody>
<tr>
<td>Severance package</td>
<td>Bank and money market savings</td>
<td>Defined contribution (e.g., 401(k)) plan loans</td>
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<tr>
<td>Deferred compensation distributions</td>
<td>Home equity line of credit</td>
<td>Early defined benefit (e.g., pension plan) distributions</td>
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<tr>
<td>Accelerated vesting of equity grants</td>
<td>Cash value in life insurance (loan)</td>
<td>Coronavirus-related distribution</td>
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<tr>
<td>Unemployment insurance</td>
<td>Taxable investments</td>
<td>Roth IRA</td>
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<td></td>
<td>Social Security (if age 62 or older)</td>
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Tools to help start the conversation

Opening a dialogue on the subject can be challenging, even for the most prepared advisors. These can be difficult conversations at an emotionally stressful time. But as layoffs and terminations will most likely be an ongoing reality for the foreseeable future, preparing now makes a lot of sense.

We’ve created a conversation toolkit that can aid advisors as they address the implications of work separation, including questions to ask prior to the meeting and a worksheet to assess a client’s financial picture. For more complex situations, we can provide consultative services to discuss specific elections and decisions an employee needs to consider.

Bottom line: Clients facing a job loss need a trusted advisor

Position your practice as a place where clients trust you to guide them through their financial concerns during one of the most important changes they’ll encounter — and one that offers empathetic support throughout the process. The better you can help them navigate through these challenges, the deeper your relationship will be with your client for the long term.

To find out more, call 800.426.3750 or visit columbiathreadneedle.com

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