With the current economic expansion already extremely long, even by historical standards, there is a rising risk that record low unemployment most likely won't stay that way forever.•

Could your job be at risk when the next recession comes?

Severance packages are popular when companies seek to reduce workforce, especially older workers. According to Lee Hecht Harrison and Compensation Resources Inc. in their 2017-2018 Severance & Separation Benefits Benchmark Study of over 350 senior HR leaders at U.S. companies, 88% of companies pay severance.

Seeking to accept a severance package is more than a financial decision, there?s an emotional process about to arise. It?s one thing to prepare for retirement; to be placed suddenly in a situation where retirement or a possible dramatic shift in employment is thrust upon you, is quite another.

However, emotions need to be placed on the backburner until a financial decision is made. In most cases, you?ll have at least 21 days to do your homework. You?ll need the time to thoroughly understand the severance agreement especially if it includes a non-compete clause if planning to return to the workforce in a similar role.

For those who have accepted a severance package, what?s next?

The process can feel intimidating.

Don?t worry.

We?re here to help you make sense of it.

There are several points to consider:

Severance pay tax timing.

Depending on how severance pay is administered, it could be best to have it paid out over several years to avoid a big tax hit. A lump sum may push you into a higher tax bracket and perhaps trigger greater capital gain liability and • the Medicare surtax. Best to consult your tax advisor and then your employer?s HR department to determine whether this is a viable alternative. Naturally, working through your budget to make sure this strategy makes sense, is important.

Maximize your Health Savings Account contribution.

If you have a high-deductible medical plan and don?t require the cash for living expenses, consider maximizing your contributions to your company health savings account before your severance date. A HSA payroll deduction is pre-tax, grows tax deferred and for qualified expenses can be withdrawn free of tax. The family contribution limit for 2019 is $7,000. The maximum contribution limit for individuals is $3,500. Those over 55 are allowed an additional $1,000 catch-up contribution.

Lump sum or pension annuity: the decision is a personal one.

Don?t be pressured. Depending on the viability of the pension, current age, health, the direction of interest rates, family longevity, the intention to leave a legacy to family and the current state of your finances, an objective Certified Financial Planner can head you in the right direction. There are several ways to rebuild or re-create a pension for living expenses in retirement. However, sometimes taking the pension annuity is the most appropriate choice.

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Retirement plan rollover or not.

Most likely the wisest decision is to roll over your retirement plan proceeds into a self-directed individual retirement account held with a full-service financial firm or registered investment advisor. You?ll command a greater selection of investment choices and hopefully lower costs. If younger than 59 • (at least 55 years old), and require distributions from your employer retirement account, then it?s best to leave the plan with the company and avoid the 10% early-distribution penalty. This withdrawal provision is NOT available for IRA accounts. A fiduciary or a professional who places your interests first can help you assess the best option.

Stock option exercise strategy considered.

A strategy to exercise company stock options should consider taxes, expiration dates and total net worth invested in the stock of your employer. We recommend no greater than 10% of your liquid net worth tied up in the company stock. Also, you must be sensitive to post-termination stock option rules, especially for vested options. Companies are known to strictly uphold termination deadlines. Exercise them within the stated window or leave money on the table.

What is this process called NUA. Is it right for me?

Have you accumulated company stock in a company retirement plan? You may have the option to complete an in-kind distribution of the shares into a non-retirement account. A ?net unrealized appreciation? tax strategy can be especially desirable if the company stock has appreciated significantly. •••••• •Through this process, the stock is distributed and taxed as ordinary income at its original value or cost basis. From there, the shares are held in a brokerage account and not taxed until sold. At that time, you?ll pay long-term capital gain rates on additional appreciation.• A qualified tax professional or financial planner can crunch the numbers and help you best understand the pros, cons and the mechanics of this process.

Healthcare coverage including COBRA.

A common mistake for those who are eligible for Medicare is to sign up for COBRA coverage (which extends group health coverage insurance with higher costs) and postpone taking Part B Medicare insurance. Keep in mind, COBRA is not considered qualified group health insurance coverage for Medicare purposes. If you do not sign up during the Part B 7-month initial enrollment period, you will be charged a late enrollment penalty of 10% of the Part B premium for every 12 months you go without coverage. This penalty is assessed for as long as you have Part B (the rest of your life!).

Don?t forget unemployment benefits.

Yes, if your severance is due to workforce reduction you may be eligible to collect unemployment benefits. Most states prohibit individuals from receiving unemployment benefits while receiving severance pay. Chapter 207 of the Texas Labor Code disqualifies unemployment benefits while receiving most forms of severance pay. However, it?s worth it to apply for benefits with the Texas Workforce Commission to make the determination.

For a severance kit assessment and expanded information about the points outlined here, please contact us at RIA Advisors to discuss your personal situation.