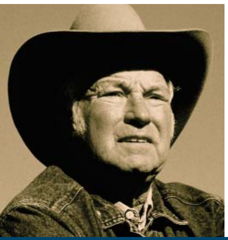
Manulife Investments

WealthStyles

Soft landing – Surviving the pink slip

Scott Wilson had watched co-workers receive pink slips from time to time during his long career. As vice-president of a pharmaceutical company, he had even laid off employees himself on a few occasions, but the word "downsized" had never applied to him. At 57, nearing retirement and comfortably settled into middle management, he felt secure he would never be downsized.

Then, one Thursday afternoon, Scott found himself sitting across the table from his boss, a human resources professional and an outplacement agency representative. They tried to break it to him as gently as they could, explaining that they had no choice in such a competitive industry, and that he was not the only one who was losing his job.



Scott remembers sitting in his car in the company's sprawling parking lot for at least half an hour, trying to absorb what had just happened. Then he drove home, and it was only as he unlocked his front door that shock gave way to nervousness. What if he lost his house? Where would he and his wife of 25 years live? He sat down in his favourite armchair in the living room and pulled out the paperwork to review the details of his severance package.

TAKE A DEEP BREATH

Scott's situation is surprisingly common. About one in 18 Canadian employees permanently lose their job each year, according to Statistics Canada (The Daily, March 25, 2004). However, the negative effect on your short-term or long-term finances can often be significantly reduced if you handle it calmly and engage trusted professionals to handle some of the legal issues and tax consequences surrounding a severance package.

Scott's first call that day was to his wife, Eliza, who, at 55, ran a successful catering business. Weeks later, she



confessed to Scott that she kept her own worries about how they would make ends meet on one salary to herself. But at the time, she quickly recommended that the two of them make an appointment to see their financial advisor. She recognized right away that it would be crucial to invest the settlement wisely to tide them over while Scott decided whether he wanted to return to the workforce full time, start a consulting company, or take an early retirement.

The next morning, Scott called Andrew, their advisor. Andrew explained that he had seen many clients go through this type of situation, and that with careful planning, Scott and Eliza would probably not have to adjust their current lifestyle or retirement plans too much. He scheduled an appointment with them right away, and asked if Scott had consulted a lawyer about the severance amount. When Scott admitted that he hadn't, Andrew recommended a colleague who specialized in this area. He emphasized that, in many cases, the employer's offer is lower than it should be, and that a lawyer might be able to negotiate a higher amount based on years of service, salary level, position, age and the circumstances surrounding the termination.

LOOK AT THE NUMBERS

Scott's company had offered him a lump sum to cover termination pay (an amount in lieu of notice) and severance pay (an amount to compensate him for lost seniority and benefits). That total, intended to be in line with his 15-year contribution to the business, was $120,000. And that's the figure Scott and Eliza discussed with Andrew at their first appointment, while Scott's lawyer was still in the process of negotiating a higher settlement. Although Andrew believed this figure to be low given Scott's former position, he decided to work with this figure that was on the table.

Andrew began the meeting with some reassuring information. At his suggestion some years ago, Scott and Eliza had applied for, and received a secure line of credit that would see them through six months of regular expenses. In addition, Scott and Eliza also had put aside some savings for a rainy day. Andrew recommended that Scott roll as much of the money as possible into his RRSP to shelter it from tax. The government sets limits on how much of a severance package (which may be classified as a "retiring allowance") may go into an RRSP tax-free. Scott was permitted to deposit $2,000 for each of the five years he worked between 1991 and 1995, inclusive, plus the amount of unused contribution room he had available – which, in this case, was an additional $30,000, for a total RRSP contribution of $40,000. The remaining $80,000 would have to remain in a non-registered account, and would be taxed as income in that year.

The next question the couple needed to address was how to invest the money. Neither Scott nor Eliza wanted to spend time managing multiple investments and wanted to keep it pretty simple. Scott and Eliza both agreed that they did not want to take a lot of risk given how close they were to retirement and asked about an




investment that offered some guarantee and the potential for growth. Andrew looked carefully at their situation and recommended an asset allocation portfolio comprised of segregated funds.

An asset allocation portfolio is a ready-made, diversified, regularly rebalanced mix of investment funds. By choosing segregated funds, the investment principal would be guaranteed at death or maturity which was something the Wilsons wanted. Inside the RRSP, Andrew recommended a growth portfolio. He felt that, since this money wouldn't be touched for a few years, the couple should take advantage of the upside growth potential of equities. Outside the RRSP, Andrew suggested a more conservative asset allocation portfolio to ensure that the couple had access to their money should the need arise.

He explained that the portfolios he was recommending were overseen by some of the most respected money management companies in the world. Their investments would be monitored by a due diligence team that would ensure each manager stayed on track. The death and maturity guarantees would come from the segregated fund contract, along with valuable estate planning and creditor protection advantages – something Andrew knew that Scott would benefit from should he decide to start his own business. To top it off, Andrew explained to Scott and Eliza that they would receive a detailed investment report every quarter, which would outline the entire investment for them so they could keep track of how their money was performing.

Now that they had decided on what to do with the severance package, Andrew moved on to their other financial concerns. Since Eliza was self-employed, and without a benefits package, they discussed various insurance options that could protect them. They also talked about Scott's company pension plan, which would remain an important contributor to his retirement income. Finally, Andrew helped the couple identify some areas of their monthly budget where they could cut back over the short term to make their savings last longer than six months.

Scott and Eliza left the meeting feeling relieved and much more confident about their future. While Scott still wasn't sure where his career would go from that point, or how much extra his lawyer would be able to negotiate on his behalf, he knew that careful cash management and solid investment advice would cushion the impact of his layoff and protect his retirement dreams.

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