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Temporary Payroll Tax Deferral: What You Need to Know

On August 8, 2020, the president issued an executive order to allow the deferral of certain payroll taxes during the last four months of 2020, and the IRS recently provided related guidance. This has implications for both employers and employees. Here's a brief summary of the issues.

Already-existing payroll tax deferral provisions

There are generally two separate contributions to the Social Security payroll tax (technically, the Old-Age, Survivors, and Disability Insurance, or OASDI, tax) — a 6.2% employer portion and a 6.2% employee portion.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law in March 2020, already allowed eligible employers (and self-employed individuals) to defer the payment of the *employer's* 6.2% share of Social Security tax from March 27, 2020, to December 31, 2020. Any deferral of the employer Social Security payroll tax under the CARES Act must be repaid over a two-year period, with half of the deferred tax due by December 31, 2021, and the other half due by December 31, 2022. Similar deferral is available under the railroad retirement tax.

Employee portion of Social Security tax now eligible for deferral

The recent executive order and related IRS guidance expand the payroll tax deferral opportunity — generally allowing employers to defer withholding and payment of the *employee's* 6.2% share of the Social Security tax for payroll dates that fall on or between September 1, 2020, and December 31, 2020.

While employers are eligible to defer the employee portion of the Social Security payroll tax, the IRS guidance does not address whether self-employed individuals are also able to do so. Additionally, the employee portion of the Social Security tax cannot be deferred for any employee with wages or compensation of \$4,000 or more in a biweekly pay period (or the equivalent amount with respect to weekly, monthly, or other pay periods). This dollar threshold applies per pay period, so it's possible for an employee to qualify for deferral in some pay periods but not in others.

It's important to note that nothing in the IRS guidance indicates that the payroll deferral opportunities described here are mandatory. Employers can take advantage of the deferral provisions if they find them beneficial, but can continue to withhold and pay payroll taxes as normal if they wish.

An employer may ask employees whether or not they wish to defer their 6.2% portion of the Social Security payroll tax, but the guidance released does not specifically require it.

When do deferred amounts have to be paid?

If an employer defers the employee portion of the Social Security payroll tax during September, October, November, and December 2020, employees may receive larger paychecks, but this deferred payroll tax must be repaid in 2021 (absent new legislation that specifically forgives deferred amounts). Specifically, employers will have to withhold extra money from employee paychecks during the first four months of 2021 — January through April — to make up for the four-month deferral. This is in addition to the payroll tax employees must normally pay during 2021. As a result, employees who benefit from deferral of payroll tax between now and year-end are likely to experience reduced paychecks during the first part of 2021. An employee in this situation may wish to consider putting any extra funds from a larger paycheck in 2020 into a savings account to compensate for a smaller paycheck in 2021.

While it's expected that many employers will opt not to defer payroll taxes, the Defense Finance and Accounting Service has announced that the Social Security payroll tax deferral will start automatically in mid-September for military members and civilian employees; they are not eligible to opt out.

Many questions remain, and additional guidance is expected.

Potential tax deferral under CARES Act:

- **Withholding of employer share of Social Security tax not required from March 27, 2020, to December 31, 2020**
- **Makeup of withholding required by December 31 of 2021 and 2022**

Potential tax deferral under recent guidance:

- **Certain withholding of employee share of Social Security tax not required during September to December 2020**
- **Makeup of withholding required during January to April 2021**



Student Loan Relief Extended Through End of Year

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provided a six-month automatic payment suspension on federal student loans through September 30, 2020. In August, the president signed a memorandum to extend federal student loan relief through December 31, 2020.

What does this mean for student loan borrowers?

All borrowers with *federally held* student loans will have their payments automatically suspended through 2020 without penalty. In addition, no interest will accumulate on the loans — the interest rate will remain at 0% through 2020.

Collections on defaulted loans will also be halted, and borrowers with defaulted loans whose employers continue to garnish their wages will receive a refund of those garnishments.

The extension for student loan borrowers is automatic. Borrowers will be notified of the extension throughout the fall and can expect to see the extension reflected in their student loan accounts.

Should you continue to pay your student loans even with the extension?

Borrowers still have the option to continue making payments on their federal student loans during the extension. In fact, if you can continue to pay your loans while the interest rate is at 0%, your payments will go toward reducing the principal balance, allowing you to pay off your loans sooner and at a lower cost.

What if you participate in the Public Service Loan Forgiveness program or have an income-driven repayment plan?

If you participate in the Public Service Loan Forgiveness (PSLF) program and are working full-time for a qualifying employer, nonpayments will count toward the 120 payments required by the PSLF program. If you have an income-driven repayment (IDR) plan, payments you would have made, but are no longer required to make, will count toward IDR plan loan forgiveness.

For more information on U.S. Department of Education efforts to assist student loan borrowers during the pandemic, visit ed.gov/coronavirus.



FAFSA for 2021-2022 Academic Year Opens on October 1

The FAFSA (Free Application for Federal Student Aid) for the 2021-2022 year opens on October 1, 2020. The FAFSA is a prerequisite for federal student loans, grants, and work-study. In addition, colleges typically require the FAFSA before distributing their own need-based aid and, in some cases, merit-based aid.

Students must submit the FAFSA every year to be eligible for financial aid (along with any other college-specific financial aid form that may be required, such as the CSS Profile). It is a good idea to file the FAFSA as early as possible in the fall because some aid programs operate on a first-come, first-served basis. Colleges have their own deadlines for filing the FAFSA, generally in the spring. Typically, first-year students have earlier deadlines than returning students. Check with your child's college for exact timetables.

How does the FAFSA calculate financial need?

The FAFSA looks at a family's income, assets, and household information to calculate its EFC, or expected family contribution. The EFC is the amount of money a family is deemed able to pay (afford) for college. All financial aid packages are built around this number.

When quantifying your income, the FAFSA uses information in your tax return from *two years prior*. This year is often referred to as the "base year" or the "prior-prior year." For example, the 2021-2022 FAFSA will use income information in your 2019 tax return, so 2019 would be the base year or prior-prior year.

When quantifying your assets, the FAFSA uses the current value of your assets. Some assets are not counted and do not need to be listed on the FAFSA: home equity in a primary residence, retirement accounts (e.g., 401k, IRA), annuities, and cash value life insurance. Student assets are weighted more heavily than parent assets — students must contribute 20% of their assets vs. 5.6% for parents.

Your income, assets, and household information are run through a formula to arrive at your EFC. Your EFC remains constant, no matter which college your child attends. The difference between your EFC and a college's cost of attendance equals your child's financial need. Your child's financial need will be different at every school.

Once your EFC is calculated, the financial aid administrator at your child's school will attempt to craft an aid package to meet your child's financial need by offering a combination of loans, grants, scholarships, and/or work-study. Keep in mind that colleges are not obligated to meet 100% of your child's financial need.

How do I submit the FAFSA?

The fastest and easiest way to submit the FAFSA is online at fafsa.ed.gov. To do so, you and your child will each need to obtain an FSA ID, which you can also do online by following the instructions. (Once you have an FSA ID, you can use the same one each year.) There is no cost to submit the FAFSA.

Before filling out the form, you might want to gather financial papers and account records. In most cases the FAFSA is able to import information from your tax return directly into the form using its built-in IRS Data Retrieval Tool, saving you time and reducing the chance for mistakes.

After your FAFSA is processed, you will receive a Student Aid Report with your EFC, which is typically designated like this: "EFC36000" (translation: your EFC is \$36,000). If you submit the FAFSA online, you will receive your report immediately via email; if you submit a paper FAFSA, your report will take longer to arrive by mail. Any college you list on the FAFSA will also get a copy of the report.

Should I file the FAFSA even if my child is unlikely to qualify for aid?

Even if you don't expect your child to qualify for need-based aid, there may be two reasons to submit the FAFSA.

First, all students attending college at least half-time are eligible for a federal unsubsidized Direct Loan each year, *regardless* of financial need. ("Unsubsidized" means the borrower, rather than the federal government, pays the interest that accrues during school and during the grace period and any deferment periods after graduation.) If you want your child to be eligible for this federal loan, you need to submit the FAFSA. And don't worry, your child won't be locked in to taking out the loan. If you submit the FAFSA and then decide you don't need or want the federal unsubsidized loan, your child can decline the loan through his or her college financial aid portal before the start of the new school year.

Second, colleges typically require the FAFSA when distributing their own need-based aid and, in some

The FAFSA and your income

Your income from two years prior is what counts on the FAFSA. For example, the 2021-2022 FAFSA will rely on income information in your 2019 tax return.

cases, merit-based aid. So filing it can give your child the broadest opportunity to be eligible for college-based aid.



Coping with Unemployment

What is coping with unemployment?

Coping with unemployment means breaking away from the past and facing your future. It means dealing with the emotional, financial, and professional challenges unemployment can bring. Although this process can be painful, facing unemployment with a plan will help make coping with it easier.

Dealing with your emotions

When you lose your job

Losing your job is an emotional experience--whether you are laid off or fired, whether you quit or retire. Your feelings of self-worth are tied more closely to your job than you realize. Although you're certainly entitled to relax awhile after your job ends, it's easy to let a few days of sleeping late, watching television, and playing golf turn into a few months of inactivity. Be careful not to use your need to relax as an excuse to avoid facing your future. The more time that passes, the more likely you'll feel anxious and depressed about your future. Here are three tips on what you can do to keep yourself moving:

- Pretend that you're still working. You've probably heard the adage that finding a job is a full-time job. Well, it's usually true. So why not pretend that you're still working? You don't have to get dressed up for this job, but at least get out of bed at the same time and get going. Stop for lunch and then work again until late afternoon. Keep moving, and you'll accomplish your goal of finding a new job with a lot less anxiety.
- Set daily and weekly goals.
- Get a calendar and write down what you want to accomplish each day for one week. Be specific and reasonable. Don't write "call future employers " Instead, write "call the human resource departments at five publishing companies." Then, write down what your weekly goal will be. You might write "compile a list of five potential employers and send resumes to them." Setting goals will help you feel in control of your fate and will ultimately help you get a job.
- Reward yourself. Looking for a job is tough, so after a long, hard day of job hunting, reward yourself. For instance, promise yourself in the morning that if you accomplish everything on your list by three o'clock, you can go to the matinee of the movie you've been wanting to see.

Planning a financial strategy

When you lose your job

When you lose your job, you may be able to rely on savings or, in some cases, unemployment compensation to replace some of your lost income. However, if you don't have much money saved or are worried about how to survive financially , you should come up with a financial plan for unemployment. You should plan a financial strategy that will keep you afloat for six months, if necessary. Hopefully, you won't be unemployed that long but if you are, you'll be prepared. Make a list of ways you can save money and cut expenses and prepare a bare-bones budget that shows the least amount of money you can live on during your period of unemployment. Then, prepare a six-month financial plan that details to the extent possible how you plan to survive financially while you're unemployed.

Planning for life after your current job ends

Find out what unemployment compensation you may receive

If you are being terminated for any reason, find out if you will receive severance pay and what unemployment benefits you may receive. You're likely to receive severance pay if you are laid off, but severance pay is usually based on the number of years you've been with the company. If you are laid off or fired, you may be eligible for unemployment compensation from your state. Your employer can give you the details. You should also find out when you will receive your final paycheck and if you are eligible for compensation for vacation or sick days you accumulated but never took.

Example(s): *When Alice was laid off from her job as executive housekeeper, her employer gave her a final paycheck consisting*



of her last two weeks of salary and ten days' worth of pay for the vacation time she had accumulated but never took. She also received severance pay equal to one month's salary. In addition, her employer gave her the address and phone number of the nearest unemployment office, as well as information on how to apply for unemployment benefits in her state.

Find out about continuing your medical benefits through COBRA

If you work for a company with more than 20 employees, your employer must notify both you and your spouse (if any) via first class mail that you have the right to continue your group health insurance coverage after your employment has been terminated (unless it ended because of gross misconduct). Under COBRA, you can continue your benefits up to 18 months, and your spouse and dependent children may be covered up to 36 months. However, you'll probably have to pay the full premium cost plus a small administrative fee--your employer won't contribute anything. If you work for a company that has fewer than 20 employees, you'll have to check your state's laws to see if you can continue coverage. Some states have passed legislation that gives employees of small employers the right to continue their health care coverage for a certain period of time.

Determine how you will handle your retirement account or pension plan funds

If you will receive a lump-sum pension plan or savings plan distribution, decide where you want that money to go. It's easiest if you authorize your employer to transfer funds directly from your retirement plan to another retirement plan you have set up elsewhere. Although you may be tempted to withdraw money from your retirement account to provide much-needed income, do so only if this is your only option.

Find out whether your employer-sponsored group disability or life insurance policy is convertible or portable

When you lose your job, you may also lose your disability or life insurance coverage. Although disability insurance is rarely portable or convertible (you can't take it with you or convert it to an individual policy), your group life insurance policy may be.

Ask how the company handles inquiries about your employment

Afraid of being sued by vengeful ex-employees, many companies today will give only limited information about your employment. A few companies may be willing to give some information about the quality of your work, but, in general, companies may answer only factual questions such as your dates of employment. If you were fired, you may be happy if your company has a strict employment inquiry policy. However, if you quit or were laid off, you may wish that your employer would give out more positive information as well.

Line up references

If possible, you should line up one or more people who are willing to give you a good professional reference. Those you choose should be personally familiar with your work and hold positions in the company higher than your own. However, before you list any former supervisors as references, check with them; some companies forbid department managers or supervisors to give out information about former employees. Many individuals, however, will give out information anyway, but check with them first. You don't want to be surprised later if someone you list as a reference refuses to talk to your potential employer.

Finding a new job

Setting realistic expectations

It may take you a lot longer to find a job than you think. You may have to update your resume, research job openings, and interview more than once with a potential employer. You should expect the job hunt to last at least six weeks and be prepared for it to last at least six months, especially in a tight job market (one rule of thumb is to expect it to last one month for every \$10,000 of compensation). You may also have to decide whether you're willing to move to a different area if you can't find a job locally.

Setting up a support network

Networking can mean either finding others who can support you emotionally when you're unemployed or finding individuals and printed materials that can help you find a new job. You can find emotional support through friends, relatives, job-hunters' support groups, or Internet sites. In addition, many resources are available to help you find a new job. You can find numerous books and newspapers at your local bookstore or library that will help you determine your career goals, prepare a resume, and research



companies in your area. You can talk to professional job counselors, headhunters, temporary agencies, or image counselors (you may have to pay them a fee, in some cases) who can help you find job openings or line up interviews. You can even find jobs through the Internet or through your friends and family.

Starting your own business

Many people who have lost their jobs to company downsizing decide to start their own businesses and, after years of working for someone else, really enjoy being in charge of their own company. If you are tempted to start your own business, be aware that most new businesses fail quickly, often due to the lack of cash flow and thorough planning.



Coping with Unemployment Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered? • Names, ages • Children and other dependents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Has financial situation been assessed? • Income • Expenses • Assets • Liabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Employee benefits	Yes	No	N/A
1. Did you meet with your former employer's Human Resources department or your manager about your benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you know when you will get your final paycheck?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Will you receive accrued vacation, sick pay, or overtime?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are you eligible for workers' compensation or disability benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Will you receive a severance package?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Can you keep your employer-sponsored life insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does your former employer offer outplacement resources?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you secured reference letters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Filing for unemployment	Yes	No	N/A
1. Have you filed a claim for unemployment benefits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you have your personal information including Social Security number and driver's license number?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you have your former employer's information including name, address, federal tax ID number (from your W2)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



4. Do you have the dates you began and ended employment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you have a record of your earnings (W2)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Health insurance benefits			
	Yes	No	N/A
1. Will you have health insurance after you leave your job?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Have you checked for the availability of COBRA or state-mandated health insurance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Can you get health insurance through your spouse's plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Have you checked on the cost of health insurance after you leave your job?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you have a Health Savings Account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Employee's retirement benefits			
	Yes	No	N/A
1. Do you have a defined benefit or other pension plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Are your benefits fully vested?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. If yes, can you receive the plan benefits or transfer the plan benefits to another account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you have a 401(k), profit-sharing plan, 403(b), 457(b), or other similar plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are your employer contributions fully vested?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Do you have an outstanding plan loan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. If yes, can you receive the plan benefits or transfer them to another account?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			



Your financial picture	Yes	No	N/A
1. Do you have other sources of income while you're unemployed? <ul style="list-style-type: none"> • Unemployment compensation • Pension • Spouse's income • Interest/dividend • Alimony/child support • Workers' compensation/disability 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you have savings you can use for expenses? <ul style="list-style-type: none"> • Checking/savings/money market/CDs • Stocks/bonds/mutual funds • Annuities • Cash value life insurance • Retirement plans (IRA, 401(k), pension) • Other (Social Security disability, veterans benefits, etc.) 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Have you estimated all your expenses? <ul style="list-style-type: none"> • Housing costs • Taxes • Food, clothing, and other household expenses • Transportation costs and auto insurance • Health-care expenses including insurance premiums • Life, long-term care, and disability insurance costs • Child-care costs • Mortgages • Credit cards 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know how long your unemployment compensation and other sources of income will last?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you know how long your savings will last if your unemployment and other sources of income end?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Finding your new job	Yes	No	N/A
1. Have you assessed your job skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is it time to start a new career?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Are you ready to start/buy a business or franchise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Will you seek professional help? <ul style="list-style-type: none"> • Headhunter • Career counselors • Online job search 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Have you prepared or updated your resume?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



6. Have you established network contacts? • Current and former coworkers • Professional associations • Friends/family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Have you honed your interviewing skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Have you lined up your references?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Have you determined what the going rate is for your skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Have you established your minimum salary requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Do you know the minimum employee benefits you require?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			
Your new job/career	Yes	No	N/A
1. Have you researched your prospective employer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the job match your skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the company financially stable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know the employee benefits the company offers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the compensation offered meet your requirements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Can you negotiate your salary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is health insurance offered? • Type of plan(s) available • What's covered • Who's covered • How much will it cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Is an HSA available?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Is sick time available? • How much is offered • When is it available • What types of absences are covered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Are retirement benefits offered? • Plan types • Investment options • Vesting • Employer contributions • Portability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



11. Are other benefits available? • Life insurance • Disability • Educational/training benefits • Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Notes:			



Receiving Unemployment Benefits



Do you worry about changes in the economy? Have you recently been fired or a victim of downsizing? Whatever your situation, you may be wondering if you're eligible for unemployment benefits. For a basic understanding of how unemployment benefits work, read on!

Am I eligible?

Although specific eligibility requirements vary from state to state, most states have the same basic standards for collecting unemployment benefits. They include:

- You must be unemployed or working less than full time
- You must meet certain income requirements
- You must be ready, willing, and able to work
- You must have involuntarily left your job

In general, you won't be eligible for benefits if:

- You quit your job simply because you didn't like it
- You're fired for committing a crime (e.g., stealing)
- You've never worked before

For more information, contact your state's local employment office. You can also look in the state government section of your phone book under Unemployment Insurance, Unemployment Compensation, Employment Insurance, or Employment Service. Or, you can try surfing the Internet using these same key terms.

Where does the money come from?

In most states, unemployment compensation is financed by employer contributions through a payroll tax. In a few states, employees are also required to contribute a minimal amount to the fund.

How do I apply?

Most states will allow you to apply for benefits:

- In person



-
- By telephone
 - By mail

When filling out the application, you'll be asked a lot of questions, so have the following information handy:

- Your Social Security number
- Your last employer's name, address, and phone number
- Your last day of work and the reason that you're no longer working
- Your salary history
- Your proof-of-citizenship status

How are benefits calculated?

Regardless of which state you live in, you'll receive a weekly unemployment benefit based on how long you were employed and your prior wages. The state will calculate your average weekly wage, and you will receive a percentage of that wage based on your state's formula. You can figure out your average weekly wage by adding up 12 months' worth of pay stubs and dividing that number by 52. If you were salaried, just divide your annual salary by 52.

How long can I receive benefits?

In most states, you can receive benefits for up to 26 weeks. However, federal laws and some state laws provide for additional benefits to be paid to workers who exhaust their regular benefits during periods of high unemployment. These additional benefits may generally be paid up to 14 weeks (20 weeks in some states) and are funded partly by state governments and partly by the federal government.

Are unemployment benefits taxable?

The answer to this question comes as a big surprise to many people. Yes, the unemployment compensation you receive is generally taxable. In some states, you can ask that taxes be withheld from your unemployment check. This could save you from a big tax bill at the end of the year. For more information, consult your tax advisor.



Surviving Financially When You're Unemployed

What is it?

When you lose your job, you may have to put yourself on a financial diet. Just as losing weight is simple if you eat less (and exercise more), staying afloat financially is simple if you spend less. Is this process going to be easy? No, of course not. But it can be done with a little self-discipline, some creativity, and a lot of planning.

Plan for a six-month period of unemployment

It's hard to know how long you'll be unemployed. You may find a new job within a matter of weeks, or it may take you months. However, it's best to plan for a worst-case scenario, probably six months. Most likely, you'll find a job sooner, and you can throw the rest of your plan in the trash. But, if you don't find a job quickly, at least you'll be prepared.

Follow the plan

When you've come up with a financial plan, stick to it. Like any diet, you'll be tempted to cheat by spending a little more money than you should. You may even find that as time goes by, you want to change your plan a bit. That's OK. Your plan is designed to be flexible so that you don't feel too burdened by something that seems unworkable.

Adjust your expectations

No, finding a new job is not going to be easy

First, despite the number of appealing job ads you see in the Sunday paper, finding a new job is not going to be easy. Even if you're one of the lucky few that's working in an occupation that's in high demand, finding a new job is probably going to take at least a few weeks and maybe months. Your job search may look something like this:

- Week One: Send out ten resumes, and wait for the phone to ring.
- Week Two: Send out ten more resumes, and wait some more.
- Week Three: Send out five resumes for jobs you really want and five for jobs that you really don't want. The phone rings. It's your mother.
- Week Four: The phone rings. Then it rings again. You line up two job interviews. You send out three more resumes.
- Week Five: You have two interviews, and send out five more resumes. You're called for a second interview at one of the jobs.
- Week Six: Good news! You're hired! Bad news: You can't start for two more weeks.

As you can see, even a successful job search can take a while, even if you're a good candidate in a good job market. Prepare yourself for this by drawing up a financial plan as soon as you lose your job.

Expect that life is going to change

When you lose your job, you probably won't be able to live the same way you lived when you had a job. If you try to live the same way, there's a good chance you won't survive financially. If you're unemployed for only a few weeks, your life might not change radically. Perhaps you'll only need to spend a little less on groceries, go out to eat once every two weeks instead of once a week, and then dip into your savings account. But if you're unemployed for months, or if your basic living expenses are high, you're going to have to take a more radical approach to survive. You may have to sell your house, your car, or take a temporary job. Prepare yourself mentally for this.

Map out your priorities

How desperate are you?

Desperation can trick you. Things that you once said that you'd never do, seem more and more appealing as time passes and you



can't find a new job. When you started your job search, maybe you said "I'll do anything to survive, but I won't sell my Jeep!" Four months later, you're saying, "OK, maybe the Jeep has to go, but I'll never disconnect my cable." Hopefully, you'll never reach the point where you say, "I'll declare bankruptcy, but only Chapter 13, not Chapter 7!" After all, you do have some pride, don't you? What are the things you will and won't do, will or won't sell to survive financially? At this point, do yourself a favor and map them out.

Remember, diets (even financial ones) don't last forever

Keep in mind as you plan for unemployment that even though you're on a financial diet, no diet lasts forever. At some point, you'll find another job and the crisis will pass. Therefore, you want to be especially careful that the decisions you make now aren't shortsighted. Do what you can to survive, but only do what you really have to.

Example(s): *When Jeff was feeling especially desperate one day, he sold his lawn mower at a garage sale for \$75. Two weeks later, he landed a job at a software company, and his lawn had grown six inches. Jeff was forced to spend \$350 for a new mower.*

Draft a survival budget

The next step is to draft a survival budget. If you currently have a budget, use that as a guide. If you don't, you'll have to start from scratch by listing all your income and expenses. A survival budget is a bare-bones version of a regular budget. What you want to end up with is an idea of what income you need to actually survive. Start by listing your expenses and your post-employment income. Remember to include only expenses that are necessary; eliminate any items that are luxuries or that you could reasonably do without.

Find ways to increase your income

There are many ways to increase your income while you look for a new job, some of which you should look into immediately, and others only when you are truly desperate.

Unemployment insurance

One of the first places you should look for income when you lose your job is your state's employment office. However, you can only receive unemployment benefits if you meet certain eligibility criteria. Mainly, you must be involuntarily unemployed. This means that if you've quit your job, you have no chance of receiving unemployment benefits, but if you've been laid off or fired (but not for misconduct), you should definitely check into it. Benefits and regulations vary from state to state, so it's hard to say how much you'll get. But if your application is approved, you should begin receiving benefits quickly, often within a week or two.

Severance pay

You may be eligible for severance pay if you are laid off. How much you receive will depend upon your employer's policy. You may have the option of receiving a lump-sum payment or a continuation of salary. If you take a lump-sum payment, you'll have immediate control over your money, but you may lose your employee benefits. If you take a continuation of salary, you may keep your benefits, but you'll have to trust the company that laid you off in the first place to stay financially sound.

Savings

If you've planned ahead, you may have an emergency fund set up that's equal to three to six months of living expenses from which you can borrow when you need to supplement your income. This is a great source of income ... if you have it. Many people don't, and are surprised to see how fast a savings account can be depleted when it's used as a source of funds for everyday expenses.

Credit insurance

You probably don't have credit insurance that will make your bill payments when you're unemployed. However, if you have any doubt, call your mortgage company, or credit card companies to find out or check your billing statements. Perhaps you inadvertently signed up for such protection, which adds a few dollars to your payment every month. However, you may have to wait for a while before receiving benefits.

Part-time or temporary job



If you get a little more desperate, you should think about taking a part-time or temporary job to supplement your income. This may be a good idea for two reasons. First, you'll feel less stress if you know that you have at least some regular income coming in. Second, you may even be able to parlay a part-time or temporary job into a full-time job, or gain experience that will help you in your job search. Third, you'll be able to schedule interviews relatively easily, if you can decide where or when you want to work (as you can with many temporary assignments). Even if you take a job that you feel doesn't have career potential, you'll feel better just doing something besides sitting around the house worrying.

Have a yard sale

Depending upon what you have to sell, having a yard sale can be quite lucrative. If you look around your house, you'll be surprised at how much you own that you really don't need. Make a list of things you want to get rid of, and list them in order of priority. If you're really desperate or if you don't care about an item, price it accordingly. If you don't want to sell it unless you get a good price, keep that in mind as well. Also consider consigning items at a shop if you have specific things to sell.

Sell your house, or rent it

As a last-ditch attempt to remain solvent, selling your house can be advantageous if you can raise a lot of cash this way and if you want to reduce your monthly cash outlay over the long-term. It's not a good short-term way to raise cash because it will take time to implement, and it has long-term consequences. After you accept an offer on your house, you could have trouble if you change your mind, and the impact on your family will be far-reaching. If you want to temporarily reduce what you pay for housing, however, you may want to consider moving to an apartment (or cheaper housing) and renting out your home for a year or two. However, any decisions you make in this area should be made carefully, and only after considering the true cost of your decision and how much you can actually get out of the deal.

Withdraw money from your tax-deferred retirement account

Withdrawing money from your tax-deferred retirement account (e.g., an IRA or employer-sponsored retirement plan) is an option you should consider only as a last resort to avoid bankruptcy. In general, any money you withdraw from a tax-deferred retirement account will be taxed as ordinary income for the year in which you make the withdrawal. In addition, you may have to pay a 10 percent penalty tax for early withdrawal if you're under age 59½. The IRS allows exceptions to the penalty tax under certain conditions, however.

***Tip:** If you are considering taking funds from your IRA or retirement plan, you should consult a tax advisor regarding the specific tax treatment of your withdrawal, because not all of it will necessarily be taxable. For example, if you have ever made nondeductible contributions to your traditional IRA or after-tax contributions to your employer's plan, a portion of your withdrawal may not be subject to tax. Also, qualifying withdrawals from a Roth IRA are totally tax free, and even nonqualifying withdrawals may not be fully taxable (since Roth IRAs are funded only with after-tax contributions).*

Borrow from the cash value of your life insurance policy

If you have a life insurance policy with cash value, consider borrowing the cash reserves. You'll have to repay the money, but not right away.

Borrow from relatives

Borrowing from relatives can be difficult. Not only will you have to put aside your pride, but you'll also have to contend with the consequences. Your relatives may be generous, but there's a chance that their generosity will backfire. What if you can't pay the money back? What if you eat out one night? Will they secretly (or vocally) hold this against you? If you do borrow from a relative, clearly outline the terms of the loan in writing, if necessary. That way, you'll reduce the chance for a future conflict.

Reduce expenses

Increase deductibles on auto insurance

Check with your insurance company to find out how much you could save per month on your auto insurance premium if you increased your deductible. However, remember that if you get into an accident, you'll have to pay the deductible out of pocket. Will you be able to come up with a large amount of cash while you're unemployed? Balance the risk with the benefits.



Sell your car

While many people consider a car to be a necessity, you may be able to dramatically reduce your monthly expenses by selling yours--they are expensive to drive and maintain. Not only do you have to pay for gas and upkeep, but in many cases, you also have to pay insurance premiums and monthly car payments. This can add up to several hundred dollars per month--money you could really use when you're unemployed. Keep in mind, however, that if you have a loan on your car, you might owe more than your car is worth; if you sell your car for less than the loan balance, you'll still have to make payments until the balance is paid off (or take out another loan to pay off the car loan balance). Also, if you get another job, you may need to buy another car, and many lenders require a certain length of employment before they give you a loan. Investigate your options thoroughly before you sell your car.

Selling your car may also be a good way to raise a large amount of cash quickly. This will depend, of course, on whether you own your car, whether you have a loan for it, and what your car is worth. Again, this is a decision to make carefully. If you have a loan, call your bank to find out the procedure to follow, because until your bank releases the title, you don't really own the car. They can also tell you the book value of your car and your loan balance. If you own your car outright, research its value at the library or on the Internet, and decide what price to charge.

Negotiate with your creditors

If you find that you're having trouble paying all your bills, seriously consider negotiating with your creditors. Assuming that you have good credit, you may find it relatively easy to reduce the interest rates on your credit cards, skip a payment or two on your car loan, or reduce your monthly payments temporarily. To do this, you'll have to put aside your pride and admit that you're having financial difficulties. You'll be in a much better negotiating position, however, if you call your creditors before you get into financial trouble. Some creditors will turn you down, but most will negotiate with you. If you wait until you've already missed more than one payment and the creditors are calling you, you'll have more trouble making your case. If you need help negotiating with your creditors or managing your debt, you may want to call a nonprofit credit counseling organization, such as the Consumer Credit Counseling Service (CCCS). For further information on CCCS, call (800) 388-CCCS.

Caution: *If your creditor agrees to let you skip payments or pay reduced amounts, honor the terms of your agreement, and keep in close contact with your creditor's representative. Otherwise, your good credit may be ruined.*

Discontinue discretionary expenses

You probably pay for a lot of things you don't really need. For instance, think about canceling magazine subscriptions, extra phone services, credit cards you don't use that have an annual fee, health club memberships (if possible without incurring a large cancellation fee), auto club memberships, cable television, and Internet service (although this can help you find a job). You may even save a few dollars a month by switching banks if you currently pay monthly checking fees. Every little bit helps.

Tip: *If you're billed annually for some of these things, you won't save any money unless you cancel them at renewal because you won't ordinarily get a refund.*

Limit long-distance calls

If your long-distance bills are high, put yourself on a phone budget. Vow to spend no more than a certain amount (say \$25 a month) on long-distance. To keep track of your calls, keep a notebook next to your phone so that you can easily see when you've reached your limit.

Strategies to consider if you have more time to prepare

Often you lose your job with little warning. However, if you're being laid off or plan to quit your job, you may have time to save money for unemployment by using the following strategies.

Establish a home equity line of credit

If you have enough time, consider establishing a home equity line of credit, if you have enough equity in your house (20 percent is often the minimum), and if you can find a bank that will loan you money without charging you closing costs. With a home equity line of credit, you'll pay interest only on the portion you use. However, the bank may charge you an annual fee or require that you take a certain draw on the line up front. You may even be able to use the line to pay off credit cards or loans that carry a higher interest rate, and consolidate your debt. You'll still have to make a monthly payment, however, so make sure you'll be able to



afford it before you put your house on the line. In addition, beware when lenders claim that your home equity line of credit will be tax deductible. Although this may be true in many cases, you should consult your tax advisor to find out whether it will be true in your case.

Caution: Use caution when using your house as a debt management tool. If you can't pay your loan back, you may lose your house.

Reduce contributions to retirement or education funds

Once you know you are going to lose your job, stop contributing to any savings plans that you'll have trouble accessing, or that aren't necessary. These include retirement funds, education funds, and Christmas club accounts.

Decrease your withholding

Consider increasing your withholding allowances to reduce the amount that is taken out of your paycheck. Deposit this extra money in a savings account. Of course, be careful that you don't claim more allowances than you are entitled to. When you get a new job, you should look at your tax liability for the year. It's possible at that time that you'll have to increase your withholding to make up the difference.

Plan a financial strategy

Once you've mapped out your priorities and drafted a bare-bones budget, you're ready to come up with your own six-month financial strategy. After you've formulated your own strategy, post it somewhere (maybe on the refrigerator) where you can use it everyday to chart your progress.



Setting Up a Support Network When You're Unemployed

What is an unemployment support network?

An unemployment support network is a group of people, organizations, or resources available to help you cope with issues that unemployed people must face. Setting up a support network when you're unemployed is important for several reasons. First, when you lose your job, your ego is likely to be damaged, and you'll benefit from the encouragement and perspective that talking to others can bring. Second, if you plan on returning to work, you may need help finding a new job or exploring a career change. Third, if you're an older unemployed worker thinking about retiring rather than seeking another job, you may need the advice of others who have experienced retirement firsthand. Whatever your reason for needing support, you can easily find it if you know where to look.

Emotional support

When you lose your job, you'll most likely turn to your friends and family for emotional support. Another option is to find or form a support group (also called a self-help group) to share information and provide emotional support to one another.

Finding a support group

If you live in a metropolitan area, finding a local support group should be easy. Look in the Local or Community sections of your newspaper or contact your local community center, college, or university to see if it sponsors support groups. You can also try the American Self-Help Group Clearinghouse website www.mentalhelp.net for information on starting or finding a self-help group in your area.

Job-hunting services and assistance

Rather than go it alone, you may choose to find a job using an employment professional or a government agency or community organization. Some employment professionals will charge you a fee for their services, while others do not. Government job services are free but may offer only basic assistance. Community organizations may sponsor free or low-cost services, which are sometimes tailored to the needs of specific groups.

For-fee services

If you are having trouble marketing yourself, you might consider paying someone to help you. You can, for instance, hire image counselors to teach you how to dress professionally, rewrite your resume, target your job search, and rehearse interviewing. Or, in a tight job market, you might use a for-fee job placement agency. You sign a contract with the agency, under which you promise to pay a flat fee or a certain percentage of your first year's salary and in turn, the agency promises to find you a suitable job. Whatever your reason for paying someone to help you find a job, be careful. Before you sign a contract, know what you'll get for your money. How hard will the company work for you? What kind of guarantee does it offer? What specific services does it offer? In particular, check the company's reputation. Make sure that it has been in business in the same location for several years, and call the Better Business Bureau (if the agency is a member) and ask for references or published statistics on its placement success rates.

Fee-paid services

- **Headhunters and recruiters:** If you work in a high-demand occupation or you are a professional with a few years of experience, you may be able to find a job through a recruiter or a headhunter. In fact, one may come looking for you! Headhunters or recruitment professionals are usually paid by companies who use them to find qualified employees. Most headhunters specialize in finding employees in a particular field, and they expect you to be flexible. They may not want to talk to you, for example, unless you are willing to relocate. They also may not be interested in you if you are changing career paths or if you don't match their area of specialization and requirements.

Caution: *A recruiter can seem like your best friend when you are unemployed. Remember, however, that the recruiter is also a salesperson, and you are the product. Don't be upset by a recruiter's reluctance to talk to you unless you are a seasoned professional, and don't be misled into thinking that a job offered through a recruiter is necessarily the best job for you or the only good way to find a job.*



- The temporary or permanent placement agency: Another type of fee-paid employment service is the temporary or permanent placement agency. You sign up with an agency and specify the type of position you are looking for, and it tries to match you with a job opening. You'll work for the agency, not for the company unless the company buys your contract from the agency. This means that you won't be eligible for any company benefits or perks. Some agencies specialize in placing candidates in a certain industry (banking, for instance) while others are generalists. A good employment service will be responsive to your needs, offer training and benefits (if necessary), and won't mislead you about the jobs they usually have available. Some companies publish "teaser" jobs in the paper that probably won't be available when you call the agency because they are designed to lure you in to fill out an application.

Caution: *Although taking a temporary job is a good way of supporting yourself for a short time or even finding a permanent job with a good company, you'll probably find that the pay is relatively low. However, you may be able to negotiate a better rate of pay if you are a good, qualified candidate.*

Government agencies and community services

Your local employment office (where you apply for unemployment insurance benefits) may assist you in finding a new job, or there may be programs set up in your community to help displaced workers, low-income workers, senior workers, or veterans. Check your telephone directory under Job Services, Employment Services, or Social Services. Your local college or university may also sponsor career-counseling seminars or courses that are open to the public even if attendees are not enrolled in a degree program.

Outplacement assistance

If you have prior warning that you will be losing your job, you can do several things to make unemployment easier. First, if you're being laid off, find out if your company has outplacement assistance. You may be able to attend seminars or speak with a job counselor one on one. Next, if you plan on looking for another job, ask about your current company's policy regarding employment verification and references. If a potential employer calls and asks about your work history, what information will the company give out? In addition, are your coworkers or supervisors allowed to give professional and/or personal references? If you're leaving the company because you're moving or being laid off, don't forget to ask everyone you know who might have leads on job openings for introductions to managers or executives at other companies.

Other job-hunting resources

The Internet

Many Internet sites are devoted to the needs and concerns of the job-hunter. These sites offer career counseling, networking opportunities, job fairs, and lists of available jobs (including on-line applications). Some popular sites are Monster (www.monster.com), Headhunter.net (www.headhunter.net), and the Career Resource Center (www.careers.org). When you've lined up a job interview, you can prepare for the interview by researching the company on-line under the company name. You may be able to pull up press releases, articles about the company, or even financial information. You may have to pay an extra fee for the latter. Information about public companies is readily available, while information about private companies can be difficult to find.

Libraries and bookstores

If you go to the library or a bookstore, you'll find many books on job hunting and career counseling. These books can be quite useful, particularly if you've been out of the job market for a while or you need help in a particular area. You can also buy or read local and out-of-town newspapers that advertise jobs.

Friends, family, and acquaintances

One good way to find a new job is to tell everyone you know that you're looking for one. Your friends, family, and acquaintances may know about jobs that are presently open within their companies or about job opportunities that might be available in the future. They may also be able to put a good word in for you with a manager or the human resources department. Some companies use a very formal process to hire (first open the job to current employees, next advertise the job to others), while others hire more informally.

Special considerations for retirees

There are many resources tailored to your needs if you are an unemployed older worker looking forward to a relaxing retirement,



searching for volunteer opportunities, thinking about working part-time, interested in opening your own business, or facing health concerns. You can find support groups in your community or on the Internet to help you adjust to retirement. There are also a multitude of organizations set up just to help you find the resources and information you need. A good place to start is the American Association of Retired Persons (AARP). Call (888) OUR-AARP (888-687-2277).



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