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# Maximizing Your Tax Savings: 3 Timely Tips for Telecom Employees

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As a telecom employee, you have a number of circumstances to sort through when it comes to your taxes. Whether you are considering contributing to a Roth 401(k) or have investments outside of your 401(k), there are specific tax tips that can help you **maximize your savings**.

**Tip** #1: Understand Your Withholdings

The first thing to keep in mind when it comes to your taxes is that owing or getting money back when you file doesn't necessarily mean you're doing a great job or a terrible job. It simply means this: You have taxes withheld from your

paycheck throughout the year. If the total amount you have withheld is more than you actually owe, you get a refund. If you owe more overall than you paid in throughout the year, you’ll have to pay. It's important to drill down into your tax return and see what's going on to truly understand your tax situation.

**Tip** #2: Consider Roth 401(k) Contributions Carefully

One of the big decisions for many telecom employees is whether to contribute to a Roth 401(k). While it can be a fantastic option, especially for the long term, there is a catch: Unlike a traditional 401(k), contributions to a Roth 401(k) are not tax deductible. This means that contributions to a Roth 401(k) do not reduce your taxable income, and the amount of your paycheck will be reduced by the exact amount you contribute. A large contribution or increase means a significant drop in your take-home pay. It's important to understand these factors as you consider a Roth 401(k) to ensure you are not left short on cash.

**Tip** #3: Be Aware of Taxes on Investments Outside of Your 401(k)

If you have investments outside of your 401(k), it's important to be aware of their tax implications. Many regular investments, especially mutual funds, leave you with taxable gains on a yearly basis. And, if the gains are being reinvested, you are paying taxes on money you don’t actually receive. This is why it's important to look at your tax return to ensure that you are not paying extra money in taxes. There are also tax-efficient investment alternatives, such as exchange traded funds (ETFs) or certain mutual funds, that may be a better option for you.

While these tax tips may seem simple, they can help you maximize your tax savings and ensure you are not left short on cash. As a telecom employee, it's important for you to work with a financial advisor or tax planner who understands the specific nuances of your industry and can

help you navigate the tax landscape. Rather than just looking backward and filing taxes based on the past, an advisor or planner can look ahead and recommend strategies that can help you save.

By understanding your withholdings, considering Roth contributions carefully, and being aware of taxes on other investments, you can ensure you are making the best financial decisions for your specific circumstances.

**ABOUT THE AUTHOR**

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# Navigating Severance Packages: What Telecom Employees Need to Know

Dennis O'Keefe
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March 23, 2023

As a telecom employee, you might be feeling anxious about your job security, especially as companies like Verizon focus on cost-cutting measures like streamlining and automation. You might have questions about how to be financially prepared in case of a RIF (reduction in force), IPP (involuntary parting package), or retirement. In this article, we'll cover a crucial aspect of such scenarios - your severance package.

First and foremost, it's important to be aware of how your severance is taxed. When you receive a severance package, you'll be given three choices:

- Take a lump sum payment upfront,
- Take half upfront and the remainder spread over four years, or
- Take the whole amount spread over four years.

However, you need to be careful about the tax implications of your decision. Payments over the years are considered W-2 wages, which means you'll pay regular income tax, state income tax, and FICA (Federal Insurance Contributions Act) taxes.

Upfront money you receive within 30 days after separation is considered a bonus. Bonus money is taxed differently. The government taxes your bonus based on your estimated marginal tax rate, which can be different from your regular withholding. State and FICA taxes also are withheld from your bonus payment, reducing your take-home amount.

Furthermore, if you're 62 or older and plan on leaving your job and working another, your severance payment may affect how much social security you receive. You can only make $21,000 per year at age 62 to receive full social security. Anything more than that, and your benefits are reduced. Therefore, it's essential to be aware of this to avoid any loss of social security benefits.

When it comes to severance, the time of year also can affect your decision about taking the lump sum payment or deferring it. For instance, if you receive an offer in November, and your lump sum bonus check is coming in December, it might push you into the next tax bracket. Conversely, if you receive a severance offer in February and think it might take some time to get another job, taking the lump sum payment might lower your tax liability that year.

Running some pro forma calculations based on when you receive the severance can help you make the right decision.

It's crucial to take the time to understand your options and the tax implications of each to make the best choice for your financial situation. Remember, being informed is the best way to prepare yourself for any employment-related scenario.

## How to make the most of your severance

Now, you might be wondering what to do with your severance payment once you receive it. Here are some tips to help you make the most of your severance package:

**Create a budget**: Before you do anything with your severance, take the time to create a budget. This will help you see what your expenses are and how much money you have available.

**Pay off debts**: Use your severance payment to pay off any outstanding debts, such as credit card balances or loans. This will help you get back on your feet and reduce financial stress.

**Build an emergency fund**: An emergency fund can provide a financial safety net if unexpected expenses arise. Consider using some of your severance payment to create an emergency fund if you don't already have one.

**Invest in your future**: If you have any money left after paying off debts and building an emergency fund, consider an investment. For example, you could contribute to a retirement account or use the money to take a course to learn new skills to increase your employability.

**Seek professional advice**: It’s always a good idea to seek advice from a financial professional. They can help you create a personalized financial plan and provide key insights and ideas.

As a telecom employee, being financially prepared for an employment crisis is crucial. Understanding the tax implications of your severance package is essential to make informed decisions. Once you receive your severance payment, it's wise to create a budget, pay off any debts, build an emergency fund, and invest in your future. Seek advice from a financial professional if you're unsure of what to do with your severance payment. Remember, taking the time to understand your options and making informed decisions can help you stay financially secure during an unexpected employment crisis.

## ABOUT THE AUTHOR

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# What Telecom Employees Need to Know About Their Health Insurance After a Layoff

Dennis O'Keefe
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April 6, 2023

As a telecom employee, facing a sudden change in your employment status can be unsettling. With companies committing to cut costs and streamline operations, it's important to be prepared for the possibility of a RIF (reduction in force), IPP (involuntary parting package), or retirement. In this article, we will explore what you should do about your health insurance situation in the event of one of these scenarios.

Health insurance is a crucial consideration when you face a RIF, IPP, or retirement. If you experience one of these scenarios, you're likely to encounter something called COBRA, which stands for the Consolidated Omnibus Budget Reconciliation Act. COBRA provides a legal right to continue with the same health insurance coverage you had while you were employed for up to 18 months after your separation from the company.

While this may seem like a great solution, it's important to know that under COBRA you pay for your health insurance at the same rate your employer paid – typically a lot higher than what you paid as an employee. You could be facing a monthly payment of $2,000 to $3,000 or even more, so it's important to be prepared for this financial obligation.

The first thing you should do is find out what your employer pays for your health insurance. This can be found in Box 12 of your W-2 form with the code "DD." Knowing this will help you understand what your health insurance actually costs and allow you to plan for the expense.

You then can start researching alternatives to COBRA. You should assess your family's health history, the medication you take, and any health issues that your parents may have had. With this information, you can determine if you need the same coverage you had with your previous employer or if you can opt for a smaller plan. While every family's situation is different, smaller is generally better in the post-Obamacare era.

It's worth noting that the healthcare landscape has changed significantly in the last 15 years. Every state now offers insurance coverage based on age, not on your health history or pre-existing conditions. This means that you can find coverage regardless of your health status.

In most states, you can find state-sponsored insurance exchanges where you can shop around for plans that suit your needs. In Massachusetts, for instance, the state's exchange is called the Mass Health Connector. By simply typing in your information, you can find out exactly what your health insurance will cost and make an informed decision about your coverage.

Anytime you are at risk of losing your job, or have had a sudden employment change, it's important to have a handle on your finances. Make sure that planning for health insurance is part of that, by understanding the costs and researching your options. By being proactive, you

can ensure that you're ready for a sudden employment change and have the resources to take care of yourself and your family.

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# Don't Touch Your 401(k) Until You Read This: Tips for Telecom Employees Facing a Job Loss

Dennis O'Keefe

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April 20, 2023

As a telecom employee, facing a sudden change in employment status can be daunting. With companies like Verizon making cuts, you may be wondering how to be financially prepared for a potential RIF (reduction in force), IPP (income protection plan), ISP (income security plan), or retirement. In this blog post, we'll cover one of the most important things to consider if you separate from the company: your 401(k).

A 401(k) is a popular investment option because it’s automatic and easy. When you leave the company, it can be tempting to tap into that account if you need funds. However, there are important things you must know first.

Importantly, before you touch your 401(k), you want to be careful because you could face a 10% penalty tax for withdrawing the money prior to age 59 and a half. So what are your options?

First, there is an exception to the 10% penalty tax rule. If you turn 55 and separate from service within your employer-sponsored plan, you can withdraw whatever you want at any time without penalty. However, it has to be that specific scenario. This exception is not allowed if you separate before age 55, nor if you are 55 or older and still with the company. It also is crucial to note this rule only applies to an employer-sponsored 401(k) plan, not an IRA. Be cautious of advisors who suggest rolling your entire 401(k) into an IRA because you may end up paying more tax later on. If you're close to turning 55 and may need to withdraw your money, this exception is a big issue to consider.

Second, you can use the substantially equal periodic payments (SEPP) option. SEPP allows you to essentially turn your lump sum 401(k) into a pension, providing you with money on a regular basis. However, SEPP is not for everyone. It comes with many rules and regulations, and the distributions have to be continued for at least five years or until you turn 59 and a half, whichever is longer. This means that you cannot make any changes to the distribution during the five-year period, even if your financial situation changes. Be cautious and consider all your options before choosing this route.

Finally, another option to consider is a Roth account. If you have a Roth contribution now, you can withdraw your contributions tax-free, giving you a penalty-free area of capital to get you through that hump. Like the other options, there are rules and regulations here too. You must hold the Roth account open for at least five years before making withdrawals, and you must be at least 59 and a half to avoid taxes on the withdrawals.

In conclusion, it's crucial to weigh all your options carefully before deciding what to do with your 401(k) in the event of a RIF, IPP, or retirement. Know the various rules and regulations, including age and time requirements. Remember, it's always best to be proactive and set yourself up for financial security to avoid any humps along the way.

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