



Gearing Up for a Career Change

A midlife switch can be rewarding, but there are financial risks. Here's how to ease the transition

Investing Survival Guide September 4, 2007, 12:00AM EST

By Ben Levisohn

Richard Reyes was miserable. For 25 years, he'd worked for Detroit's housing authority, and the constant stress of the job had finally worn him down. It didn't help that new management had been brought in, and Reyes didn't mesh with the new regime.

That got him thinking about what he wanted to do with his life. Rather than wait five more years and retire with a full pension, Reyes took a \$250,000 payout and a three-quarters pension and quit his job. He'd always wanted to be a writer and an academic. At the age of 53, he says, "I was running out of time."

Changing careers is surely not what Timothy Leary had in mind when he urged baby boomers 40 years ago to "turn on, tune in, drop out." Yet anecdotal evidence suggests that many are seeking fulfillment by doing just that at a time when the so-called sensible thing would be to put the finishing touches on their current job, maximize their retirement savings, and get ready for the golf course.

Making an Informed Decision

When the transition is managed correctly, many years of fulfilling work lie ahead. But without proper planning, your late-career switcheroo can blow up your finances, put you in competition with much younger people for jobs, and ultimately upend your life with little time to recover. It's a high-risk/high-reward decision, and it's never too soon to start thinking ahead. "Most people spend less time on life decisions than they do planning a vacation," says James Burns, president of J.J. Burns & Co. in Melville, N.Y.

How do you stack the odds in your favor? Financial planners recommend getting some experience first. Burns warns possible career-changers not to let dissatisfaction with their current situation lead to a decision they'll later regret. It's very easy to let your imagination run wild, morphing any change into a utopia. Then reality sets in: You're making less money and fulfillment still seems miles away.

Often, "the old job you had really wasn't a bad job," Burns says. He recommends learning as much as possible about a new vocation before making a change: speak with experts, volunteer, even try to do the work on weekends or late at night. That way, when you make the switch, you'll know it's the switch you want to make.

Budgeting for a Transition

Then comes the hard part: the finances. First you need to figure out how much money you have and set a budget. Reyes burned through a lot of his money during the first two years off the job by buying a new car and taking vacations. "Maybe I would have tried to hold on to more of that," he says.

Starting a new career is never cheap, and sticking to a budget will keep spending in line. "Think about how much money you need to support the lifestyle you want to live," says Dean Barber, president of Barber Financial Group in Lenexa, Kan. But you need to be realistic about what you have to spend. Cut down on your expenses, pay off your debt, eliminate anything in your budget that's not needed. Don't forget to include high-cost items that used to be provided by your employer, including health, life, and disability insurance. Some advisers recommend creating an emergency fund with two years' worth of cash just in case everything goes wrong.

You should also rebalance your investment accounts to better reflect your new situation. A portfolio full of growth stocks may still be appropriate if you're hitting the homestretch of your career, but if you're starting over, your holdings should reflect your new situation. Mike Benoit, a managing director at DiMeo Schneider & Associates, in Chicago, moves his clients into more conservative investments. He recommends diversifying asset classes, including various types of bonds and equity, real estate, and even more obscure investments such as timber. Others recommend using puts or short funds to hedge equity positions.

Whatever the strategy, realize that you don't have the financial safety net of your former job. You have less time to wait for a market comeback when you're in your 50s. "Anyone can handle the upside to the market," Benoit says. "We want to know the impact if you have a down market."

Maintaining Your Network

Of course, there's more than monetary risk involved. If you leave a job in your 50s it will be very hard to get back in again if your career change doesn't pan out. "Now you're in your 50s and trying to compete with people in their 30s and 40s," financial planner Nick Massey of the Householder Group says. He recommends keeping your network intact, just in case. Burns advises making your departure a feel-good experience for everyone involved, even if you were miserable. Let people know how great it was working with them, tell your boss how much you learned from him. They'll remember you fondly and, perhaps those positive impressions will help ease your way back in, should it become necessary.

Reyes, now 62, kept in touch with his co-workers for his first year off the job. But he soon realized there would be no turning back. He took some creative writing classes at a community college, and that turned into a job tutoring other students. From there, he applied to Wayne State University's PhD program in English Literature. He's now working on his dissertation on early American Romantic authors—think Hawthorne and Melville—and teaching classes. He expects to finish his doctorate in two years.

How did it work out for Reyes? He says he didn't do everything right, but he ultimately made the correct decision. "The teaching job has frustrations but I don't feel burned out," Reyes says. "I feel fresh and energized now."

Ben Levisohn is an intern for BusinessWeek.