



Career Asset Working Capital Fund

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The Career Asset Working Capital Fund (CAWCF) is a reserve fund separate from a client's emergency cash reserves. This does not mean the funds cannot be pooled together, rather the amount needs to be considered separately – one based on three to six months living expenses and the other based on the factors explained below.

The amount varies based upon career velocity – the number of jobs changes and volatility – the variance of pay over time. In order to properly diversify client portfolios (including their financial and human capital), both the velocity (how often they change jobs) and the volatility (how much their income fluctuates) of their careers need to be examined.

Working capital for the career asset has three parts -- funding skill set maintenance and development (lifelong learning), funding job changes and funding career sabbaticals. The working capital for the career asset should be viewed separately from the personal or family emergency cash reserves.

The costs of skill set maintenance and development would be primarily reflected as an expense on the income statement or budget. However, there should also be an amount in the working capital reserve to fund an unforeseen need to develop career skills. The appropriate amount would be determined based on the nature of the career.

The second part of the working capital fund is funding job changes. According to a recent study reported by Monster.com, the average number of weeks between jobs for workers under age 50 is seventeen weeks. Over age 50 and the number of weeks of unemployment grows to twenty two. Department of Labor, Bureau of Labor Statistics predicts the average number of job changes for a young worker today to be nine. Add these two studies together and it is obvious that a fund for job change costs is a necessary part of a personal financial plan.

The last element of the Career Asset Working Capital Fund is the cost of a career sabbatical. Career sabbaticals are necessary for career rehabilitation and family or personal transitions that extend from three months on up to a few years.

CAWCF Example

Mary Smith, married, age 33 is a patent attorney with a large law firm. She has been with the firm since graduating from law school six years ago. Her annual compensation is \$70,000 based on a weekly average work load of fifty hours. She plans on reducing her work load from 50 hours per week to around thirty as soon as she becomes pregnant with their first child. She plans on having two children and is uncertain as to her work status for the next five years as she plans on part time employment until her children are ready for pre-school.

Her husband Mike, age 35 is a risk management director for a manufacturing company. His annual compensation is \$75,000. He has been employed with this company for the past three years. Prior to this job, he was employed by a commercial lines insurance company in the underwriting department. He has a business degree majoring in accounting and finance and just recently started an executive MBA program which he should complete in the next two years. His employer is paying for the education cost under a tuition reimbursement plan requiring his continued employment for five years after completion. The cost of the MBA program is \$45,000.

Both Mary and Mike have moderate career velocity – DOL predicts six to nine job changes over their career life. Major factor for velocity for Mary is family, for Mike it is risk of manufacturing industry along with constant change in his field of risk management. Mike is preparing for career change by continuing his education and preparing for advancement to higher corporate management positions.

Career volatility currently is also moderate as both work in stable earning jobs. There is not much variance of compensation with their current employment. That could change as both Mary and Mike explore new career opportunities over their working years.

Career asset maintenance costs would include continuing education for Mary both to maintain her law license and to keep current on her specialty. A reasonable annual budget of \$3,000 to \$4,000 should cover these costs. Mike should budget the cost of at least one annual industry conference and look into a certificate programs relevant to his specialty after completion of MBA program. Annual cost for conference -- \$2,000 to \$3,000.

Personal Finances

Income:

Combined annual income is \$150,000. Total living expenses are \$60,000. Taxes total \$30,000. Annual savings including 401(k) and after tax investments total \$25,000.

Assets:

Cash and Checking is \$30,000. After tax investments are \$40,000. Retirement savings is \$100,000. Home value is \$300,000. Two vehicles valued at \$30,000 and personal property of \$30,000.

Liabilities:

Home mortgage of \$210,000. Student loan of \$10,000 for Mary and \$45,000 contingent liability for Mike's MBA program. No consumer debt.

Based on the abbreviated financial and career information, the amount of funds in the CAWCF should be around \$95,000 to \$100,000. This is based on the three parts that make up CAWCF. The first part of the reserve is one year's budgeted cost to maintain and develop both careers (\$5,000 to \$7,000). The second part is made up of a reserve for job change risk. The estimate of time between job loss and on-boarding a new job based on each of their salaries should average around seven months. \$35,000 would cover seven months of current living expenses. The third part of the fund would be to fund career sabbatical or Family Medical Leave Act (FMLA). The only anticipated event in this category is for pregnancy, childbirth and some time off for parenting. Since the Smiths have a modest standard of living relative to income, they could reasonably get by on one year of living expenses -- \$60,000.

Investment Allocation of the CAWCF

What is a reasonable investment allocation for the CAWCF? Not all the funds need to be held in cash since much of the fund is based on future events and contingencies. Some cash is necessary – the amount for career maintenance and development and any contingencies less than two years. For the longer term items, such as sabbaticals and FMLA, using fixed income and lines of credit are more appropriate. Each case needs to be considered based on the facts and circumstances.

Smiths have \$30,000 of available equity in their home for a line of credit. After tax investments of \$40,000 should be invested in stable assets such as fixed income – perhaps Series I savings bonds or TIPs bonds. Their cash reserves of \$30,000 would barely cover the total CAWCF need. It may have seemed that the Smiths had an excess of liquidity in cash reserves and after tax investments until we estimate an appropriate amount for the CAWCF.

A worthwhile consideration for CAWCF is using 529 and Educational IRA accounts. This will provide investment income tax deferral while the funds are not needed.