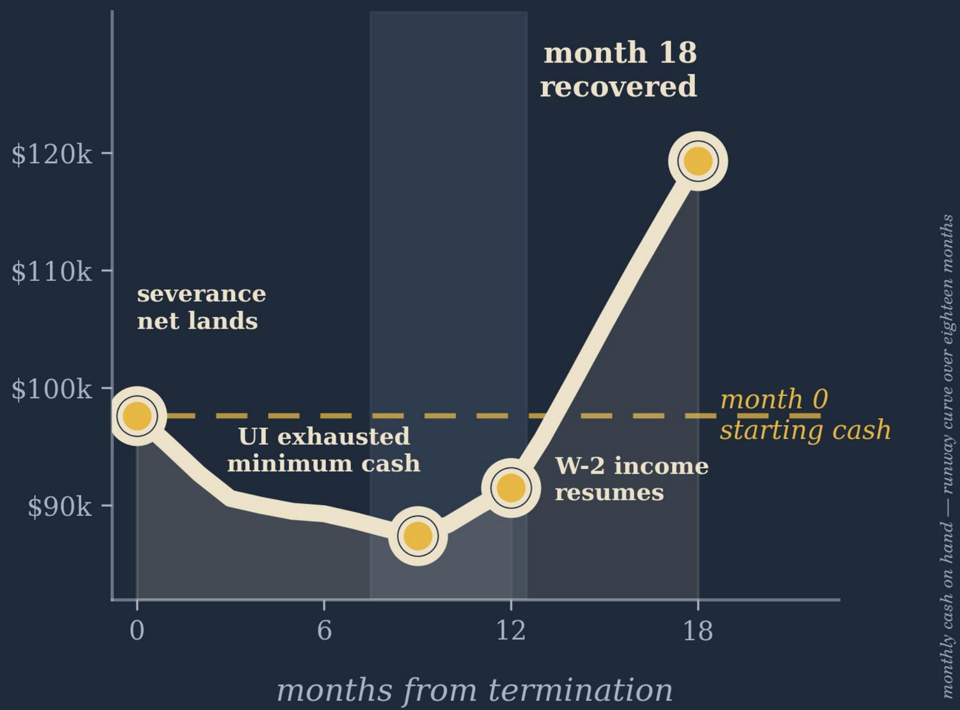

Software Engineer Layoff

Severance, Healthcare, Taxes, and 18 Months of Real Numbers

Dave Merritt

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Preface

This book exists because — on March 15, 2024 — Dave Merritt was laid off from his Senior Software Engineer role at a mid-cap US enterprise software company. He sat in his car in the company parking lot for forty minutes before driving home, looked at his wife Annie across the kitchen table that evening, and realized he had no idea what to actually do on Monday morning. He was a competent engineer. He had been promoted three times in eight years. He had a spreadsheet for everything from the kids' allowance to the vacation budget. And yet, faced with the most consequential financial event of his career, he had no playbook.

The book in your hands is the playbook he wishes someone had handed him on day one.

What this book is: a practitioner's operational playbook for the eighteen months between your termination and the moment your household balance sheet stabilizes. Thirteen chapters. Sixty-five worksheets you fill in with your own numbers. Two dozen phone scripts for the conversations you have to have — with HR, the EDD, your mortgage servicer, the COBRA administrator, a CPA, a therapist. Real statutory citations to the Internal Revenue Code, the California Unemployment Insurance Code, the Public Health Service Act, the Davis-Stirling Common Interest Development Act, the federal Mortgage Servicing Rules. Dollar-quantified decisions at every fork. A second worked-example character — Anna Reyes, 58, Senior Engineering Manager at a different firm laid off the same week — because the rules at 47 and the rules at 58 diverge enough to warrant explicit parallel treatment.

What this book is not: regulated financial advice. The author is not your CPA, your Certified Financial Planner, your employment lawyer, your tax preparer, or your therapist. Your specific situation will diverge from Dave's and from Anna's. This book equips you to be a smarter client to those professionals — showing up with the worksheets already filled in, asking better questions, and able to push back when their advice is generic rather than calibrated to your specific facts. The book is also not optimistic about the senior tech layoff cycle. Layoffs have been a structural feature of the industry since 2022. There is no reason to believe the cycle pauses. The same playbook applies the second time around. Keep the worksheets.

The two worked-example characters and a note on the numbers. Dave Merritt is 47 years old, lives in Sunnyvale, California, was paid 215,000 dollars in base salary plus bonus plus restricted stock units at termination, has a wife who works in hospital administration, has two children aged 12 and 15, and carries a 340,000-dollar mortgage at a 3.125 percent fixed rate on a home worth roughly 1.07 million. Anna Reyes is 58, lived in Sunnyvale until she relocated to Boise in month 6 of her post-layoff window, was paid 245,000 dollars in base salary at termination, has a husband who works as an independent 1099 graphic designer, and has two adult children out of the household. Their household numbers are invented. The tax rules, premium structures, regulatory deadlines, statutory citations, IRS publication numbers, and federal-and-state procedural mechanics are real US 2024 calibration. If you check the worksheets against the published government sources cited at each footnote, the procedures resolve correctly on the dates referenced. If specific rates or thresholds have updated by the time you read this, the citations point to where to find the current numbers.

How to use the book. Read sequentially if you have time — the chapters build on each other in roughly the order decisions actually arrive after termination. Read by topic if you are mid-window and need a specific decision tonight — the chapter titles map cleanly to the operational moment. The worksheets are the operational deliverable; the prose is the explanation of why each worksheet looks the way it does. Most readers complete two or three worksheets per week through the first 90 days of unemployment, then return to the book once or twice a quarter through the remainder of the eighteen-month window. A complete worksheet index at the back of the book maps every worksheet to its chapter for navigation when you reopen this book at a future layoff or major life event.

Eighteen months is a long time to be a household in transition. It is harder, emotionally and financially, than most readers expect going in. The disciplines this book asks you to implement — the cash-bucket structure, the variable-cut spreadsheet, the Roth conversion ladder, the HSA fill plan, the two-bucket Treasury ladder, the household weekly state-of-the-search conversation, the discharge schedule for the bitterness window — compound long after you are re-employed. Most readers who run the worksheets find their household net worth is larger at month eighteen than at month zero. Not because the layoff was good. Because the layoff forced a reset that pays back over the decade.

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The Severance Math

Dave Merritt's numbers in this book are a synthetic illustrative case study: a 47-year-old senior software engineer in Sunnyvale, $215,000 base salary, terminated 15 March 2024. The tax rules, premium structures, regulatory deadlines, and statutory citations are real California 2024 calibration; the household numbers are invented to give you a worked example to check your own arithmetic against.

You are sitting across from someone whose job is to walk you to the door. There is a number on the table. The number is what your employer is willing to pay to make the next sixty seconds end without a lawsuit. Before you sign anything — before you reach for the pen — you need to know three things the document in front of you will not tell you on its own.

One. Some of that number is owed to you regardless of whether you sign the release. Some of it is conditional. You need to know which is which.

Two. The number is gross. What lands in your checking account will be roughly 35–40% smaller, and the exact size of the shrinkage depends on calculations the HR director will not do for you. You need to compute the net yourself, because no one in the room is going to.

Three. Several clocks start the day you sign. Miss any of them and the option behind it is gone, statutorily, with no extension. You need to know which clocks, and when each one expires for you.

This chapter equips you to do all three before you sign. It walks you through reading the offer as a tax document, computing the gross-to-net waterfall on **your** numbers, and writing down the dated deadlines you now own. By the last page you have a one-page worksheet that holds the exact dollar that will hit your account and the exact dates you cannot miss.

Dave Merritt runs through the chapter as a sidebar. Use him as a check: if your worksheet, fed Dave's inputs, produces Dave's number, you are computing correctly. Your inputs will differ. The procedure is the same.

> *"**DAVE — the offer.** Severance: 8 weeks × $215,000 / 52 = **$33,076.92** Accrued PTO: 312 hr × $103.3654/hr = **$32,250.00** Pro-rata bonus: $0 (forfeited under plan) Unvested RSUs: $0 (no acceleration) COBRA subsidy: none **Total gross supplemental: $65,326.92** → net **$41,645.91** to checking"*

Read your offer as a tax document

The offer letter in your hand is not a generosity gesture. It is a tax document. Every line on it has a tax treatment, a state-law status, and a specific relationship to the release you are being asked to sign. Read for category before you read for emotion.

Step 1 — categorize every dollar line. Mark each line in your offer with one of the six categories below.

Category	What it is	Owed regardless of release?	Tax treatment
A. Severance	Cash, usually expressed in weeks of base salary	No — conditional on signing	Supplemental wages, IRC §3402(h) U.S. Congress 2024q
B. Accrued PTO / vacation	Cash-out of unused vacation at final rate of pay	**YES in CA** State of California 2024g; varies elsewhere	Supplemental wages, IRC §3121(a) U.S. Congress 2024n
C. Pro-rata bonus	Partial-year annual bonus	Usually no — most plans require active employment on payout date	Supplemental wages
D. Equity acceleration	Acceleration of unvested RSU / option vesting	Almost never — default grants forfeit unvested	Per instrument type, see §1.5
E. Outplace-ment / in-kind	Career-coaching subscription, resume service	Typically not — token in-kind	Generally non-taxable de minimis
F. Continued health coverage	Employer-paid extension of active plan	Almost never — coverage usually ends last day of month of separation	Non-taxable if employer pays

Step 2 — confirm the release covers only conditional lines. In California, your employer cannot condition payment of already-earned wages — base through your last day worked, plus accrued vacation under State of California 2024g — on signing the release. They can condition only the bargained-for *additional* pay (line A; line C if any). If

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THE 401(K) DECISION TREE

The first phone call most laid-off senior tech employees get — sometimes within hours of HR notifying the plan administrator — is from a ”rollover specialist.” They bought the layoff list from somebody. They want you to move your 401(k) balance into a self-directed IRA at their custodian with a 1.25% wrap fee. **Hang up.** This chapter walks you through doing it yourself, in week 1, at a low-cost custodian, with a four-year Roth conversion ladder that captures the single largest tax arbitrage available to a post-layoff household.

Three insights drive every decision in this chapter:

One. Never take a distribution. A ”cash out” of any portion of the pre-tax balance triggers ordinary income tax at your marginal bracket plus a 10% early-distribution penalty under IRC §72(t) U.S. Congress 2024z if you are under 59½, plus state penalties. In California, that's the federal 10% plus a **2.5% CA additional tax** State of California 2024i, on top of ordinary income tax. At a 22% federal + 9.3% CA + 12.6% combined penalty marginal, you lose 44 cents on every dollar withdrawn — irreversibly.

Two. Never do an indirect rollover. If the check is made payable to *you* instead of to the receiving custodian, the plan administrator is required by IRC §3405(c) to withhold 20% of the distribution and remit it to the Treasury U.S. Congress 2024r. To complete the rollover, you must replace that 20% out of pocket within 60 days. Miss the deadline by one day and the entire distribution becomes taxable plus penalty. Use a **direct trustee-to-trustee rollover** under IRC §402(c)(3) U.S. Congress 2024u. No cash touches your hands. No withholding. No 60-day clock.

Three. Your post-layoff year is the cheapest Roth conversion window of your career. With your W-2 income terminated mid-year and the household running on severance + UI + spousal income, your marginal federal bracket likely drops one or two tiers below your pre-layoff rate. Converting traditional-IRA dollars to Roth at 22% now — when those dollars would otherwise distribute at 24%, 32%, or higher in retirement — is a 2- to 10-percentage-point spread per dollar, compounded by decades of tax-free growth. The single most expensive 401(k) mistake is not the indirect-rollover trap; it is **failing to convert** in the low-income year.

This chapter equips you to: identify what is actually inside your 401(k); execute a direct rollover; size a Roth conversion ladder against your projected income through 2027; check whether you hold employer stock that triggers a one-shot NUA election; and walk away from the §72(t) branch even when the runway feels tight. Five worksheets, two phone scripts, a 30-day action list.

Dave continues as sidebar.

> *"**DAVE — 401(k) facts at termination.** Total 401(k) balance: **$410,000** • Pre-tax traditional: $369,000 • Roth 401(k): $41,000 • Of the pre-tax balance, **$48,000 is employer stock** held in-plan (plan cost basis: $18,000, NUA: $30,000) Outstanding 401(k) loan balance: $0 Projected 2024 joint taxable income (post-severance, post-rollover, pre-conversion): $147,700 Projected 2025–2027 joint TI (contracting + spouse): $135,000/yr Pre-layoff (2023) marginal federal bracket: 24% Post-layoff (2024+) marginal federal bracket: **22%**"*

Map what's actually inside your 401(k)

Before you decide where the balance goes, you need to know what kinds of dollars it contains. A 401(k) statement looks like one number; it is usually three or four different tax categories that have to be handled separately at rollover. Most rollover mistakes are made because the participant treated the balance as homogeneous.

Step 1 — pull your most recent 401(k) statement. Find the breakdown by money source. Plans label it differently but the categories are universal.

Money source	**What it is**	**Where it goes at rollover**
Pre-tax employee deferrals	Your contributions from pre-tax paychecks	Traditional rollover IRA
Pre-tax employer match / profit sharing	What the employer added pre-tax	Traditional rollover IRA
Roth 401(k) employee deferrals	Your post-tax contributions to the Roth bucket inside the plan	**Roth IRA** (separate from traditional)
After-tax (non-Roth) contributions	Rare; in plans that allow ”mega backdoor Roth”	Roth IRA (per IRS Notice 2014-54)
Employer stock in-plan	Shares of the former employer's stock held inside the plan	**Evaluate NUA election first** — see §3.5
Outstanding 401(k) loan balance	An unpaid loan against the plan	See ”loan offset” trap below

Step 2 — check for an outstanding loan balance. If you borrowed against the 401(k) and the loan is unpaid at termination, the plan treats the unpaid balance as a ”deemed distribution” — taxable as ordinary income plus 10% §72(t) penalty if under 59½. **You can rescue this** by depositing the loan-offset amount into a receiving IRA by the due date of your federal return for the year of separation, including extensions — for a 2024 separation, **October 15, 2025** Internal Revenue Service 2024u. If you have a loan balance, this is the most time-sensitive item in the chapter. **Step 3 — identify employer stock.** Look for a line item labeled ”Company Stock,” ”Employer Securities,” or a ticker symbol matching your former employer. If you find one, **do not roll it into the IRA until you have evaluated the NUA election in §3.5** — once the stock is inside an IRA, the NUA mechanic is gone forever.

You just got laid off from a senior tech job. Now what?

You have severance to negotiate, a 401(k) to roll over, COBRA mail arriving in three weeks, a mortgage that doesn't care about your W-2 status, and an emotional load nobody warned you about. This book is the operational playbook for the eighteen months that follow.

Thirteen chapters. Sixty-five worksheets you fill in with your own numbers. Two dozen phone scripts for the conversations you have to have — with HR, the EDD, your mortgage servicer, the COBRA administrator, a CPA, a therapist. Real statutory citations to the Internal Revenue Code, the California Unemployment Insurance Code, the federal Mortgage Servicing Rules, the ACA. Dollar-quantified decisions at every fork.

Two worked-example characters carry the math: Dave Merritt, 47, individual contributor in Sunnyvale; and Anna Reyes, 58, Senior Engineering Manager at a different firm, laid off the same week. The rules at 47 and the rules at 58 diverge enough to need parallel treatment — both are here.

Most readers who run these worksheets end the eighteen-month window with a household balance sheet larger than at month zero. Not because the layoff was good. Because the layoff forced a reset that pays back over the decade.

Keep the worksheets. The cycle is not over.