

Weighing Early Retirement Offers

Included in the recent wave of bad financial news has been reports of a slew of corporate job losses. Making early retirement offers to employees is just one strategy companies are using to trim budgets.

On one hand, the concept of sitting back and enjoying life sounds enormously appealing. But if you're in line for an early retirement package, can you actually afford to exit the workforce? It's important to ponder any offer carefully and develop a financial survival strategy before you walk out the door.

Keep in mind that, depending on the employer's situation, there's sometimes room for negotiation. So given the complexity of the decisions you'll have to ponder, it's smart to consult a financial expert who can guide you to the best choices.

Though not comprehensive, some considerations include:

Severance

Typically an offer includes some kind of severance that is tied to how long you've been with a company and what your salary is. For instance, companies may offer a week of salary for every year of service.

Though the initial sum can seem large, those dollars must carry you through until you get a new job or until you can tap retirement funds. And remember to factor in the effects of inflation and keep in mind that the money is taxable.

Robert C. Henderson, a financial advisor with Edward Jones in Mystic, Conn., suggests clients take a total inventory of their financial lives. That includes assessing all retirement assets, such as IRAs, future pension money, future Social Security payments, and so forth. Of equal importance is examining all current and future debts. He plots out income streams to assess when money will start coming in from various sources and where the shortfalls will be. "The question is whether there is enough to live on. If there isn't, the next step is to ask how they'll bridge that gap," he comments.

Pensions

Traditional pension plans usually require employees to work until age 65 to receive maximum benefits. What effect will an early retirement have on your pension? If you retire early, your benefits will likely be smaller. Carefully assess the difference between a reduced pension versus a full

pension and how the scenario fits with your overall financial plan. What are the payout options? What are the survivor benefits? Will your employer be willing to enhance the deal by, for instance, crediting you with a couple more years of service?

Health insurance

Rob Jupille, President, RTJ Financial Management, Santa Monica, Calif., says maintaining health insurance is among the most costly employment benefits to replace. If the early retirement offer includes health insurance, it's important to fully understand what's included. Is it just you who is covered or does it also cover your spouse and family? Will coverage last until you're eligible for Medicare? What costs are you expected to pick up? Can you afford the payments? If there's no offer of health insurance in the package, it's worth haggling to get some sort of coverage. Though the answer is often no, ask your employer whether you can remain on the company's health plan until you're able to tap Medicare benefits or until you find a new job. "A lot depends on the employer's situation. If they're just trying to shore up the balance sheet, they may be amenable to it. If they're on the brink of disaster, there will be no discussion," Jupille observes.

Ancillary services

Does the offer include outplacement counseling or other kind of job-finding assistance? Some offer education benefits to help you get retrained for a new job.

Several additional considerations:

-Does your spouse have insurance, Social Security, and so forth?

-Will your spouse continue to work?

- Does the offer include employer-sponsored life insurance?

-If you have stock options, how will they be exercised?

-How will your lifestyle change? How do you envision the next phase of your life? After all, you could be looking at another 30 years to pursue a second career, part-time work or hobbies.

-How will your expenses change? Do you want or need a part-time job? Are your new hobbies or other post-work pursuits expensive? If you're spending the bulk of your time volunteering, maybe you'll need a vastly smaller amount of money to live on.

-Do you have a budget?

Scheduling a consultation with a financial planner before signing off on any early retirement offer can be enormously helpful in avoiding critical mistakes that can seriously affect the rest of your financial life.

Henderson warns that just *one* misstep can create dire consequences. He offers the story of one client who, rather than opting for a joint-survivor annuity option on his pension, took the single-life annuity. It pays *him* for the rest of his life. But taking that option turned out to have serious financial consequences for his spouse because payments end when he dies. Thus, if he dies first, his wife will be left to survive on Social Security and a meager amount from IRA savings.

Planning ahead

If you sense an early retirement plan will be in the offing at your company, take steps to prepare yourself in advance by:

-Stashing away three- to six-months of expenses in cash to carry you through any lean months. "This is always a wise financial move, no matter what your situation," comments Jupille.

-Reducing your risks by not being over-invested in your company's stocks. When your employment *and* your retirement money are tied to one company, your destiny is too closely linked with a single entity. Jupille suggests limiting your

exposure by having no more than 5 to 10 percent of your investments in your employer's stock.

-Getting your resume out on the street; contacting headhunters in your field; refreshing business relationships with those who could help you land a new job; and building new relationships at industry meetings and through online networking at sites, such as www.Linkedin.com.

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