

WHAT TO DO IF YOU'RE OFFERED AN EARLY RETIREMENT BUYOUT

Corporate "downsizing" has become so common that it hardly rates as news any more -- unless you're one of the affected employees. The common alternative to outright firings is to offer a buyout package that strongly encourages early retirement. The theory is that the company will achieve net savings from lower salary costs and a leaner organization. Usually, you'll hear of a buyout offer on the company grapevine before it's officially announced as your "opportunity" to retire early. It is likely to be an offer that's yours to refuse, but the reality may be that if you do, you will be terminated soon with a lesser or no package. Or, you may get a sweeter offer in six months or later. If you think you may be about to receive an early retirement offer, there are five things you should do:

Step Back and Think about Your Plans

You have three main possibilities: Get another job, work for yourself, or retire. You'll need a decision on direction sooner not later, because your direction could affect what you do about your package. If you want to move on to another job, you should get moving fast, because it's much easier to get work if you are still working. There's usually a comfortable period between the offer and the expected retirement date. Try hard to line something up before your retirement takes effect. Also, if you know you want to keep working, you may want to hold off receiving the retirement package for as long as you can. But if you are trying to start your own business, you will probably need to gather up as much capital as you can, including cash from your early retirement package. With retirement, you may want to put the entire package into an investment program.

Talk to a Professional

It's smart to go over your specific offer and plans with your professional advisor to get a review of both the immediate offer and the long-term effect on your situation.

Size Up Your Offer Carefully

There is no standard offer, but the "sweeteners" you may see can include a selection from benefits like these: A bonus in cash, lump-sum payment of retirement plan benefits, some salary continuation, a credit of extra years of service in your retirement plan, insurance coverage, continuation of medical benefits for a time, outplacement services, and stock options. You need to consider the particulars of your package against your plans.

Know the Tax Situation

Distributions from tax-qualified retirement plans are usually taxable to a great extent. That will reduce the cash you have available. Also, you can trigger extra tax if you are too young when you take your distribution. You should be able to defer tax on your distribution until you need to receive it by rolling over your money into an IRA. Check with your tax professional.

Can You Negotiate?

Your offer may be standard, offered to all the employees in your category of service and age. Such an offer may not be negotiable. If you have received an individual voluntary separation offer, negotiation may be very possible. You don't have to take or turn down the first offer. You may need a particular benefit that's not in the package or changes in the benefits that are included. Ask, and you may get your benefits. Don't ask, and you certainly will not get them.

An early retirement can be an excellent opportunity or a long-term problem -- if you can't make it fit well into your plans. If you want to talk over your situation, please contact us.