

Evaluating Early Retirement Offers

In recent years cost-cutting and restructuring measures have forced a number of companies to offer early retirement packages to many of their employees. Although initially attractive, these packages require careful analysis. In deciding to either accept or reject an early retirement offer, several key questions must be answered:

- *Do you want to retire?*
- *If you don't want to retire, what happens if you reject the offer?*
- *If you do want to retire, can you realistically afford retirement?*

Common Elements in Early Retirement Packages

Early retirement offers are carefully structured and may include "sweeteners" such as:

- **Cash:** A cash bonus, either as a lump-sum or periodic payments, may be included. Consider your cash-flow and income tax situation before deciding which to take.
- **Defined benefit pensions:** For companies with defined benefit retirement plans, retirement income is often based on years of service, age at retirement, and a percentage of the highest three years earnings. Any or all of these factors can be adjusted to give an employee a higher pension benefit.
- **Defined contribution pensions:** Employers who sponsor defined contribution plans such as 401(k) or 403(b) plans may allow employees who take early retirement to keep their funds in the company plan.
- **Other fringe benefits:** Some early retirement offers will include valuable benefits such as group health or life insurance, counseling by financial professionals, and education or job placement assistance, if the employee wishes to continue working.

Do You Want to Retire?

Before the offer was made, what were your plans for the future? Were you already considering early retirement or were you planning on working for a few more years? For some, continuing to work is not only enjoyable, but also helps in reaching goals such as putting a child or grandchild through college or paying off a mortgage. For others, the freedom retirement offers to pursue more personal goals is a life-long dream.

What Happens if You Decide to Reject the Offer?

Sometimes remaining with your current employer is a realistic option, sometimes it isn't. Refusing an early retirement offer may lead to promotions or salary increases that, in the long run, could result in a higher retirement benefit. Also, working longer allows you to save more and reduces the number of retirement years. Alternatively, rejecting an offer may result in being demoted or simply let go when your position is eliminated. Often, you have only a very brief period of time to make this critical decision, typically 60 to 90 days.

Can You Afford to Retire?

For most of us the key question frequently comes down to whether or not we can financially afford to retire. There are a number of issues to consider when answering this question, focusing on how much income you need and where it will come from:

- **A longer retirement:** Early retirement effectively means that your retirement will last longer. With people living longer, some of us may spend as much as 1/3 of our lives in retirement.
- **Taxes and inflation:** When planning your income needs, be sure to keep the impact of both taxes and inflation in mind. What will your marginal tax rate be in retirement? To offset inflation, your income goal cannot remain level, but must increase each year.
- **Lower pension and Social Security income:** Early retirement often results in lower pension income as well as reduced Social Security retirement benefits.

- **Less time to plan and save:** Early retirement leaves you less time to plan for the psychological adjustment needed when you retire. It also leaves less time to save for what will likely be a longer period of retirement.
- **Health care:** Medical care is expensive and as we age we typically need more of it. During our working years, employer provided health insurance is an extremely valuable benefit. After retirement, however, we are much more on our own. Medicare is generally available once you reach age 65, but Medicare has specific limits. Often, additional medical insurance is necessary, but the individual typically has to personally pay for this extra coverage.
- **Continue working:** Some of us, either because we enjoy working, or because we need the income, will want to consider continued employment.

Everyone's personal and financial situation is different. If you receive an early retirement offer, let your Jacobi Capital team help you review the options and see what would be best for your goals.

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