

# WHAT TO DO WITH AN EARLY RETIREMENT OFFER



THE RETIREMENT GROUP<sub>LLC</sub>  
PARTNERS IN RETIREMENT







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## INTRODUCTION

In today's corporate environment, cost cutting, restructuring, and downsizing are normal parts of business operation. Many companies offer employees early retirement packages to encourage them to leave. This is generally done to encourage voluntary departures when the organization is looking to reduce headcount. While many early retirement offers seem attractive at first, it is important for you to review an offer carefully before accepting it to ensure that it is indeed a "golden" opportunity. An early retirement package can be a great opportunity or a disaster. It all depends on how well you plan. Here are a few things to know or consider when deciding whether or not to accept that early retirement package.





## WHAT IS THE SEVERANCE PACKAGE?

Most early retirement offers include a severance package that is based on your annual salary and years of service at the company. For example, your employer might offer you one to two weeks' salary (or even a month's salary) for each year of service. Make sure that the severance package will be enough for you to make the transition to the next phase of your life. Also, make sure that you understand the payout options available to you. You may be able to take a lump-sum severance payment, and choose to either invest that money to provide income, or use it to meet large expenses. Other options include taking deferred payments over several years to spread out your income tax bill on the total sum of cash.





## HOW WILL ACCEPTING THE OFFER AFFECT YOUR PENSION?

If your employer has a traditional pension plan, the retirement benefits you receive from the plan are based on your age, years of service, and annual salary. You typically must work until your company's normal retirement age (usually 65) to receive the maximum benefits. This means that you may receive smaller benefits if you accept an offer to retire early. The difference between this reduced pension and a full pension could be large, because pension benefits typically accrue faster as you near retirement.

However, your employer's offer may provide you with larger pension benefits until you can start collecting Social Security at age 62. Or your employer might boost your pension benefits by adding years to your age, length of service, or both. These types of pension sweeteners are key features to look for in your employer's offer – especially if a reduced pension won't give you enough income.

"The moment you are given a severance agreement, check to see if your employer gave you a deadline for accepting, or declining, the agreement. If you are 40 years old or older, federal law requires the employer to give you at least 21 days to review the agreement and make up your mind."

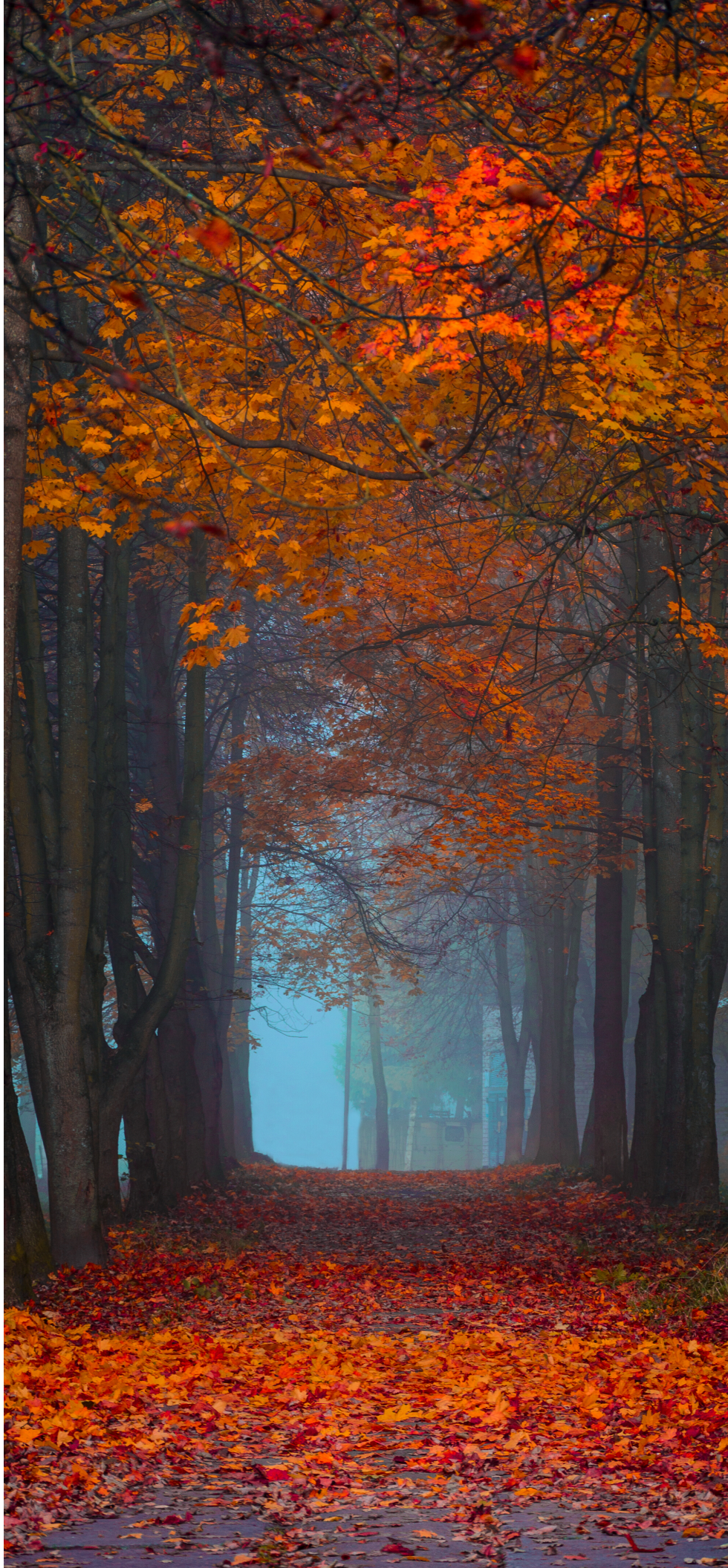




# DOES THE OFFER INCLUDE HEALTH INSURANCE?

Does your employer's early retirement offer include medical coverage for you and your family? If not, look at your other health insurance options, such as COBRA, a private policy, dependent coverage through your spouse's employer-sponsored plan, or an individual health insurance policy through either a state-based or federal health insurance Exchange Marketplace. Because your healthcare costs will probably increase as you age, an offer with no medical coverage may not be worth taking if these other options are unavailable or too expensive.

Even if the offer does include medical coverage, make sure that you understand and evaluate the coverage. Will you be covered for life or at least until you're eligible for Medicare? Is the coverage adequate and affordable (some employers may cut benefits or raise premiums for early retirees)? If your employers' coverage doesn't meet your health insurance needs, you may be able to fill the gaps with other insurance. It is important, especially in the later years, to make sure you're properly covered.







## WHAT OTHER BENEFITS ARE AVAILABLE?

Some early retirement offers include employer-sponsored life insurance. This can help you meet your life insurance needs, and the coverage probably won't cost you much (if anything). However, continued employer coverage is usually limited (e.g., one year's coverage equal to your annual salary) or may not be offered at all. This may not be a problem if you already have enough life insurance elsewhere, or if you're financially secure and not need life insurance. Otherwise, weigh your needs against the cost of buying an individual policy. You may also be able to convert some of your old employer coverage to an individual policy, though your premium will be higher than when you were employed.

In addition, a good early retirement offer may include other perks. Your employer may provide you and other early retirees with financial planning assistance. This can come in handy if you feel overwhelmed by all of the financial issues that early retirement brings. Your employer may also offer job placement assistance to help you find other employment. If you have company stock options, your employer may give you more time to exercise them. Other benefits, such as educational assistance, may also be available. Check with your employer to find out exactly what the offer includes.





# CAN YOU AFFORD TO RETIRE EARLY?

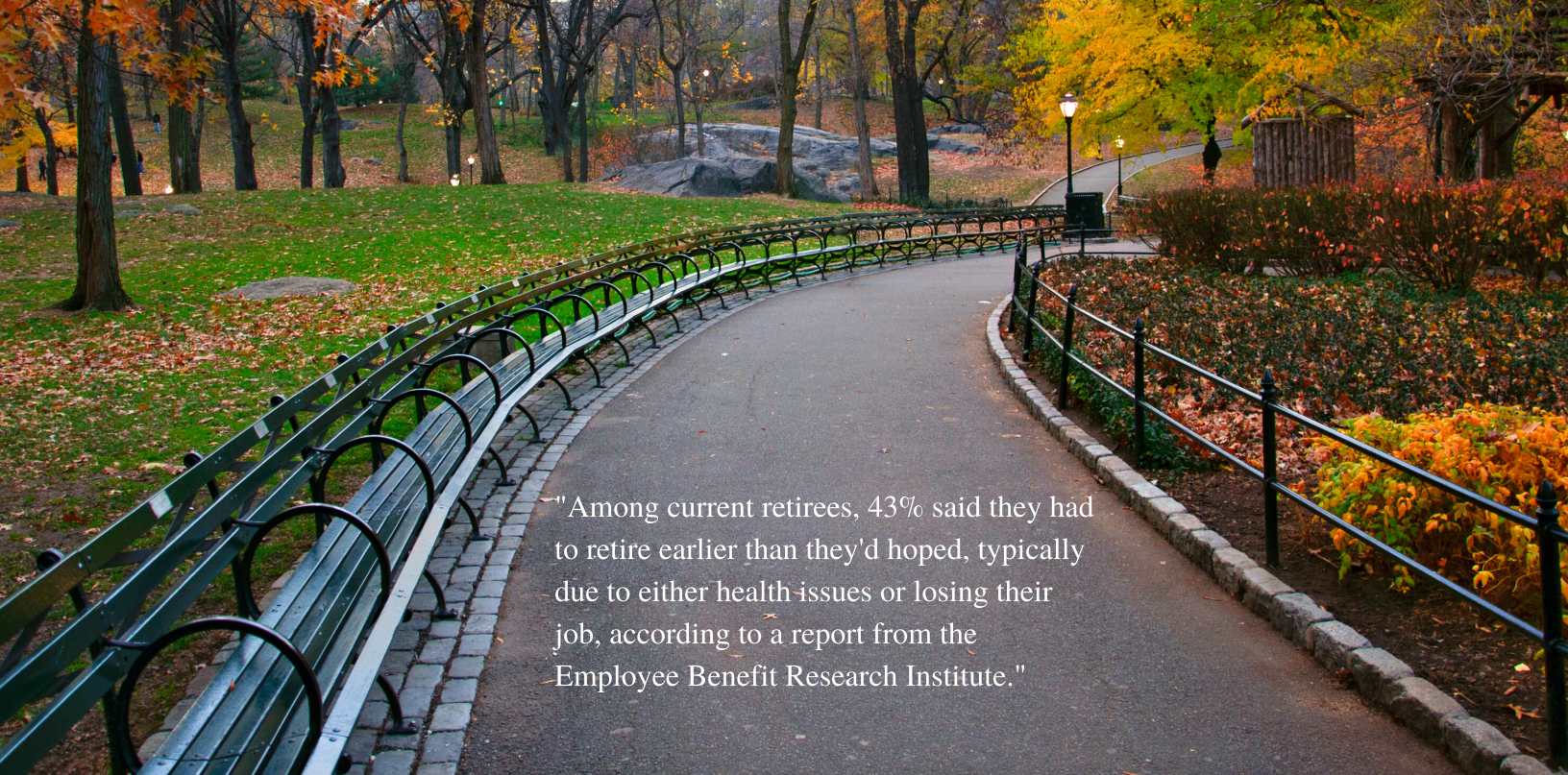
To decide if you should accept an early retirement offer, you can't just look at the offer itself. You have to consider your total financial picture. Can you afford to retire early? Even if you can, will you still be able to reach all of your retirement goals? These are complicated questions that a financial professional should help you sort out, but you can take some basic steps yourself.

Identify your sources of retirement income and the yearly amount you can expect from each source. Then, estimate your annual retirement expenses (don't forget taxes and inflation) and make sure your income will be more than enough to meet them. You may find that you can accept your employer's offer and still have the retirement lifestyle you want. Remember, these are only estimates. It is important to build a comfortable cushion in case your expenses increase, your income drops, or you live longer than expected.



If you don't think you can afford early retirement, it may be better not to accept your employer's offer. The longer you stay in the workforce, the shorter your retirement will be and the less money you'll need to fund it. Working longer may also allow you to build larger savings in your IRAs, retirement plans, and investments. However, if you really want to retire early, making some smart choices as early as possible will help you overcome the obstacles. Try to lower or eliminate some of your retirement expenses. Consider a more aggressive approach to investing. Take a part-time job for extra income. Lastly, think about selecting early Social Security benefits at age 62, but remember that your monthly benefit will be smaller if you do this.





"Among current retirees, 43% said they had to retire earlier than they'd hoped, typically due to either health issues or losing their job, according to a report from the Employee Benefit Research Institute."



## EXPLORE NEW WAYS TO MAKE MONEY

Once you've accepted an early retirement package, think about using your time to explore new ways to make money. Evaluate your strengths to see how they may be implemented in a new way where you could pursue work you really enjoy.

You may find yourself having to accept an early retirement offer, even though you can't afford to retire. One way to make up for the difference between what you receive from your early retirement package and your old paycheck is to find a new job, but that doesn't mean that you have to abandon your former line of work for a new career. You can start by finding out if your former employer would hire you as a consultant. Or, you may find that you would like to turn what was once just a hobby into a second career.

Finally, there is always the possibility of finding full-time or part-time employment with a new company.

However, for the employee who has 20 years of service with the same company, the prospect of job hunting may be terrifying. If you have been out of the job market for a long time, you might not feel comfortable or have experience marketing yourself for a new job. Some companies provide career counseling to assist employees in re-entering the workforce. If your company does not provide you with this service, you may want to look into corporate outplacement firms and nonprofit organizations in your area that assist with career transition.





# WHAT WILL HAPPEN IF YOU TURN DOWN AN OFFER?

If you refuse early retirement, you may continue to thrive with your employer. You could even receive a second offer better than the first one, but you may not be so lucky. Consider that your position could be eliminated completely down the road. You may want to accept the sure thing right away rather than face further uncertainty down the road. The consequences are hard to predict, so seeking professional advice could help, especially since you will typically have only 60 to 90 days to make a decision.





## CONSULT A FINANCIAL ADVISOR

If you are presented with an early retirement package you would be wise to consult with a knowledgeable financial advisor. They can advise you on the full ramifications of the package, including the impact on your ability to retire.

A financial advisor can put together a financial plan (some may do this for free) including retirement projections based on a variety of scenarios and assumptions that factor in the impact of any incentives (including tax).



Schedule your  
appointment with a  
financial advisor  
today!!!





## SOURCES

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# ABOUT THE RETIREMENT GROUP

The Retirement Group is a nation-wide group of financial advisors who work together as a team. We focus entirely on retirement planning and the design of retirement portfolios for transitioning corporate employee. Each representative of the group has been hand selected by The Retirement Group in select cities of the United States. Each advisor was selected based on their pension expertise, experience in financial planning, and portfolio construction knowledge.

TRG takes a teamwork approach in providing the best possible solutions for our clients' concerns. The Team has a conservative investment philosophy and diversifies client portfolios with laddered bonds, CDs, mutual funds, ETFs, Annuities, Stocks and other investments to help achieve their goals. The team addresses Retirement, Pension, Tax, Asset Allocation, Estate, and Elder Care issues. This document utilizes various research tools and techniques. A variety of assumptions and judgmental elements are inevitably inherent in any attempt to estimate future results and, consequently, such results should be viewed as tentative estimations. Changes in the law, investment climate, interest rates, and personal circumstances will have profound effects on both the accuracy of our estimations and the suitability of our recommendations. The need for ongoing sensitivity to change and for constant re-examination and alteration of the plan is thus apparent.

Therefore, we encourage you to have your plan updated a few months before your potential retirement date as well as an annual review. It should be emphasized that neither The Retirement Group, LLC nor any of its employees can engage in the practice of law or accounting and that nothing in this document should be taken as an effort to do so. We look forward to working with tax and/or legal professionals you may select to discuss the relevant ramifications of our recommendations.

Throughout your retirement years we will continue to update you on issues affecting your retirement through our complimentary and proprietary newsletters, workshops and regular updates. You may always reach us at (800) 900-5867.





Topics include:

- What is the severance package
- How will accepting the offer affect your pension
- Can you afford to retire early?
- Explore new ways to make money

To learn more,  
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