Evaluating Early Retirement Offers

By Arthur Rottenstein, General Securities Principal

You're counting down the days, weeks months and years before you finally decide to call it quits and live out your sunset years in the glory of retirement. You've set up a date and time, and x-out each day on the calendar until you get to the end of the rainbow (sound familiar?).

I am often asked "when should I retire?" My answer to that question usually is "one day, you'll wake up and you'll know it's time. While we all joke and talk about it since the day we started working, when the time is right, you'll know it." For those of you in the corporate world, it usually comes in the form of a well planned occupational exit you've been working up to for years. But, along comes a "monkey wrench:" you've been offered early retirement. Oh, what to do?

In recent years cost-cutting and restructuring measures have forced a number of companies to offer many of their employees early retirement packages. 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?

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 it also helps in reaching goals such as putting a child or grandchild through college or paying off a mortgage. For others, the freedom of retirement offers the time to pursue more personal goals which may be a life-long dream. 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.

This time is bittersweet: you've waited for this opportunity for a long time: you just didn't know how to react to it. Are you ready for it? Do you have an idea what you would do with your time: You may look into a new direction of business, travel, spend time with the family, or just have time for yourself? How identified are you with your job, and will you feel a loss of self with this change? The most important decision to make- can you afford it?

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.

The decision to retire early and take an early retirement package is delicate and not a snap decision. Be sure to consult your financial professional or accountant and carefully determine if this is the time and you can afford to accept your employers offer. If you can, remember: the world is your oyster- go for it!

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