

**MONEY MANAGEMENT**

**Early Retirement Deals Require Careful Scrutiny**

As companies across the country continue to trim their work forces, thousands of workers face the opportunity to trade their jobs for enhanced early retirement deals. What should you do if your employer offers you what seems like a pot of gold in exchange for your early exit from the company? According to the Nevada Society of CPAs, even the best retirement package involves important career and financial stakes that dictate scrutiny of the package's pay and benefit terms.

According to CPAs, if you're presented with an early retirement offer, the first issue to address is whether you really have a choice. Is your company looking to reduce numbers in general, or is it targeting specific individuals or departments? Is it likely that outright layoffs will follow the voluntary early retirement offers? Your decision-making process should begin with a realistic assessment of your job security, your prospects and marketability, and the future

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(Continued from Page 6) performance of the life insurance policy, it's possible that over a period of years a total of \$200,000 is paid in premiums but a \$1,000,000 death benefit is available to fund the estate tax liability.

The cost of life insurance can be reduced even further in some instances by using a second-to-die or survivorship life insurance policy. These policies were created in response to ERTA and the unlimited marital deduction in order to provide needed liquidity to estates in a cost-effective manner. A second-to-die policy insures two individuals such as a husband and wife under one policy. It pays a death benefit at the time the surviving spouse dies. This is frequently when liquidity is needed most because much of the cost associated with estate taxes can be deferred until the death of the surviving spouse. A second-to-die policy can offer a significant reduction in insurance costs from a policy covering just one life because it doesn't pay the death benefit until both insured individuals have died.

Several types of second-to-die policies are available in the marketplace. Traditional whole life and universal second-to-die policies have been offered for years by a number of insurers. Variable second-to-die policies which offer policy owners more investment control and growth

of your company.

Assuming the early retirement offer is voluntary, the next step is to carefully evaluate the package you are offered.

**EVALUATING EARLY RETIREMENT PACKAGES**

Early retirement packages generally tempt employees with a combination of benefits. In most cases, the package is built around a "sweetened" pension and may be supplemented with such extras as cash payment, post-retirement health benefits, and help in finding a new job.

When calculating your retirement benefits, most companies enhance your future pension by "adding" years to your age and/or crediting you with extra years of employment. A few years in a pension can significantly increase your retirement payout. For this reason, it's important that you compare what you're being offered against what you would get if you stayed on the job.

A valuable exercise is to balance all the income and expenses of continuing to work against those of retiring to see how much more you stand to earn by working as opposed to retiring. Some individuals may find that when the costs of

commuting, clothing, and other work related expenses are factored in, continuing to work makes only a marginal difference in their income.

To determine whether you can afford to retire early, you'll need to take a hard look at your anticipated expenses and income during your post-employment years. While circumstances vary, CPAs and other experts agree that most retirees will need 70 to 80 percent of their pre-retirement salary to maintain their standard of living. In estimating your income needs, be sure to consider the benefits you can expect to receive from Social Security and your company pension, as well as savings and investments you have earmarked for retirement.

**DON'T OVERVALUE CASH PAYOUTS**

To make early retirement attractive, particularly for younger workers, some companies offer lump-sum cash payments. Typically, cash payments are based on a formula that takes into account your salary and the number of years you've worked for the company. If you're younger and the package means a job change rather than retirement, be

realistic about your chances of finding a comparable job before your cash payment runs out.

**BENEFIT TERMS ARE IMPORTANT FACTORS**

Some of the better early retirement packages include company-paid medical insurance coverage for a specific time period, although rising medical costs are making this benefit increasingly rare. However, federal law requires that all companies with 20 or more employees offer departing workers continued health insurance coverage for 18 months. In such cases, the employee picks up the cost of this coverage, but pays a premium based on the company's group rate (plus an administrative fee up to two percent). After that, you're on your own, so carefully consider the cost of paying for your own medical insurance.

**CONSIDER TAXES WHEN SIZING UP YOUR OFFER**

Finally, CPAs urge you to consider the tax implications of accepting an early retirement offer. Your company is required to withhold 20 percent in taxes from lump-sum pension distributions, unless you request

the money be transferred directly to an Individual Retirement Account (IRA) or another retirement plan. What's more, if you hold onto the cash, in addition to the income tax, you'll be subject to a 10-percent early-withdrawal penalty if you are under the age of 55 in the year you leave your job. For these reasons, it's especially important

to seek more professional advice before cashing in on an early retirement offer.

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