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Many factors play role in determining if 'early retirement' is the right plan

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Retiring early is a career goal for many executives. But since the Covid-19 pandemic hit, many executives are facing the choice of whether to accept an "early retirement" package. Companies such as Delta Air Lines Inc., The Coca-Cola Company and others have begun offering voluntary workforce reductions in lieu of involuntary layoffs.

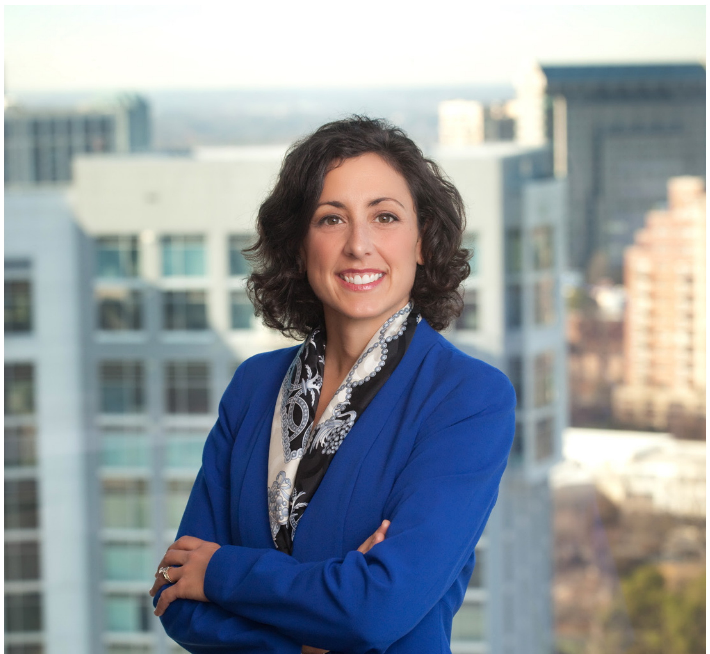
Early retirement packages "show a high degree of care for employees and is a good branding move [for a company]," said Lisa Brown, wealth advisor and partner in charge of the corporate professionals and executives specialty for Brightworth financial advisory firm. "Rather than force people into financial hardship by laying them off during a time of high unemployment, voluntary exit programs can give people more control over the timing of their departure and control over whether to participate in the program. If enough people accept the voluntary package, jobs may be spared for those who want or need to keep working."

Using financial planning software and strategies, Brown develops financial models for her clients to help them determine if offered packages are right for them. She said her clients' reactions to pandemic-related early retirement offerings have been mixed.

"It's brought huge smiles to some clients who otherwise were planning to retire in the next couple of years. For others, it's been sad when they reflect on their 20-year career with their company ending," she said. "Some people start thinking about the money aspect at first, but then when you really dive into what this means for their family now and into the future, I usually see people need to vocalize how this change is making them feel. That's part of the therapy of ending a good run at your company."

Early retirement packages are traditionally reserved for employees who have significant tenure with the company, according to Wes Moss, CERTIFIED FINANCIAL PLANNER™, chief investment strategist, managing partner and senior investment advisor for Capital Investment Advisors.

"Usually an early retirement package offers to pull forward someone's planned retirement date," Moss said. "Instead of retiring at age 65, a company may offer a package that is worth an entire year's compensation [including] severance, a healthcare account, early access to a pension if they agree to retire several years before schedule."



Lisa Brown, wealth advisor and partner in charge of the corporate professionals and executives specialty for Brightworth financial advisory firm.

Even in non-pandemic times, companies examine how to reduce costs. Often, the primary costs are salaries and employee benefits, Moss said. Early retirement packages, then, help corporations take a slightly larger financial hit up front to save them significant costs over time.

"As we have seen in multiple industries -- airlines, retail, telecom, and even the beverage industry -- the economic slowdown caused by the pandemic has pushed corporations even further into downsizing their cost structure. Unfortunately, that often means either layoffs or early retirement incentives," Moss added.

Frequently, with such packages, a lump sum is offered to buy out someone's monthly pension amount. To determine if the package is viable, Moss uses what he called the "6% test:" Take the monthly pension offer multiplied by 12, then divided by the lump sum offer. This is

ATLANTA
BUSINESS CHRONICLE

the annual percentage rate, Moss explained.

“If that annual percentage rate for the monthly pension is 6 percent or more, then it is worth considering,” he advised. “If the annual percentage rate of the monthly pension relative to the lump sum is 6 percent or less, then it is typically better to take the lump sum versus the monthly amount.”

Ultimately, deciding on eary retirement is personal, with many factors to consider, said Jim Potvin, executive director of the Employees' Retirement System of Georgia.

“This decision will have long-term financial implications, especially in retirement, “For example, an employee who has the skills or opportunity to reenter the workforce with another job has significant flexibility to accept the offer,” Potvin said, adding that candidates should speak with their finance professional before making any decision. Some financial advisory firms have seen companies pursue furloughs and layoffs as a short-term solution to managing expenses, with the expectation of re-hiring when conditions improve, said John Frazer, managing director of private wealth advisory services for IRA Group Inc.

“Excluding financial considerations, is the individual emotionally prepared for the new direction that their life will take? We become accustomed to our daily work routines and when this changes, it is sometimes a difficult adjustment,” Frazer said.

Financially, age has a significant bearing on whether early retirement is “right,” Frazer added. “For individuals who are further away from normal retirement age, creation of an income source that covers the gap between the retirement date and Social Security start date is a critical consideration,” he said. “If retirement savings withdrawals are used for this purpose, they could be subject to a 10 percent early withdrawal penalty if the individual is younger than age 59 ½. What's more, the individual might be introducing the risk of outliving their assets if withdrawals begin too soon. Finally, there is a substantial reduction in the Social Security benefit if an individual begins drawing prior to their normal retirement age, typically 67.”

In today's environment, however, electing to retire early may be the safest financial move given the options, according to Moss.

“In many cases, taking an early retirement package is simply the lesser of two evils,” Moss said. “[It is] some compensation to leave today versus being laid off with no compensation tomorrow.”

Early retirement: Is it right for you?

Consider:

- Health insurance options. “It's often more expensive to purchase an individual policy versus getting insurance through an employer,” said Lisa Brown, partner in charge, corporate professionals and executives at Brightworth.
- Current savings versus financial obligations (such as mortgage, student loans)
- Pension. “If the employee is vested in a pension, taking an early retirement could impact the amount of pension payments for the long term,” said Jim Potvin, executive director of Employees' Retirement System of Georgia.
- Your time. Will you seek employment elsewhere? Do you have hobbies or volunteer opportunities? “There is a risk of sheer boredom, which can affect wellbeing,” said John Frazer, managing director of private wealth advisory services, IRA Group Inc.

Ask:

- Will the employer credit you with extra years of service so you can begin collecting retirement payouts?
- Will the employer pay for health benefits until you are eligible for Medicare?
- Will the employer offer health benefits to you during retirement?
- How will the payouts be structured? Is it a single lump sum or payments over a period of time? “If it is a single lump sum, this could affect your taxes, as you might be pushed up into a higher tax bracket in that year,” said Frazer.

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