

CAN YOU RETIRE IF OFFERED A BUYOUT?

Ask yourself these six questions.



When a company offers a buyout to employees – sometimes before following through on the prospect of involuntary layoffs – many variables can factor into the decision to accept or reject the offer.

Not all buyouts look alike. If the recipient of a buyout offer has a company pension, pension benefits could start sooner than scheduled. Compensation distributed in a lump-sum amount or as installments over time also could be offered. Company stock options are another possibility.

Another important variable, especially for those nearing retirement, is the age of the person considering accepting a buyout. Even for people in their 60s, a buyout can be a difficult proposition. If still in their early 60s, the buyout may not be altogether attractive because a considerable gap exists between both the time someone can go on Medicare and, even later, reach full retirement age for Social Security benefits.

In other words, you must weigh several considerations carefully to determine if the buyout makes sense.

Unfortunately, such considerations could become more prevalent if companies continue to struggle from the economic fallout resulting from the COVID-19 outbreak, which hit the United States in March 2020. In just the nine-week period from March 14 to May 16, 38.6 million unemployment claims were filed as the nation's economy practically ground to a halt.[1]

As one example, Boeing offered buyouts in early April 2020 stemming from the effects of the coronavirus on travel, coupled with the grounding of a few of its airliners.[2] The next month, the manufacturing giant informed employees of involuntary layoffs.[3]

Yet company buyouts had become a thing for American corporations long before the effects of the coronavirus. In the last quarter of 2018, for example, General Motors offered buyout packages to 18,000 salaried employees. The decision was made in an effort to reduce labor costs at a time when the market was in decline while the costs of commodities were on the rise.[4]

So that means buyouts could always be a possibility throughout many American business sectors. We want to elaborate on the issues a buyout can present by raising six pertinent questions you should ask yourself, and quite possibly a financial professional, if you are offered a buyout.

[1] Neil Paine. FiveThirtyEight. May 22, 2020. "America's Unemployment Numbers Are Stabilizing. That's Not A Good Thing." https://fivethirtyeight.com/features/americas-unemployment-numbers-are-stabilizing-but-thats-not-a-good-thing/. Accessed Aug. 2, 2021.

[2] Jeremy Bogaisky. Forbes. April 2, 2020. "Boeing Offering Workers Buyouts With Production Cuts Likely Ahead." https://www.forbes.com/sites/jeremybogaisky/2020/04/02/boeing-buyout-layoffs/#502630b63643. Accessed Aug. 2, 2021.

[3] Nicholas Reimann. Forbes. May 27, 2020. "Boeing Resumes 737 MAX Production After Announcing Over 12,000 Job Cuts." https://www.forbes.com/sites/nicholasreimann/2020/05/27/boeing-slashes-over-12000-jobs-with-more-cuts-coming/#488bb2a33a41. Accessed Aug. 2, 2021.

[4] Mike Colias. The Wall Street Journal. Oct. 31, 2018. "GM Offers Buyout to 18,000 Workers in Cost-Cutting Move." https://www.wsj.com/articles/gm-offers-buyout-to-18-000-workers-in-cost-cutting-move-1541001178. Accessed Aug. 2, 2021.



1. ARE YOU READY TO RETIRE?

Income is an important factor that plays into this decision, obviously. It could be what makes you stop in your tracks from time to time and wonder to yourself, "Do I have enough?" Hey, it's a question asked by many, and quite often, it gets asked by those who have been diligent in how much they contributed to their retirement accounts.

Retirement, however, is also about your mindset. Are you ready to leave behind colleagues whom you have worked alongside, and perhaps socialized with, for many years? Are you ready to find a purpose in life that keeps you active and fulfills your time?

Sure, lounging around the house with few obligations is a great way to finally attain some peaceful relaxation. Retirement can get boring, however, without being involved in some activities and being associated with others.

2. IF YOU DO NOT ACCEPT THE BUYOUT, WILL YOU LOSE YOUR JOB ANYWAY?

This is not always a question that can be answered with great certainty. Many of us like to feel we're bulletproof in jobs we have commanded for several years, so consequently, we think we'll be safe if our company imposes involuntary layoffs.

Take a good look around you. Has attrition reduced workforce? Are employees being asked to do more than before? Is the industry you work in, or specifically the business you work for, struggling to meet previous production and sales levels? Are prospects for future success grim?

Declines in revenue, coupled with buyouts, could spell the beginning of the end for any company. A buyout offer should, at the very least, cause you to examine your future with that employer.

3. IF YOU ACCEPT THE BUYOUT BUT WANT TO CONTINUE WORKING, HOW DIFFICULT WILL IT BE TO FIND ANOTHER JOB?

Employers are not always eager to hire older employees, in part because of the training required and the prospect the workers will not be around as long as those who hire on at a younger age. The enormity of the baby boomer generation, defined by those born from 1946-64, continues to create a glut of older workers looking for jobs.[5]

Even if older workers retrain for careers in a new field that potentially includes modernized methods, there's no guarantee they'll find new employment.

Consider your own skillset and ask yourself if positions you qualify for are readily available in today's labor market. If not, the chances of finding a new job that offers compensation resembling your old paycheck, or finding a suitable job of any kind, could be difficult. Remember, too, that states have seen record unemployment rates in the wake of the coronavirus pandemic.[6] America's labor market essentially got turned on its head, and a quick recovery from something that tumultuous is difficult.

4. CAN YOU RETIRE RIGHT NOW IF YOU TAKE THE BUYOUT?

Unlike the first question, this one is about your financial position. And that question that's nagging at you – "Do I have enough?'' – suddenly gets extended into, "Do I have enough to last me the rest of my life?'' Here's how to get some answers.

An income analysis conducted by a reputable advisor can provide substantive input to help you answer that burning question. Frankly, if the company you work for has offered you a buyout, this is a great time to consult a financial professional focused on retirement who understands a wide range of variables that address the five pillars of retirement planning – income planning, investment planning, tax planning, health care planning and estate/legacy planning.

It could be that you're nearing retirement and capable of making ends meet, though a part-time job could come in handy – not only to meet expenses but to provide you something to do.

You also will want to find out your Social Security benefit amount by creating an

[5] Allana Akhtar. Business Insider. May 7, 2019. "3 million older Americans can't find high-paying jobs, and it has nothing to do with skills. Here's the one barrier they face that no one's addressing." https://www.businessinsider.com/retraining-doesnt-help-older-workers-find-jobs-because-of-ageism-2019-5. Accessed Aug. 2, 2021.

[6] Tami Luhby. CNN Business. May 22, 2020. "43 states have record unemployment. See where your state ranks." https://www.cnn.com/2020/05/22/economy/state-unemployment-record-data-error/index.html. Accessed Aug. 2, 2021.



account at www.ssa.gov/myaccount. Realize that the difference between the benefit you can receive when you turn 62 and what you receive if you wait until your full retirement age can be substantially more – and then higher yet if you wait to collect Social Security when you turn 70. Also, if you retire before reaching full retirement age (67 for those born in 1960 or later), an annual earnings limit of $18,960 is imposed. Any additional earnings result in penalties assessed by the Social Security Administration.[7]

5. CAN YOU AFFORD HEALTH CARE IF YOU'RE NOT YET 65 AND ELIGIBLE FOR MEDICARE?

If you lose your health insurance after accepting a buyout offer and have not yet become eligible for Medicare, the gap during that timeframe could prove quite costly. Many who have saved enough to capably retire before the age of 65 elect not to so they can continue to rely on company health coverage.

Four primary methods for obtaining health care to bridge the gap before turning 65 are coverage offered through COBRA, the public marketplace, private insurance or a spouse's plan.

COBRA allows you to keep your current coverage for a specified plan, though often without assistance you received when an employer kicked in to help cover costs. Costs through the marketplace, established through the Affordable Care Act, vary greatly, though subsidies could be available through tax credits. You also can access private insurance through insurance companies, agents, brokers and online health insurance outlets. A spouse's plan could provide the most affordable alternative if that option is available.

While it can be difficult for those facing retirement - whether as a result of a buyout or other means – to account for continuing changes to Medicare and health care systems in general



when planning, it's not impossible. Your best bet is to build some flexibility into your planning and to focus on aspects you can control – such as which areas you might be willing to cut back on to help pay for rising health care costs.[8]

6. WHAT ARE THE TAX CONSEQUENCES OF A BUYOUT?

Additional income received in a buyout likely could be considered taxable income in a given year and potentially bump you into a higher tax bracket. In particular, a lump-sum buyout settlement usually results in a substantial increase in income for a given year. Spreading out buyout compensation over a period of years could reduce the tax burden because not as much income must be claimed in a given year. You should consider the continued solvency of the company offering a buyout when accepting buyout payments spread into lengthy installments.[9]

If the effects of COVID-19 create revenue shortages for companies, it could be that buyout offers will not be altogether generous. This could help with a tax burden created by the buyout, although the compensation offer must be evaluated too, obviously, based on the factors listed above, including the possibility of retirement.

[7] Social Security Administration. "Retirement Benefits." https://www.ssa.gov/benefits/retirement/planner/whileworking.html. Accessed Aug. 2, 2021.

[8] Kristin McKenna. Forbes. May 19, 2019. "Retire Early With Health Insurance: Closing The Coverage Gap." https://www.forbes.com/sites/kristinmcfarland/2019/05/19/retire-early-with-health-insurance-closing-the-coverage-gap/?sh=3524ede61d9c. Accessed Aug. 2, 2021.

[9] Susan M. Heathfield. The Balance Careers. Updated Jan. 8, 2021. "Want to Know What an Employee Buyout Is? Things You Need to Know Before Accepting a Company Buyout." https://www.thebalancecareers.com/want-to-know-what-a-buyout-is-1918074. Accessed Sept. 7, 2021.



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