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## A Buyout Offer Means Doing the Math

By Anne Tergesen (excerpt)

A growing number of companies are offering workers cash this year to walk away from their jobs—a daunting prospect in a recession.

Often called early retirement, voluntary severance or buyout packages, such deals often target people with seniority, a group that tends to earn higher salaries.

Taking such an offer can be a no-brainer for some workers, including those who are ready to retire or change jobs, or fear for their companies' survival. ...

### ... Is it a good offer?

The first step is to understand the offer.

A typical severance payment might amount to two weeks of pay for every year of employment, up to a cap such as six months, said David Kudla, CEO of Mainstay Capital Management LLC in Grand Blanc, Mich.

Under a federal law known as Cobra, companies with 20 or more employees generally must allow departing workers to stay enrolled in the health plan, typically for up to 18 months. But while many firms subsidize workers' premiums, they can require former employees to pay up to the entire premium, plus 2%.

### ... Doing the math ...

... If you put your 401(k) contributions on hold or have to tap your retirement savings early to make ends meet, estimate how much less you are likely to amass for retirement. (Remember that you will owe income tax on withdrawals from a traditional IRA or 401(k), plus generally a 10% penalty if you are under 59½—or 55 in the case of many 401(k) plans.)

If you are entitled to a pension, ask your company for the projected benefit assuming you leave now. "Fewer years of service often mean lower benefits," said Mr. Kudla.

There may be consequences for your Social Security as well.

The Social Security Administration's annual statement estimates benefits by assuming you continue to earn your current salary until you reach one of three retirement ages—62, 70, or so-called full-retirement age, which is 67 for people born after 1959. ...

\*Please contact Mainstay at 866-444-6246 to request a copy of the full article.