



**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, these considerations have gained increasing prominence as the Federal Reserve implements measures to rein in the economy and combat inflation. The Fed's interest rate hikes are designed to discourage spending and investments, which, in turn, can result in an economic slowdown and raise the risk of a recession. As borrowing costs rise,

companies start to feel the impact, prompting them to tighten their budgets, implement cost-cutting measures and reduce their workforce.¹

The workforce has been affected by a wave of massive layoffs, reminiscent of the early days of the COVID-19 pandemic. High-profile companies like Twitter, Meta, Salesforce, Goldman Sachs, Amazon and others have swiftly implemented layoffs, resulting in the dismissal of thousands of employees.² Some of these and other companies have also provided buyout options to certain employees. For instance, General Motors introduced a voluntary separation program for a significant portion of its 58,000 U.S. white-collar employees and a portion of its global workforce.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 Jack Kelly. *Forbes*. May 4, 2023. "Federal Reserve's Recent Interest Rate Hike Could Result In Layoffs At Reeling Regional And Small Banks." <https://www.forbes.com/sites/jackkelly/2023/05/04/federal-reserves-recent-interest-rate-hike-could-result-in-layoffs-at-reeling-regional-and-small-banks/?sh=7164eed03092>. Accessed Aug. 10, 2023.

² *Business News Daily*. Aug. 2, 2023. "These Workers Are Most Worried About Layoffs." <https://www.businessnewsdaily.com/jobs-at-risk-of-layoffs>. Accessed Aug. 10, 2023.

³ Ananya Bhattacharya. *Yahoo! Finance*. April 5, 2023. "How GM got 5,000 workers to leave their jobs within a month without a single layoff." <https://finance.yahoo.com/news/gm-got-5-000-workers-093900703.html>. Accessed Aug. 10, 2023.

⁴ Michael Wayland. *NBC News*. March 9, 2023. "GM offers buyouts to 'majority' of U.S. salaried workers." <https://www.nbcnews.com/business/autos/gm-offers-buyouts-majority-us-salaried-workers-rcna74170>. Accessed July 10, 2023.



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?

Despite signs of a softening economy, there is encouraging news in the labor market. At the beginning of 2023, the market was historically tight, with two job openings available for every unemployed person. What's even more promising is that this trend seems to be deepening.⁵

And the demand for older workers is experiencing a surge in various companies. Federal data confirms that individuals aged 55 and older represent the fastest-growing segment of the workforce. This positive shift can be attributed to businesses recognizing the value that older workers bring and actively targeting them as valuable assets.⁶ While the demand for older workers is on the rise, a critical question arises: Can you secure employment without having to accept a pay cut? According to a 2023 survey conducted by ZipRecruiter, some laid-off workers are actually benefiting. Among those who have already found new jobs, 42% discovered positions that pay more than their previous ones, while 37% are earning a similar level of pay. Only 21% experienced a pay cut. For those who received a pay increase, the average boost was an impressive 23%.⁷ For those older individuals

who have a desire to continue working, these findings highlight the potential to not only find employment opportunities but also secure positions that might offer competitive or even higher compensation compared to their previous jobs.

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.

⁵ Kenan Institute. February 28, 2023. "Labor Supply: Inside the Tight Labor Market." <https://kenaninstitute.unc.edu/kenan-insight/labor-supply-inside-the-tight-labor-market/#:~:text=The%20labor%20market%20is%20historically,Bureau%20of%20Labor%20Statistics%20data>. Accessed July 10, 2023.

⁶ Callum Borchers. *The Wall Street Journal*. April 6, 2023. "Bosses Want Hard Workers---So They're Hiring Older People." <https://www.msn.com/en-us/money/companies/bosses-want-hard-workers-so-they-re-hiring-older-people/ar-AA19x9i2>. Accessed July 10, 2023.

⁷ Julia Pollak. ZipRecruiter. March 2, 2023. "Survey of Recently Laid-Off Workers." <https://www.ziprecruiter.com/blog/survey-of-recently-laid-off-workers/>. Accessed Aug. 10, 2023.



You also will want to find out your Social Security benefit amount by creating an 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 \$21,240 is imposed. Any additional earnings result in penalties assessed by the Social Security Administration.⁸

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 time frame 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.⁹

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 may want to consider the continued solvency of the company offering a buyout when accepting buyout payments spread into lengthy installments.

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.

⁸ Social Security Administration. "Receiving Benefits While Working." <https://www.ssa.gov/benefits/retirement/planner/whileworking.html>. Accessed July 10, 2023.

⁹ Fidelity Viewpoints. Fidelity. October 2022. "Your bridge to Medicare." <https://www.fidelity.com/viewpoints/retirement/transition-to-medicare>. Accessed July 10, 2023.

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