The State Port Pilot

BUSINESS

UCB's Randy Huggins and Phillip Presson were pleased Monday to award a color television to Anne Price, who won the device in a July 15 drawing at the grand opening of the downtown Southport branch's automatic teller machine.

Innovative Ideas Advertising and Design held its grand opening last week in the Town Gate Shopping Center, Southport. Participating in the ribbon-cutting were Lynne Repscha, representing the Southport-Oak Island Chamber of Commerce; Foxy Howard; Chris Howard, president; Jeff Howard; Mag Ferrell; Norman Holden, Southport mayor; Jeff Howard; Reece Howard; and Rob Gandy, Southport city manager.

The grand opening of Philomena Moultrie's was held last week in the General Superstore Plaza in Long Beach. Participating in the event were (left to right) Lynne Repscha, Southport-Oak Island Chamber of Commerce vice-president for business development; Joan Altman, Long Beach mayor; Dianne Vereen and Jennie Ennis, co-owners; Wayland Vereen, Brunswick County commissioner; and Dave Kelly, external relations manager at CP&L's Brunswick nuclear plant.

Money Management

Employee must weigh early retirement plan

As companies across the country continue to trim their workforces, 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 North Carolina Association of CPAs, even the best early-retirement package involves important career and financial stakes that dictate careful 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 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 a 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 additional 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 any savings and investments you have earmarked for retirement.

Don't Overvalue Cash Payouts

To make early retirement more attractive, particularly for younger workers, some companies offer lump-sum cash payments. Typically, cash payments are based on a formula that takes into account 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 administration fee of 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 qualified retirement plan. What's more, if you hold onto the cash, in addition to the income tax you'll be subject to a ten-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 some professional advice before cashing in on an early-retirement offer.

Money Management is a weekly column on personal finance prepared and distributed by the North Carolina Association of Certified Public Accountants.