

Should I accept my employer's early retirement offer?

Answer:

The right answer for you will depend on your situation. First of all, don't underestimate the psychological impact of early retirement. The adjustment from full-time work to a more leisurely pace may be difficult for you. So ask yourself if you're ready to retire yet. Next, look at what you're being offered. Most early retirement offers share certain basic features that need to be evaluated. To decide if your employer's offer is worth taking, you'll want to break it down.

Does the offer include a severance package? If so, how does the package compare with your projected job earnings (including future salary raises and bonuses) if you remained employed? Can you live on that amount (and for how long) without tapping into your retirement savings? If not, is your retirement fund large enough that you can start using it early? Will you be penalized for withdrawing from your retirement plans?

Does the offer include post-retirement medical insurance? If not, you may have to look into COBRA or a private individual policy. Private insurance can be expensive, depending on your health and other factors. If your employer's offer includes medical insurance, make sure it's affordable and provides adequate coverage. Also, since Medicare doesn't start until you're 65, make sure your employer's coverage lasts until you reach that age.

How will accepting the offer affect your retirement plan benefits? If your employer has a traditional pension plan, leaving the company before normal retirement age (usually 65) may greatly reduce the final payout you receive from the plan. If you participate in a 401(k) plan, what price will you pay for retiring early? You could end up forfeiting employer contributions that you're not yet vested in. You'll also be missing out on the opportunity to make additional contributions to the plan.