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Your financial planner: Retiring is hard work

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Our clients often receive notice that they're retiring. Sometimes a severance benefit is included. Sometimes decisions must be made whether to take this option or an alternative option in a certain time frame.

Here are steps to take if you're in this position.

When our client John received an offer to take a severance package, we immediately looked at his last retirement projection to see if he and his wife were close to being able to retire.

If not, no reasonable severance package would offset the income from several more years of working. But fortunately for John and Jill (names changed), their last projection looked fairly good, although it did include 5 more years of John's salary.

We changed that assumption, added in the extra severance income, and checked it again. The projection still looked good, indicating we could recommend taking the severance package if John decided that's what he wanted to do.

The severance benefit John was offered could be taken now in one year or spread out over two years. We set up a cashflow analysis to check the next two years' income, including Social Security payments and his wife Jill's pension. We wanted to avoid increasing their marginal tax rate and losing an extra 3% to the IRS if we took it all in one year.

If you're being terminated, determine if retiring now is an option for you. If not, you'll need to find another position, and sign up for any employment services your current employer may be offering with the layoff.

John's employer has a defined benefit pension for employees during retirement. Those pensions offer several distribution options. An employee can take his money in one lump sum and roll that into an IRA. Or he can take his money each month over his lifetime. If he does the latter, he can choose a high monthly amount, which stops at death. Or he can select a lower amount now, which will also be paid to his spouse after he dies. We analysed this pension, then compared the rate of return the employer was offering to that of a typical

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Our client Sylvia was recently notified she'd be retiring in two weeks! Fortunately our retirement projections for her had shown that she could retire at any time. Also, her employer was offering generous severance payments for 1.5 years. Her employer offered a lump sum for the defined benefit pension, but she had to decide within six weeks if she wanted that or if she wanted the monthly payments. We immediately analysed the rate of return she'd get if she took the monthly check. That was modest. We were concerned about the company's fundamentals and their ability to pay far into the future. We asked questions. We learned the company planned to buy an annuity in the marketplace from a sound company. Sylvia now has to decide if she wants the monthly check, which we recommend, but that choice also assumes she lives to life expectancy.

For Sylvia and other clients, we also assist them with decisions on restricted stock and stock options. One of the first questions to ask is when and if any further vesting occurs. How is that calculated? What is the time frame in which vested stock options need to be exercised? Is that 90 days, or five years or something in between? Make a plan--considering taxes--on when those will be exercised or sold.

Our clients who are teachers are sometimes given the option to buy "air-time", or service credits, in their pension. You can calculate a break-even to determine if this is advantageous. How much do you have to pay now? What's the marginal increase in your monthly check? How many months do you need to live in order to recoup that up-front payment?

Retiring is a lot of work! But taking it one step at a time, and breaking it down into pieces, will get you through the process. You'll be ready to retire.

Sandi Weaver, CPA, CFP owns Financial Security Advisors in Prairie Village, KS, and is a member of the Financial Planning Association.

If you would like members of the Financial Planning Association of Greater Kansas City to address a general financial planning topic or answer your question on this blog, please contact at brandy@fpakc.org. Provide your first name, your age and hometown

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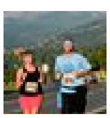

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