Figuring out whether to take a buyout is tough, but answering a few questions can make it easier

The Boston Globe

By Lynn Asinof, Globe Correspondent | February 15, 2009

With the economy in tatters, a growing number of people are being offered buyout packages by cash-strapped employers hoping to cut expenses without resorting to layoffs.

The terms of these buyout offers - which are designed to entice people to leave voluntarily - can vary considerably. An offer might include a full year's salary or be limited to a flat one-time payout. Many buyout packages are based on the number of years a person has been an employee. But it's not just the dollars that vary. Buyouts can include health insurance, continued retirement benefits, and flexibility on issues such as stock options; typically they don't.

That makes figuring out whether to take a buyout a complex task. To some, a buyout offer can be a windfall. To others, it could lead to financial disaster.

"It's an individual decision with a lot of variables," says Michael Nolan, managing director of Braver Business Strategies in Newton. "It is an economic decision, it is a family decision, and it is a personal decision."

Here are some questions people should ask before deciding to accept or reject a buyout offer:

If I don't take the buyout, will I lose my job anyway? If the company has already gone through a series of buyouts, your job may be on the line even if you don't take the offer. A buyout will almost certainly offer more than the severance package that comes with a layoff. Then, too, some companies go right from buyouts to bankruptcy.

"Is this buyout a sign that the company is in its death throes, or is the company pretty stable?" asks fee-only financial adviser Beth Gamel of Pillar Financial Advisors in Waltham, noting that it is important to exit while the company is still viable.

Is my career headed in the right direction? If you hate your job, getting a buyout can be an opportunity. Ditto if you are in one of those industries hard hit in the current economy.

To make the most of the opportunity, however, you need to do some long-range planning. That means not only taking stock of your finances, but also setting career goals, considering opportunities in other industries, and developing needed skills. A buyout will also look much better on a resume if it makes sense as part of your career narrative.

"Taking a buyout without first having a plan doesn't make sense," says career coach Randi Bussin, founder of the Belmont-based firm Aspire.

How employable am I? If you're expensive, you'll find it tough to navigate the current job market unless you have special skills to offer. These days, the rule of thumb is that a successful job search takes at least one month for every $10,000 of annual income, says Nolan. That means someone earning $60,000 a year should plan on at least a six-month job search, while someone earning $100,000 could take 10 months or longer.

"There's always the guy who leaves today and gets picked up tomorrow, but you can't count on that," he says, noting that the hunt will likely be tougher for people who aren't flexible about factors such as relocation, job responsibilities, and salary levels.

Can I afford the buyout? A check for $20,000, $50,000, or $100,000 may seem appealing, but it may not be enough to support the family until you get another job - particularly if you never built your emergency fund. Before accepting that buyout check, review monthly expenses, look for places to trim, and then calculate how long the money will last.

How will I get my health insurance? A spouse with benefits is the best alternative. Those who already are age 65 can turn to Medicare. But everyone else is going to have to go shopping. Options include COBRA, which allows you to buy coverage through the company by paying full price. This kind of coverage can be costly, but if you qualify for unemployment you can file an application through the state's Medical Security Program for help paying the premiums.

If you are approved, the program could reimburse 80 percent of your COBRA premiums up to $1,080 a month for family coverage. Or you may qualify for the program's direct coverage, which will allow you to enroll in an HMO without paying premiums.

Another alternative is the state's Commonwealth Connector, which offers a variety of coverage options including one for people below certain income levels. Without government assistance, coverage can easily run $1,000 a month. So make sure that your postbuyout budget allows for the expense.

What about unemployment insurance? Massachusetts says that people who lose their job "through no fault of their own" are now entitled to up to 59 weeks of unemployment benefits, thanks to the federal extension of these benefits.

At first glance, that may seem to exclude those who voluntarily accept a buyout. But chances are good you'll be able to take a buyout and still be eligible as long as there was a likelihood that you would have been laid off otherwise. The state makes that determination.

"Even if the human resources department says that you don't qualify, that's not always true," says Lynnfield-based fee-only financial adviser Barbara Nevils.

So make sure that you file a claim. The 59 weeks of payments - which come to about half your weekly wages, up to the current maximum of $628 - can be invaluable while you're hunting for your next job.

In most cases, you can't collect unemployment for the same weeks that you receive buyout payments, although your benefits will be extended for the number of weeks that are disallowed for this reason. However, if your employer requires you to sign a "release of claims" in order for you to receive your buyout pay, you may be able to receive unemployment benefits for the same weeks that you also receive buyout checks.

Can I negotiate? Different companies have different policies, but it never hurts to ask.

Your company may be willing to continue your healthcare coverage, allow you to pick up your life insurance and disability premiums, compensate you for sick days, or continue to contribute to your 401(k).

Those with unexercised stock options may want the company to change some deadlines; others may ask if the company will negotiate their vesting schedule, says Nevils.

You may also be able to negotiate a postbuyout arrangement that lets you work on a freelance or contract basis, she says. And check to see if you have signed a covenant not to compete, which the company may be willing to void as part of the buyout agreement.

Am I forgetting something? Remember, once you are unemployed you will no longer have a regular stream of income. That means you'll find it's a lot tougher to get credit. "So take out the home equity line of credit before you leave - if you can get it," suggests fee-only financial adviser Dana Levit of Paragon Financial Advisors in Newton.

It's also not a bad idea to consider refinancing your mortgage, she says. Then, too, you may want to open an extra credit card account or two, just in case. Hopefully you won't need them, she says, but you may be able to sleep more soundly knowing they are there. ■