What You Should Do If Your Struggling Company Offers a Buyout

How to know when it's a good idea to say yes, and what to consider before deciding.

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Many struggling companies and institutions have been offering employees buyouts—financial incentives to voluntarily leave. Buyout offers launch most people into immediate, high-stakes hand-wringing as they weigh the biggest payday of their careers. Dana Levit, owner of Paragon Financial Advisors near Boston, has been deluged with inquiries from people wrestling with the decision. "I got 10 calls over the course of two days saying, 'Oh my God, they're offering a buyout! If I don't take it, I could get laid off anyway. What should I do?'" Here's what you need to know:

Who’s getting these offers?

“We are definitely seeing more buyouts now from lots of industries, such as finance and health care, and I think we’ll keep seeing more,” says Brian Hughes, a certified financial planner at River City Wealth Management in Jacksonville, Fla. Companies nationwide are seeking to cut head counts to bridge budget shortfalls; generally, businesses offer buyouts to older, higher-paid employees. Levit says, “it’s a softer, gentler way” of getting these positions off the books.

Are buyouts a good deal?

“Some of the offers I’ve seen are really good sweetheart deals that people are excited to receive,” says Hughes. An example of a good one would be one to one-and-a-half years of salary, a bonus equivalent to the prior year’s bonus, and continuation of medical benefits. There’s great variance in what’s being offered and in the amount of time workers are given to make a decision. Employees at one company say they had less than five days to decide, while another went radio-silent for two months after the deadline to accept, leaving staff on eggshells.

How should I approach an offer?

Pay attention to the benefits. Most people focus on money, but details such as health care or vesting on a pension or retirement plan can increase the value of a deal. For example, if you or family members have major health-care expenses, a year or two of quality insurance could be worth many tens of thousands of dollars. Also, calculate taxes: Any buyout payments are considered taxable income for that year and can easily bump you into a higher bracket.

When is it a good idea to take a buyout?

If it's a springboard to your next chapter, says Hughes. Usually, this is the case for people nearing retirement age, who may be thrilled to hang up the saddle earlier than planned. It's also often beneficial for younger people who want to shift careers or jobs anyway or return to school and now have a cushion. For both older and younger employees, having a spouse who is working further mitigates financial risk.

Who should think carefully before saying yes?

People who need or want to keep working and will likely have trouble finding a job (think pandemic economy, downsizing industries, ageism, etc.). This is frequently the issue for people in their 50s and 60s, who may be footing tuition bills for their kids. "They are in a bind. It is harder to find a job when you're older," says Hughes. If this is you, a chat with HR may be in order to learn as much as you can about the company's buyout efforts: How many employees are they hoping to cut loose? How many offers were extended? In some cases, a buyout letter is a polite memo to get packing; in others, companies extend more offers than needed, and your job may be safe if others say yes.

How do I run the math?

Start by considering all worst-case scenarios, says Levit:

What if I take the buyout and am never able to get another job? Am I financially OK?

What if I walk away from the buyout and get laid off anyway?

What if I have a very long job search ahead of me?

If you're close to retirement, do 10- to 25-year scenarios; if you're young and focused on daily expenses, try a five-year horizon. Then crunch the numbers on more favorable situations. The answer may still be murky, but you'll be in a better position to make the right choice.