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Consider financial future before accepting a buyout

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An employee buyout can lead to the best of times or the worst of times.

The worst: A client of certified financial planner David Berman who accepted a buyout from a pharmaceutical company at 56 is struggling. He expected to land another job in six months, but a year and a half later still hasn't found one. He burned through his severance and the only money left is his retirement account.

The best: "I've often seen a buyout provide a real kick in the pants for someone to make a career change they'd been contemplating anyway, or to relocate to another city they'd been considering before," said Berman, a principal of Berman McAleer Inc., Timonium, Md. "They receive money and time off to get their feet on the ground, so it is a great thing."

David Kudla, chief executive of Mainstay Capital Management in Grand Blanc, Mich., has counseled several hundred autoworkers facing buyouts. Kudla said personal circumstances such as age and amount received vary but need for strategy is universal.

"The biggest mistake is to accept a buyout without first developing a comprehensive income and investment plan that realistically accounts for retirement risk," said Kudla, a fee-based adviser. "Basic assumptions are often wrong, or the individual hasn't really gone through the math."

The worker must make an informed decision on whether assets will be invested immediately or are needed for a cash reserve, he said. With poor planning, individuals who thought they were done with work forever often find themselves taking jobs they don't like.

Key financial factors faced by workers accepting buyouts, according to Kudla, are:

-- Longevity

People overall are living longer, so accepting buyouts in one's 50s or early 60s might mean they'll spend as much time retired as they did in the workforce. They must make sure their assets outlive them.

-- Rising inflation

The cost of living, which has been kicking up lately, can greatly reduce long-term purchasing power. Yet too often it is underestimated in planning.

-- Pension concerns

Not only are fewer companies offering traditional pension plans, but many existing plans have been experiencing serious financial trouble.

-- Portfolio management

Individuals often either invest too conservatively and don't amass enough money to maintain their withdrawal rate, or they are too aggressive and lose significant money when the market takes a hit.

-- Unrealistic withdrawals

Kudla considers an annual withdrawal rate of 4 percent to 5 percent realistic,