Don’t Take a Corporate Buyout Before You Check It Out

Corporate buyouts are a call for planning, not jubilation.

The idea that you might be given a pile of money just to leave a troubled workplace is pretty tantalizing, but you need to consider a set of important questions before you make your decision. Some of the questions are general, but most are personal.

While there are no strict rules of thumb as to who might be a more likely candidate for accepting a buyout, generally, most experts say that those who are within 3-5 years of retirement should take a closer look. Also, if you’ve been passed over for a promotion or if you sense you’re not quite as valuable to the powers that be than your co-worker in the next cubicle, it’s not such a bad idea to check it out. Lastly, if you’re not in either category but you have a great job opportunity waiting, it might also be worth a look.

But get some help. A financial expert such as a CERTIFIED FINANCIAL PLANNER™ professional is a good ally when looking at all the various income, spending, insurance, tax and employment realities you’ll face if you take a company buyout.

So before you leap, here are some things you should ask:

Do you have a plan? In other words, is this about getting a sudden and unexpected vacation, or is there actually a next step here? A financial planner can look at your tax and spending situation to see if you can cover your expenses until you find a job. Obviously, if you are on line for a new job in the coming weeks, then you can turn your attention from covering expenses to investing the after-tax windfall. Of course, if your company wants you to sign a non-compete agreement, that’s going to affect your ability to take another job quickly in your field, so that’s another money issue.

Is this the first buyout? By that, we mean, is this the first of what may be a series of buyouts? Generally, buyouts don’t get more attractive as cuts go on. On average, standard first-series buyouts may provide six months to a year of pay for non-managers or be tied to some other measurement, such as X number of weeks of pay for every year served. If your company has done buyouts in the past, make sure you know whether the packages stay the same or get worse.

Can you negotiate? You have to lose any fear you have about talking about money. Talk to your colleagues about the packages they were able to get or what they have heard about previous packages. If you find out you’re getting worse terms than others, insist to your human resources department that you want to improve those numbers. Also, it might make sense to talk to an employment attorney not only for advice on what you should negotiate, but to review any agreement you reach.

Will the company extend your insurance? What will your employer grant you as far as health, disability, life and any other insurance coverage you’re currently receiving from your employer now that you’re planning to leave the company?

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What about your retirement plans? Chances are you won't be seguewaying into retirement immediately as you would if you could quit your current job on your own terms, so you really need to re-examine all aspects of your retirement picture to make sure you'll still be on track if you take a buyout check and more important, if you might not be working for awhile. Keep in mind that you can also negotiate your pension levels – most employees can access their pension at age 55, but if you're offered an earlier buyout, see if you can "bridge" payments so you can leave with payments into your pension that you would actually have if you stuck around until age 55.

What about stock options and perks? If you have stock options that haven't vested, ask if that can be done automatically at the time of your departure. Also, if you have a company car, club memberships or other perks as part of your regular employment incentives, see if you can keep them.

Will the dollars throw you into another tax bracket? This is why it's good to consult a planner and a tax expert who can find ways to blunt the impact. If your company is in good financial shape overall, see if you can take the money in installments or if you could push payments into next year.

Do you have to leave immediately? Most companies like people out the door pretty quickly after they sign on the bottom line, but if you can accumulate more funds without putting more pressure on your tax situation, do it.

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Starting a Business with Your Spouse or Partner?
Be Ready for the Problems That Can Surface

More than a few working couples have decided to put their future in their own hands, quitting their jobs in favor of a business idea they hope will build a legacy for their family.

More than a few husbands and wives or partners have asked this question: We love each other – why shouldn't we be able to work *and* live together?

For many couples, this major decision is the ticket to wealth, self-determination and happiness. For others, it can lead to severe financial and relationship stress. Such a move takes more than planning – it requires a full assessment of your personalities and your money issues to determine whether working and living side-by-side is right for you. A good start is a visited to trusted financial advisers such as tax professionals, business attorneys and financial planners, such as a CERTIFIED FINANCIAL PLANNER™ professional.

This is not a rare phenomenon, according to recent statistics.

The American Family Business Survey released in 2007 by MassMutual Financial Group and the Raymond Institute reported that wife-and-husband CEOs of family businesses increased from eight percent in 1997 to 14 percent in 2002.

Here are some key steps to consider:

Give yourselves a timetable to startup: You might be tempted to give notice tomorrow morning, but it's much wiser to lay out a timetable over the coming months with specific components:

- **Study the viability of your business model:** Talk about worst-case scenarios. Bring in some trusted advisors to ask tough questions of what you're planning to do and the viability of your idea. Convincing each other you'll make it work isn't enough. You need to understand the marketplace you're walking into and the roles each of you will fill in its success. Most of all be realistic about your workload and when you can get breaks.

- **Define your duties:** While people wear many hats when starting a business, it is important to define specific roles for each partner as time goes on because it will minimize conflict and confusion and leverages the best talents in the organization. And clarity in management responsibility will become much more important as employees join the organization.

- **Understand how your tax situation will change:** Depending which business structure you choose – and you should get tax and legal advice on this before you start - you will need to plan for income tax, self-employment tax and payroll taxes, if applicable. Payroll tax requirements are more stringent than income taxes.

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- **Set a budget for your business and personal life:** A financial planner can help you establish a budget for supporting your business as well as your life at home that will make cash flow more predictable. Conserving cash is critical in the startup phase of any business so critical long-term goals can be met. Couples need an emergency fund of six months to a year of expenses since successful businesses take months or years to turn a real profit. And if the two of you haven't revised your estate plan to accommodate the business, it's time to make that plan now.

- **Plan for your kids in the business.** There may be very cost-effective ways to employ children in the business for work commensurate with their skills.

- **Get your insurance in order:** Before you leave your current employer, figure out the cost of insurance you'll need to take on for the entire family if you take on health, life, home, business, disability and if you're over 50, long-term care coverage. These expenses may be enough to encourage one of you to stay at your old job at least for a while to keep those benefits going while the other devotes more time to the startup.

- **Set targets:** Talk through critical milestones of the business – both good and bad. Do a proper business plan with income and cash projections. Decide what factors would lead to expansion or closing your doors. If you're doing so well that potential buyers of the business start sniffing around, figure out a point in advance at which you'd sell.

- **Talk about an exit plan if you separate or divorce:** It may be hard to imagine now, but a breakup of your relationship with no financial plan for the business can be devastating. Whether you're married or living together, a successful business is an important source of wealth, and you need to plan for the day one side of the relationship wants out and potentially wants to buy the business or be bought out. If one spouse put more capital into the business than the other, provisions should be made to safeguard that investment.

- **Write it down:** Documents and legal covenants are important – make sure you have the right ones in place.

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Why Talk to a Financial Planner When You're in Your 20s?

It may seem like a challenge – you're in your first job, you're paying your own living expenses for the first time and, like many college graduates, you may be dealing with massive college and credit card debt. So why add the expense of a financial planner?

Indeed, many people don't make that choice. A recent Financial Planning Association®/Ameriprise Financial® survey showed that many people try to go it alone when it comes to a financial plan – and they suffer considerably worse performance in their investment and savings goals over time than those who do. The cost of a financial planner may not be prohibitive due to factors we'll mention below. And young people have a particular advantage on their side when using one - time.

Here are some things to know about financial planners:

They don't do all the thinking for you. A financial planner is not a substitute for your own final decision-making. Planners serve as guides, editors and strategists. Sometimes they offer investments you may want to buy, but they need to be licensed to do that. They should begin by asking questions of you – plenty of them. Their purpose is to find out all the goals you have right now – and maybe determine a few you haven't thought of. Some of these dreams might include buying a home or business for yourself, saving for college education for your children, taking a dream vacation, reducing taxes and retiring comfortably. Financial planning is the process of wisely managing your finances so that you can achieve your dreams and goals—while at the same time helping you negotiate the financial barriers that inevitably arise in every stage of life.

They specialize: Planners, like any professionals, tend to specialize in certain areas of interest, and they may receive continuing education in more than a dozen areas of expertise. CERTIFIED FINANCIAL PLANNER ™ professionals alone can earn continuing education credits in asset management, employee benefits, commercial real estate, insurance, investment management, estate management, retirement planning, 401(k) administration and health topics, among others. Plannersearch.org is FPA's customized search Web site for planners in particular geographic areas with certain expertise. People in their 20s might want to start their search under "life planning."

They don't all charge the same amount or in the same way: Planners charge for their services in a variety of ways. Some "fee only" planners charge for a consultation, plan development or investment management, and they may be charged on an hourly or project basis depending on the client's needs or as a percentage of assets under management. Some charge commissions for the sale of financial products they are licensed to sell, and others have hybrid structures mixing fees and commissions. Younger people may want to discuss advisory services first before they commit to buying any particular products.

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They can talk about your personal investments as well as the ones at work: One of the best advantages to working with a financial planner is the chance to have a second set of eyes look at your wages, investments and benefits at work vs. what you'll be investing on your own outside work-based retirement and other savings plans. Be prepared to bring both sets of finances into the discussion.

Trust is key: Choosing a financial planner is as important as choosing a doctor or lawyer. Money is one of the most intimate aspects of our lives, and, consequently, working with a financial planner is a deeply personal relationship. As you go through the process of finding and selecting a planner, keep in mind that trust and comfort will be key factors.

They should be able to answer your questions: When interviewing a potential financial planner, it's not about just what they think. Particularly if you're learning your way with money, a financial planner should be someone who takes any and all questions in a format you both agree upon. Planning should be an educational process above all.

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FINANCIAL PLANNING
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Nervous? Time to Reassess – or Make – a Financial Plan

Special Edition FPP

The last month has been unprecedented in the history of the U.S. economy. It's featured the biggest bank failure in American history, Dow swings of nearly 800 points to the downside and upside swings of more than 600, a dry-up in the nation's consumer and business credit markets, and world governments still trying to calm the waters.

How did you handle this? Did you sit dumbfounded in front of the TV? Did you strap on the iPod and vow not to turn it off until the crisis passed? Or did you check your financial plan to make sure you were positioned well for when the storm finally clears?

It's easy to succumb to the urge to panic in an economic crisis. Some people sell fearing worse losses. But sudden action is usually a mistake. In the late 1980s, Harvard psychologist Paul Andreassen made news with a research project that found that people who listened to market news actually made lower returns. Why? Because those who sold – or bought – during a market swing probably found a day later that the market was really running on hype, not fundamentals.

Now is not a time for knee-jerk action. It's a time for planning and thoroughly considering opportunities. If you don't work with a financial planner, it may be time to consider talking with an expert like a Certified Financial Planner™ professional. You pay a financial planner to devise a financial strategy that matches your risk tolerance and long-term financial goals. No, there is absolutely no way to guarantee that you'll never lose money in a turbulent market. But if a plan truly matches you, the noise level on TV shouldn't make a difference because you'll already have contingency plans in place for rough times. So the next time the Dow spikes or slides, ask yourself:

What's my plan? If you've worked with a good financial planner, you should be able to articulate those goals all by yourself or refer to an investment policy statement you made together. Much of the riskiest investing, overbuying and panic selling during the late 1990s and early 2000s could have been avoided if individual investors had sought advice for achieving *long-term* specific goals such as retirement or a college education. Obviously, if you don't have a plan, it might be time to make one with the help of a qualified professional.

How are my bank accounts? As a result of federal economic bailout legislation, the Federal Deposit Insurance Corporation (FDIC) has temporarily raised the per-depositor coverage level from $100,000 to $250,000 through Dec. 31, 2009. Certain retirement-related accounts carry $250,000 of FDIC coverage, but again, check in with your bank to make sure you're covered, and if not, get the right advice for moving funds so you don't incur an unexpected tax liability.

Am I prepared to stay invested – no matter what? We all remember the "Tech Wreck" of 2000. At the worst of that downturn, investors bailed out of the stock market or drastically cut back, only to get back in after they were "convinced" that the market was rebounding. In reality, they missed out on stock market gains during the early stages of recovery, and that's costly in the long run. Of course, some investors looking for that late 20th century investment high also got into the real estate market, and they perhaps learned a similar lesson when that market started heading south two years ago.

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In 2004, SEI Investments studied 12 bear markets since World War II. Investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (not counting dividends) during the first year of recovery. Investors who missed even just the first week of recovery saw their gains that first year slide to 24.3 percent. Those who waited three months before getting back in gained only 14.8 percent.

Am I diversified? The NASDAQ lost 39 percent of its value just in 2001, and another 21 percent in 2002. Meanwhile, real estate investment trusts, which performed poorly in 1998 and 1999 when stocks were booming, had banner years in 2000 and 2001, performed so-so in 2002, and had an excellent 2003. Bonds also returned well during the bear market. Your planner, based on your risk profile, should have you in diversified investments that fit your goals. Besides, moving holdings while the market is turbulent not only costs you money, but potentially returns as well.

Do I still feel the same way I used to about returns? Having a long-term investment plan doesn't mean make the plan and leave it to gather dust. You and your planner should decide when it's time for a review of your investment goals and your feelings about them. An annual conversation makes sense if nothing's going on, but in times like these, a phone call might be a good idea.

How's my retirement? Obviously, the ups and downs in the market have been going on for a while and they might last a while longer. How will this impact your retirement timetable? You might want to continue working full-time or plan a phased-in approach as you continue to build assets. There is a great danger now that people may become either too risk-adverse or assume too much risk in planning for their retirement, and that's why it's wise to get advice.

How's my spending? It's a good time to make a budget or re-assess the one you have. Though the federal government would love for consumers to start spending again to lift the economy, that doesn't mean you have to jump in with both feet. Keep your spending smart, your debt low so it's easier to set savings and investment priorities that will do you the most good when the economy and the market comes back.

Got cash? You should have an emergency fund of three to six months' worth of living expenses in case your job situation goes south, but the market turbulence we've experienced also highlights the need to be somewhat liquid in your investment positions so you can take advantage of certain opportunities. Not every investment that's lost value is necessarily a bad investment, and with careful study, you should be able to have cash on reserve so you can take advantage of such events.

How's my credit? No one knows how long it might take to unravel the nation's current credit situation. That's why creditworthy individuals might want to delay looking for new lines of credit until things loosen, and it's definitely a good time to schedule review of each of your latest credit reports at staggered intervals throughout the next year. Why? Because in tough economies and times of tight credit, identity theft might be on the rise, and you'll need to make sure the information on your credit data is truly your own.

Should I keep saving and investing? Definitely. Again, while times are tough, it's wise to examine all your investment choices, but if they make sense, definitely put what you can afford in. You'll reap rewards when the market returns.

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