Early Retirement

Can We Afford It?

Can "we" afford it?

To borrow a line from Bill Clinton's play-book....

It depends upon what "we", is!

"We" Can Be ...

- A Plan Sponsor
- A Plan Participant
- An Individual seeking advice
- A Consultant

First, some Early Retirement basics for U.S. Retirement Plans

- IRS & DOL oversee Plans but provide little early retirement guidance except for..
  - ➔Discrimination
  - ➔Reduction Factors
  - ➔How to calculate the Pension at Early Retirement
- ERISA is virtually silent on the subject of Early Retirement requirements

In the business community, you will typically see-

Early Retirement Benefits that can start...

- at age 55 with at least 10 Years of Service, with
- reduction factors for early start
  - •actuarial equivalent, or
  - •subsidized or IRS safe harbor, and
  - •At times, the Rule of 75

Within the Business Community...

- Employees usually retire early to try something new in the work-place, not to put their feet up.
- The "Boomers" have started to turn 50. Few of them have saved adequately for retirement.
- The generation in front of the "Boomers" has no desire to "move on".

- The 'Boomers' need more responsible, higher paying jobs to pay for college tuition, retirement savings and all of the good things in life.
- But there is a lack of skilled workers.
- There is a need for some "room at the top"
- Now is the time for an early retirement incentive...an
- Early Retirement Window!!!

An Early Retirement Window ....

Will grant additional service, 3 to 5 years is typical, and

Use a higher age when determining the reduction factor for Early Retirement.

For Example....

The Early Retirement window will give an additional 5 Years of service and add 5 years of age for anyone eligible for Early Retirement. So...

An eligible participant age 60 will receive the same benefit now as the benefit starting at age 65, or...

now 55 would get an age 60 benefit reduced 5 years for early start.

Can the Company Afford....

An Early Retirement Window?

Early Retirement Balance Sheet

Expenses

- Retiree Medical Costs
- Early Retirement Incentive
- Accrued Benefit Adjustments
- Recruitment and Retraining
- Funding may be increased

Savings

- Lower Payroll
- Lower Health costs
- Improved Morale
- Improved FAS 87 expenses
- Public Relations Exposure
- More Efficient Organization

How can the Company afford it?

It can use current excess assets. If there are not enough...

The increase in liabilities can be amortized from 10 to 30 years, but...

Regular or normal costs should go down due to a drop in active members

It all boils down to a question of facts and circumstances.

The first question that we should ask is...

How much do you want it to cost?

Some final thoughts for the Plan Sponsor

The liabilities for retiree health benefits can balloon

Discrimination must be kept in mind

Hybrid plans cause complications

Keep the individual in mind

What about the individual?

Early Retirement causes far more risk to the Plan Participant

What causes risk?

Risk Factors:

- Inflation
- Poor planning
- Exaggerated expectations
- Lack of information

Inflation

- A 3% inflation rate reduces a currency's buying power by 25% in 10 years, 4% would be 33%
- Higher inflation in the early years of retirement is more damaging to plan assets than later
- A strong economy without restraints can cause inflation to rise

Poor Planning

- Misuse of life expectancy
- Lack of knowledge of tax aspects
- Misunderstanding of Federal or Company programs
- Asset/Expense projection devices not utilized

Exaggerated expectations

- Investment return
- Inflation
- Family history
- Medical expenses
- Retirement activities

Lack of information

- Pre-retirement counseling
- Tax advisory services
- Investment advice
- Estate planning
- Social Security, Medicare, Personal plans

Room for Consulting

Team Approach

Actuarial Leadership