# The Hidden Costs of Early-Retirement Offers

**The Hidden Costs of Early-Retirement Offers**

By Mortimer R. Feinberg

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As part of corporate streamlining pro grams, many companies are extending early-retirement packages to legions of senior managers. They see it as one relatively painless way to pare management ranks-certainly less painful than involuntary layoffs. No one, after all, faces the stigma that being let go after many years; of service entails; for the employee, the "senior citizen" package is easier to ex plain to friends and family.

Then, too, the sweetened package that; awaits those who elect to retire early-usually a combination of salary continuation and improved pension benefitsâ softens the financial impact of the decision. And these experienced employees-typically at least. 50 years of age with 25 years or more of service-find themselves with a variety of options. They're often still young enough to start second careers, they can work part-time, or, if the financial package is generous enough, they can simply sit back and enjoy themselves.

But sometimes older managers' early-' retirement decisions aren't as voluntary as they might appear. The early retirement offer will be circulated first, with the specter of layoffs lurking in the background if the company doesn't meet its target numbers. Older managers are then put in a position of playing Russian roulette. If they pass on the offer and their names subsequently appear on the list of those designated to go, not only do they lose the financial Incentives-they lose face as well.

The company is also taking a gamble since it may lose some managers it needs. According to law, when a company extends an early-retirement offer, it must, for legal reasons, extend it to everyone who meets, the established criteria.'So, there's no picking and choosing who management would like to see start marching.

Often, management will expect some of those eligible to take the bait, but much to ' the corporation's surprise-and chagrin' - a much greater number will start emptying their desks. "Among these, no doubt, will be individuals whose talents and abilities the company honestly wants to retain, while others will be deadwood that management is happy to see head for the exit," notes Robert A.M. Coppenrath, president of the photo-equipment company Agfa-Gevaert Inc.

It's entirely possible, therefore, that on the appointed day, companies find a mass exodus under way. And with the exodus can come an unhappy realization: A good' part of the accumulated history of the organization has gone out the door as well. "Older employees in any company bring the past into the present," says John Chamberlin, president of Avon Products. "They are the carriers of the culture."

Companies, mindful of all the ambitious young managers eagerly awaiting more responsibility (and prestige), mistakenly believe these young people can effortlessly fill the shoes of those departing. To the contrary, companies cannot assume that the talent they are losing is redundant.

"Neither can they assume that young people are capable of breaking the code that is contained in the files," adds consultant Edward C. Schleh. By "the file's code," Mr. Schleh means the years of collected memos and reports that help to de fine and explain such things as marketing cycles, new product studies and research on competitors - all data that young successors are tempted to toss out in their efforts to "clean house" and "make a fresh start."

When it comes to anticipating who will go and who will stay, remember that statistical projections deal in overall numbers, not specific individuals. "Think the process through very carefully," advises William A. Schwartz, former president of Cox Enterprises. "If too many opt to go, the package was either too sweet or people were unhappier than the company realized."

Assume a worst-case scenario In which the new retirees include a number of critical decision makers. They decide that they're ready for a long-overdue career change and that the company's generous offer has helped them make up their minds to finally act. Their futures, they decide, really lie in establishing potentially lucrative consulting practices in which they can market their skills-the very skills the company says are expendable.

"Far preferable would be to pare employees with varying degrees of experience throughout the organization," says Malcolm L. Elvey, vice president and director of Hawley Group Inc., a food-service company. Entry-level employees and those in the midrange of experience would then bear some of the brunt of the restructuring. While involuntary layoffs are certainly more traumatic for an organization short-term, the company may well emerge on a sounder footing in the long-run.

Organizations intent on offering an early-retirement package also need to take these factors into account:

- **Counseling.** Give the seasoned managers ample opportunity to mull over the offer. Provide appropriate counselorsâ preferably from outside the organization-- to review financial and psychological issues with each individual. One executive in such circumstances remarked, "I trained to be an Olympic swimmer and now I need time to adjust to the kiddie pool."
- **Succession planning.** As part of its contingency planning, a company needs to work out - almost with the precision of a chess game - what reorganized departments would look like if a manager chose to go. Who is in line for succession? Is this person really qualified to take on the increased responsibility? Who will then replace this person further down the ladder?
- **Orderly transition.** Allow enough lead time between the day the managers announce their decision and their last day in the office. Have them conduct meetings with their appointed successors in this period to pass on "the tradition." Those departing will appreciate the respect the company is showing them. And in almost all cases, they'll be gracious and cooperative in return. Also, allow each person to determine how much of a celebration he may want with co-workers who are remaining. Acknowledge there may well be ambivalent feelings. Some may want a bash, others prefer a quiet folding of the tent.
- **Consulting options.** Companies are free to negotiate a consulting arrangement on a case-by-case basis with any manager who elects to leave. Be prepared, however, for this not to sit well with remaining employees who may view such arrangements as smacking of "special treatment."

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