



Forced Into Early Retirement

Bridge Math, Pension Buyout, Healthcare Runway, and the Twenty-Year Drawdown

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PREFACE

You did not plan to read this book. Almost nobody does. The book exists for a specific moment in a specific life: the day after someone in their late fifties or early sixties was told that their job had ended, and the morning two days later when the severance envelope arrived in the mail.

The arithmetic of that envelope, plus the pension packet that will follow it in six weeks, plus the COBRA notice that will arrive between them, plus the Social Security decision that does not need to be made today but will shape the next thirty years, is what this book covers. The book is short because the moment is short. The thirty days after termination are the most consequential thirty days of most households' financial lives. The decisions made in those thirty days are largely irreversible and worth six figures over the decades that follow.

A worked-example character carries the math. Margaret Hollins, fifty-eight, mid-cap VP, California resident, severance offer in hand, husband still working at fifty-six, two adult children. Her household has approximately two million dollars in retirement assets, a paid-down-mostly mortgage, and a tight network of family doctors she would prefer not to lose during the healthcare bridge to Medicare. Margaret is not the median American household. She is the median household that buys a book like this one. Substitute your own numbers where hers appear; the framework is the same regardless of dollar magnitude.

The chapters are ordered to match the order in which the decisions actually arrive. Chapter 1 is the first thirty days — operational triage, deadlines, the calls to make before you sign anything. Chapter 2 is the severance math. Chapter 3 is the pension lump-sum decision. Chapter 4 is the seven-year healthcare bridge from COBRA to ACA to Medicare. Chapter 5 is the Social Security claim-age decision. Chapter 6 is the spouse coordination. Chapter 7 is the Roth conversion ladder. Chapter 8 is the twenty-year drawdown synthesis. Read them in order if you have time; read whichever one is in front of you if you do not.

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Most readers of this book end the eighteen months following termination with a household balance sheet larger than at month zero. Not because the layoff was a good thing. Because the forced exit produced a moment of careful planning that the prior decade of steady employment did not require. The plan pays back over the decades. Keep the worksheets. The cycle is not over.

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1

THE FIRST 30 DAYS

You found out on a Tuesday. Maybe at 10:14 in the morning, in a conference room with someone from HR you'd met twice and a director you'd known for nine years. Maybe over Zoom, with the camera on for fifteen seconds while you said the right things. Maybe by being asked to step into an office at the end of a day that had felt slightly off since lunch. The form of the conversation matters less than what you carry out of it: a phone full of voicemail, a laptop you cannot keep, and a calendar that has just emptied.

I am writing this chapter for the next thirty days. Not the next year. Not the next decade. The thirty-day window during which the decisions you make are mostly irreversible, mostly time-pressured, and mostly worth five-to-six figures over your remaining lifetime. The math of those decisions fills the chapters that follow this one. This chapter is the operational shell: which envelopes arrive in which order, which calls to make in which week, which moves you should refuse to make until you understand the math, and which ones you should make immediately so that you do not miss a deadline that cannot be reopened.

If you are reading this in the first 72 hours after termination, I want you to skim the section called *The First Forty-Eight Hours* and the worksheet at the back of the chapter, then put the book down and go for a walk. The walk is not me being soft. It is operational. You will sign nothing in the first 72 hours that has a deadline shorter than 72 hours, and there is a measurable correlation between decisions made on the day of termination and decisions later regretted. The walk is the cheapest insurance policy in this book.

If you are reading at day five or day ten, your reading should be section-by-section, because by now the envelopes have started to arrive and each one demands a different reflex.

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If you are reading after the deadlines have started to expire, skip to Chapter 2 and start with the math. We will come back here for what can still be recovered.

WHAT THIS CHAPTER IS NOT

This chapter is not the math of severance. The math of severance lives in Chapter 2, where Margaret Hollins walks through the gross-to-net calculation on her \$80,000 lump-sum at California rates and we work through the lump-sum-versus-salary-continuation decision at her 24% federal marginal bracket. This chapter is not the pension decision. That is Chapter 3 — the \$120,000 lump-sum versus the \$9,000 annuity, the discount rate the employer used, and the breakeven longevity at her household's actual assumptions. This chapter is not the healthcare bridge or the Social Security decision or the Roth conversion ladder. Each of those has thirty pages devoted to it because each of those is worth thirty pages of careful arithmetic.

What this chapter *is*: the operational scaffolding inside which all of those decisions are made. The forms, the calls, the deadlines, the order. The kind of thing that, if you get it wrong, lets a 60-day window expire while you are still figuring out what you should have asked for.

THE FIRST FORTY-EIGHT HOURS

- **Day 1:** secure the laptop's personal files before access is revoked; do not sign anything; review the envelope contents in full.
- **Day 2:** read the severance offer end-to-end; identify the OWBPA 21-day review window; note the COBRA-notice expected-by date on the calendar.
- **Day 3:** build Worksheet 1.1 below; you cannot lose track of any deadline once this exists.

Margaret's Day 1 was March 17. By Day 3 (March 19) she had the deadline tracker drafted, the personal files moved, and one short call to HR confirming the severance packet would arrive by mail within five business days. She had not signed anything. She had not made any irreversible move. That is the right posture for the first seventy-two hours.

The day-of-termination conversation hands you an envelope or an email attachment. Inside that envelope or attachment are between three and seven documents, with strong variance by employer:

The severance offer. This is the document that says the company will pay you some quantity of money — usually denominated in weeks of base salary, sometimes in months, sometimes in a single lump — in exchange for your signature on a separation agreement. The separation agreement contains, at minimum, a release of claims (you agree not to sue), a non-disparagement clause (you agree not to badmouth the company publicly), and a return-of-property clause (you agree to ship back the laptop, badge, and any documents). For older workers — defined as anyone 40 or older under federal law Equal Employment Opportunity Commission 2024 — the release-of-claims must include an age-discrimination waiver compliant with the Older Workers Benefit Protection Act U.S. Congress 1990, which guarantees you twenty-one days to consider the offer and seven days to revoke your signature after signing. **Twenty-one days plus seven days is twenty-eight days.** Mark that on a calendar. The number on the company's cover letter is not a substitute for the federal floor.

The benefits-summary letter. A page or two listing your active benefits and the date each terminates. Your medical, dental, and vision coverage typically end on the last day of the month of termination, although some employers extend through the calendar quarter. Your 401(k) is unaffected by the termination — your balance is yours and stays with the plan administrator until you act. Your equity (RSUs, ISOs, NSOs, ESPP shares) may or may not have acceleration provisions; the benefits-summary letter will tell you, and your equity-administrator portal (Schwab, Fidelity, E*Trade) will show the actual vesting state as of the termination date.

The COBRA notice. By federal law U.S. Code 2024a, the plan administrator has 44 days to send you the formal COBRA continuation-coverage notice (14 days for the employer to notify the plan administrator, 30 days for the administrator to notify you). It will arrive separately from the severance packet, usually by certified mail. The notice gives you 60 days from the later-of-postmark-or-coverage-loss to elect COBRA. Sixty days. If the notice arrives in week three, your election window stretches into week eleven. If it arrives day-of, your window stretches to week nine.

The pension-election packet, if your employer had a defined-benefit

3

THE PENSION BUYOUT DECISION

The pension packet arrived in May, almost six weeks after the termination conversation, in a thick envelope from a third-party benefits administrator Margaret had never directly interacted with during her eighteen years at the company. If you didn't accrue a defined-benefit pension — and most private-sector workers under 60 today did not — you can skim this chapter and move on; defined-benefit plans cover roughly 15% of private-sector workers and that share is shrinking each year. For the readers who do have one, the decision in front of you is structurally consequential even when the dollar amount looks modest, because the election is irrevocable. Inside were thirty-eight pages of legalese, a dozen election-form pages with check-boxes, two summary pages with dollar amounts, and a cover letter giving her sixty days to decide. The two summary pages contained the entire substance: she could take a single \$120,000 lump-sum payment, or she could take an annuity of \$9,000 per year for life starting at age 65, or she could elect a survivor option that reduced the annuity in exchange for continued payments to her husband if she predeceased him.

This is the largest single irreversible financial decision in this book. The dollar value of getting it right at Margaret's calibration is between zero and roughly \$200,000 over her remaining lifetime, depending on the choice and the assumptions she brings to it. The dollar value of getting it wrong is the same number with the sign reversed. Most readers facing this decision will make it once and never again, with the consequences playing out over twenty to thirty years.

I want to give the math its full due in this chapter because the typical experience of receiving a pension packet is overwhelming and almost nobody runs the numbers. Most people accept whatever the company offers as a starting point, or default to whatever the administra-

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tor's representative recommends in a fifteen-minute phone call, or take the lump-sum because lump-sum feels like *getting your money*. None of those defaults are necessarily wrong, but they are not defensible without doing the math, and the math is not difficult. This chapter walks through it.

WHAT THE COMPANY IS OFFERING AND WHAT IT ISN'T

A defined-benefit pension is a promise: the company will pay Margaret \$9,000 per year, starting at age 65, for as long as she lives. The promise is backed by the assets in the company's pension trust, which are managed under ERISA fiduciary standards and guaranteed (up to certain limits) by the Pension Benefit Guaranty Corporation. Pension Benefit Guaranty Corporation 2025 The promise is portable in the sense that Margaret can stop being an employee and the promise survives; it is non-portable in the sense that Margaret cannot trade it to a third party or borrow against it.

The company has offered Margaret the option to convert that promise into a single cash payment now. \$120,000 cash, in exchange for Margaret releasing the company from the future-payment obligation. The number — \$120,000 — was calculated by the plan's actuary using a specific procedure governed by Internal Revenue Code §417(e). U.S. Code 2024h The procedure has three inputs: the future stream of expected payments, a mortality table, and a discount rate.

The future stream of expected payments is straightforward: \$9,000 per year, starting at age 65, continuing until death. The mortality table is one of the §417(e) prescribed tables — for 2026, this is typically the IRS's "Applicable Mortality Table" derived from RP-2014 with annual mortality improvement projections. The discount rate is where the math gets interesting. §417(e) prescribes a three-segment-rate approach: a rate for years 1-5 (segment 1), a rate for years 6-20 (segment 2), and a rate for years 21+ (segment 3). The rates are derived from corporate bond yield curves and are published monthly by the Treasury.

For 2026, the segment rates are roughly: 5.0% for segment 1, 5.5% for segment 2, and 5.8% for segment 3. Some plans use a smoothed historical average of the segment rates (a 25-year rolling average is permitted under HATFA and BBA). Margaret's plan used the smoothed version, producing a blended effective discount rate of approximately 5.5%. This is what I will call the *employer's implied discount rate* throughout

this chapter. U.S. Code 2024h

The implication of the 5.5% number is that the company has assumed Margaret's pension stream is worth \$120,000 today at a 5.5% time-value-of-money discount rate. Whether Margaret should agree with that assumption is the question this chapter answers.

THE MATH, SLOWLY

The present value of a deferred annuity has two components: the value of the annuity itself at the moment it starts paying, and the discount factor that reduces that future value to a present value.

At age 65, Margaret will start receiving \$9,000 per year. If she lives N years past 65, she receives \$9,000 times N in total before death. The present value of that stream at age 65, at a discount rate r per year, follows the standard annuity-immediate formula: \$9,000 multiplied by the annuity factor, where the annuity factor equals one minus the reciprocal of $(1+r)$ raised to the N , divided by r .

For a life expectancy of 21 years past 65 (death at 86, Margaret's actuarial estimate) and a discount rate of 5.5%, the annuity factor evaluates to 12.821. The present value at age 65 is therefore \$9,000 times 12.821, or \$615,408.

But that PV is at age 65. Margaret is 58 today. To convert PV-at-65 to PV-at-58, we discount back seven years at the same 5.5% rate: dividing \$615,408 by 1.4547 (which is 1.055 raised to the 7th power) gives \$423,051.

So at a 5.5% discount rate, with an assumed lifespan of 86, the annuity stream is worth roughly \$423,000 at age 58. The company is offering \$120,000. The company is offering substantially more than the annuity is worth under their own stated discount rate.

This is not a typo or an arithmetic error. The math says what it says: the lump-sum offer is *generous* at the assumed discount rate. The reason this happens — and it happens routinely in real pension buyouts — is that the §417(e) discount rate used by the actuary is conservative (low) relative to long-run corporate-bond yields, and the mortality table is conservative (long-lived) relative to actual mortality experience in the specific plan participant pool. The combined effect of these two conservatisms produces a lump-sum offer that exceeds the strict actuarial fair value of the annuity for most participants.

The company knows this. They make the offer anyway because the

You did not plan to read this book. Almost nobody does.

Margaret Hollins is fifty-eight. Senior manager, eighteen years in, severance offer on the kitchen table. A pension packet six weeks behind it. A COBRA notice between them. A Social Security decision that does not need to be made today but will shape the next thirty years.

Eight chapters, in the order the decisions actually arrive. The first thirty days. The severance math. The pension-buyout net present value. The seven-year bridge from COBRA through ACA to Medicare. The Social Security claim-age decision. Spouse coordination. The Roth-conversion ladder. The twenty-year drawdown synthesis. Worked examples, real numbers, every formula visible.

Written for households in their late fifties or early sixties processing an involuntary exit too early for full Medicare and Social Security. Substitute your own numbers where Margaret's appear; the framework is the same regardless of dollar magnitude.

Diane Park spent twenty-three years in HR leadership through two recessionary RIF cycles. Since 2022 she has worked as a financial-survival coach. She has been on both sides of the conversation she writes about.

