DAVIS WILLIAMS
Wealth Management

Planning for a Successful Retirement

Five Critical Steps You Should Take from 10 Years until Retirement Day

By John Williams and Scott Davis

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Let's Shoot for the Moon

So much depends on a good plan. It's true of baking a cake, planting a garden, and coaching a Little League team. It's true of building an addition to your home. It's true of building a rocket to travel to the moon.

A successful retirement life is no different. The key is a *good plan*.

Did you know, however, that planning for retirement does *not* have to be rocket science? It can be pretty straightforward. Most certainly, it can be profitable. Many find the process enjoyable.

Enjoyable? Yes, retirement planning can be. It's the height of enjoyment when dreams for your later years start crystallizing, when financial hopes start panning out, when life – the real life – starts taking shape the way you always hoped that it could. This is possible if you take time today to think about the process. Success can happen by taking some very important *pre*-retirement steps.

This paper is for individuals who are not yet retired. It's for those who still have time to put together a plan. It's for those flooded with phone calls from stock brokers, financial planners, and insurance agents. You may wonder about terminology, about what to do, and about how to avoid being "taken" by the latest gimmicks. This paper will help you to sort through these issues.

We want you to approach retirement feeling confident that your hopes and your wishes, the lifestyle you now enjoy and the dreams you hope to achieve, will soon be a reality.

Some people wish they had given more thought to planning their retirement before it occurred. Our goal is to help you avoid feeling that way.

If you are 10 years, five years or even a few months from Retirement Day, this paper has the steps you should take.

Think about Your Dreams

We have lift off! Those are wonderful words for scientists and engineers who work in the space program. But "lift off" is only the beginning of the mission, and no successful launch happens by accident. It's the result of a plan. And a good plan begins with a dream.

It's the same with retirement. You begin by thinking about the kind of lifestyle you want.

When do you want to retire? At age 65? Or, are you among the millions of Americans who want to work longer – who value staying busy and find fulfillment through work?

Perhaps you wouldn't mind stepping aside at a young age – at, say, age 55. Does that describe you? Do you feel it can be done?

If you are 10 years or less from retirement then you have likely reached the crucial planning point of your life.

A kind of deadline approaches. Retirement lies in the midst. Whether it seems a lifetime away or, in fact, it's quite near, now is the time to think about your retirement. You will need to formulate a plan, especially if you have only a few years to go.

What Are Your Dreams?

When you get right down to it, what you need to consider in a retirement plan is not just income sources and the budget. You need to weigh something more than figures. You need to assess your dreams.

- What do you want to do? Play golf? Travel overseas? Buy an RV?
- Are you thinking about others? Maybe you want to leave something large – a legacy – to your heirs. Do you want to spend quality time with the grandchildren? Work in a special way in your community

It's important to think about such aspirations. You have them, and you need to express them, sooner or later, in dollars and cents.

Here's a simple formula:

- Your expenses in retirement,
- Minus your income and funds available from pensions, retirement accounts, and Social Security,
- Equals the funds needed to embark on a path towards your retirement dreams.

You have likely reached the crucial planning point of your life.

You Bear the Burden

Today, many companies push their workers to take early retirements. Such proposals sound appealing, and buyout packages seem generous. But are they? Can you afford to stop earning? Do you have enough funds put away to manage an early exit from the workforce?

Retirement planning used to be a large part of American employers' selfless watch care.

The box below has questions that you should review.
It serves as a checklist helping you to set some goals to reach your dreams.

Please Answer These Questions:

1) What is important to you about money?
2) What are your top accomplishments? What would you like them to be?
3) What do you see yourself doing five years into retirement?
4) What do you want to do for your children?
5) What do you want to do for society?
6) What would be an ideal weekend?
7) What would be an ideal vacation?
8) What would be an ideal item to buy?
9) What charitable causes do you want to support?
10) What is important to you about life?

Both small companies and large corporations would reward long-time workers with traditional pensions and other retirement packages, and these were funded by the next generation of workers coming online. Workers approaching retirement could count on a comfortable nest egg – at least as far as someone else helped in planning it. But these days, companies usually leave retirement planning to the individual.

It ought to be simple and straightforward. But making sensible choices about financial products won't be easy. That's because you must turn to, be guided by, and purchase products from a financial services industry that's growing more sophisticated – and more confusing – each day.

Think of what today's retiree must now sort through: Electronically traded funds (ETFs), stock options, variable annuities, structured products, and health savings accounts (HSAs) are only a few of today's new ideas.

Such innovative products continue to pour into the marketplace, complicating the retirement planning that you need to do.

Even notions that professional planners once counted on may no longer be valid. The "80% rule," for example, is considered the ideal income target. The idea is that a retiree can successfully budget 80% of what he earned before retiring.

But today, some financial planners say retirees need to have more money set aside. Many say, for example, that 85% of their pre-retirement income is the target to go by – if they want to live comfortably.
Clearly, planning for retirement is something to take very seriously.
Your dreams, your life, and your legacy are at stake. You see, this is your responsibility to handle.

Timeline to Retirement

A recent NASA Strategic Plan sets forth the space agency's goals through 2016. These goals include launching more Space Shuttle flights, supporting missions to the International Space Station, and making a new Crew Exploration Vehicle (CEV) operational by 2014.

What will your life be like in the year 2014, when NASA's "CEV" aims to take flight? It's important for NASA – it's important for you – to think that far ahead.

Remember that without a plan, you're poised to burn through your assets. Here's how to make it a *controlled burn.*

Five Steps – 10 Years to Take Them

Planning for retirement can be broken down into stages or steps. Each step is timed in advance of your retirement day:

- Ten years from retirement, you should start setting goals and think about how you can reduce your debt. This is Step 1.
- Time moves on, and your retirement approaches. At five years from retirement, you need to formulate more concrete plans. This is Step 2. It's your planning and asset-allocation phase. You should contact a professional financial planner at this five-year mark and rely on their guidance.
- With two years to go, retirement is getting close. Now you need to calculate how much income will be required during retirement to meet expenses. This is Step 3, a critical step representing a sort of point of no return. That is, it's at Year 2 that you determine whether or not you are a "go" for launch. Your professional planner will advise you on whether to enter retirement as planned, or whether it would be best to delay it and work a few more years.
- With one year to go, it's time to plan your income. Your retirement is a given. It's only a matter of getting your cash flow and other available funds in place. This is Step 4.
- Step 5, the final step, begins six months from retirement day. This is the final decision-making step in which you choose financial products and services that will form the basis of your retirement lifestyle. You complete all the paperwork and set everything in motion.

You should start setting goals and think about how you can reduce your debt.

That's a summary of what you must do. Let's get down to some of the details involved in planning for retirement.
Here are the five steps and when they occur:

Step 1 – 10 Years to Go

You have a decade to go before you retire, and you can accomplish much during this time. While you don't need to crunch a bunch of numbers, you need to set goals, tweak investments and start paying off debt.

What Will Be Your Legacy?

Do you want some income to be available to your family? Will there be amounts set aside for charities besides the heirs?

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Do you want some income to be available to your family? Will there be amounts set aside for charities besides the heirs?

Or, do you plan to consume your life savings to support a lifestyle and interests you will have time to pursue? With 10 years to go, it's time to think about these life choices.

The specific plans you set for managing your wealth will largely depend on what you want to do with your money 10 years from now when you retire. Your financial planner will help you choose the right combination of financial products and an investment and income-distribution scheme to meet your goals.

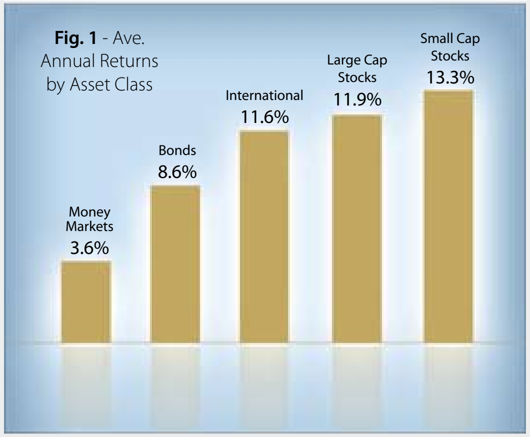
How to Manage Risk vs. Return

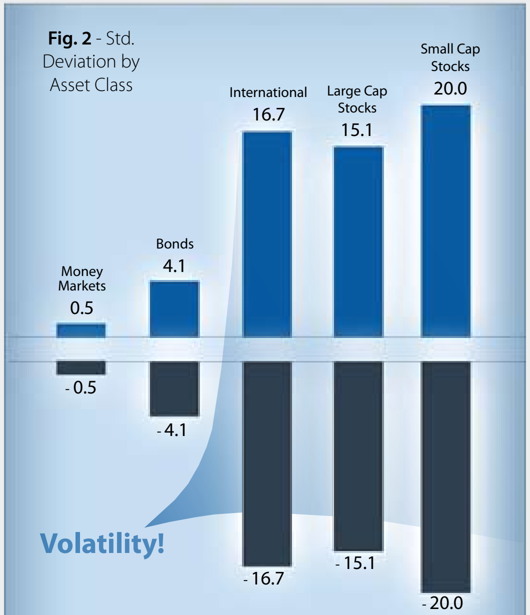
As you approach retirement, it's advisable to focus on investment vehicles that have a low variance in returns. This is represented by their standard deviation[1] – a measure of risk.

We all want high returns on our investments, and small cap stocks seem to deliver (Fig. 1). They've outperformed other investment choices – running 13.3% a year on average.

However, this comes at a price. As Fig. 2 shows, the average return on small cap stocks has a standard deviation of 20.0, which means such investments experience wide swings. That's something to minimize when relying on a fixed-income in retirement.

Selecting from different asset classes is the key to balancing risk and market returns. While some exposure to stocks is prudent, it should be managed in conjunction with periodic reviews with your advisor, who can help select an appropriate asset-allocation and risk-reduction strategy.





Figures are based on 30-day T-Bills (Money Markets), Lehman Bros. Aggregate (Bonds), MSCI EAFE (International), S&P Composite Total Return (Large Cap Stocks), and the Russell 2000 (Small Cap Stocks)*. Returns are since index inceptions. Standard deviations are each 20 years.

Data source: Thomson Financial. (Figures as of 2007 and may not be current at time of publication)

Another Point about Returns

Relying on stated average returns to derive your portfolio income stream could have an adverse effect on your expectations and your lifestyle. Consider the sequence of returns shown in the table to the right.

The four portfolios illustrate various annual returns and their corresponding 10-year average returns. As you can see, the actual returns are considerably different from the stated average returns.

> *Relying on stated average returns to derive your portfolio income stream could have an adverse effect on … your lifestyle.*

That's because actual returns are *compounded returns*. What that means is return rates occurring early, whether positive or negative, tend to build up over the sequence.

Thus, it is possible to have a lower average return but a higher ending balance. Compare, for example, the ending returns and values for Portfolio B and Portfolio D. Portfolio D ended up being the better choice, even though it averaged only an 8% return versus a 10% average return for Portfolio B.

Why Should You Diversify?

Diversification is a way of managing risk – the risk of having too much exposure to a narrow part of the market.

People handle risk differently. Some handle investment volatility better than others. Others make riskier investments because they have more aggressive goals, or they started saving late in their lives and need to catch up.

Sequence of Returns

Scenario: A retiree has a $100,000 original investment. He begins annual withdrawals of 6% of the balance at year-end, and increases the annual withdrawals by 3.5% each year.

YEAR	PORTFOLIO A	PORTFOLIO B	PORTFOLIO C	PORTFOLIO D
1	10%	-20%	35%	12%
2	10%	-10%	25%	18%
3	10%	-5%	30%	17%
4	10%	30%	20%	14%
5	10%	25%	15%	-8%
6	10%	20%	10%	-18%
7	10%	30%	5%	30%
8	10%	10%	-8%	15%
9	10%	-5%	-15%	25%
10	10%	25%	-17%	-15%
AVE. RETURN	10%	10%	10%	8%
ACTUAL ENDING VALUE	$150,161	$88,862	$161,203	$105,747
ACTUAL RETURN	10%	6.1%	10.6%	7.3%

The table shows how average rates of return vary from actual rates of return (or compounded rates of return), because the return sequences differ. For example, negative returns for Portfolio B came early, limiting its growth. In contrast, Portfolios C and D compounded quickly, because negative returns came later in their sequences.

Data source: BetaVest Technologies, Inc.

• Do you have a significant portion of your 401(k) dollars invested in one company's stock? You may have been working hard for one corporation all your life, and now you wake up to find that your "eggs" are largely in one basket – your employer's stock.

• Perhaps you inherited shares of a single stock, and you never considered selling a portion of those shares and be less dependent on the performance of that stock.

Whatever is the case, it's time to reallocate your assets. Be sure to understand the associated tax implications before proceeding.

Most financial advisors recommend that no single stock represent 10% or more of your investable asset base. Some say that a single stock should account for no more than 5% of the portfolio. The point is you should cash in a portion of any large investment stakes. Reinvest the proceeds. Spread out the wealth and lower your risk.

You will need guidance at this stage, access to a variety of investment products, and a clear idea of what you are trying to accomplish with your savings and investment program.

Reduce Your Debt

We have covered thinking about your legacy and points about risk, returns, and asset allocation. Now let's talk about debt.

At this stage, 10 years before retirement, you should think about how you can reduce your debt obligations. What kinds of debt can you take with you into retirement? What kinds of debt should you pay down?

While conventional wisdom calls for you to be debt-free when you retire, this is not always possible. Fewer and fewer people retire with their mortgages fully paid off. Much depends on the value of the property being financed, the mortgage rates secured, and whether or not any home equity has been tapped.

Many people retire with mortgage payments due, and they manage just fine. One person, for example, retired with a mortgage that carried a rather reasonable 4 3/8% rate. In one sense, he would be foolish to pay down such "cheap" money. Interest rates pegged to credit card balances and auto loans usually run far higher, and cut deeper into cash flow.

But even if his consumer debt balances were cleared, he may still do better by investing extra money in CDs or money markets, which can be insured and generate decent yields.

The key to debt management is to eliminate, if possible, one's costly *consumer* obligations. Pay off all credit card balances, auto loans, bank loans (other than mortgages), and home equity loans tied to variable interest rates. Pay off any large-ticket items, and stop financing new purchases.

Many people retire with mortgage payments due, and they manage just fine.

When you have 10 years to go before retirement, formulate a good debt-reduction plan. Set specific target dates to retire these obligations. Follow through with this planned schedule of payments, and you can raise your total net worth at retirement significantly.

Step 2 – Five Years to Go

Step 1 takes you from Year 10 to Year 5. It's certainly a big step to take. But in many ways, Step 2 at Year 5 has larger ramifications.

With five years to retirement, you have less room for error. Every decision you make, whether good or bad, every opportunity you face, whether taken or overlooked, can be magnified in your retirement life. Do not overlook this important step.

Reduce Risk from Your Portfolio

What is the difference between diversifying at 10 years out and a second asset-allocation effort five years from retirement? The answer is to reduce more risk.

You want to check your portfolio again. With five years to go, it's important to be properly diversified. Make sure that you are reducing your risk.

Many people five years from their retirement still have 50%, even 100%, of their 401(k) dollars tied up in one company's stock. Usually, it's employer stock. From a savings and investing standpoint, they have been doing the same thing for the past 30 years. But why be tied to one stock's performance any longer?

> ***NUA is something to check*** *before* ***you start liquidating your employer stock holdings.***

As implied in our earlier discussion about diversifying one's savings and investments, people often buy stocks and mutual funds without giving much thought to the riskiness of such investments. Of course, some do well. Their investments grow and eventually one may account for a disproportionate share of the overall asset base. People need to diversify because some of their early-on investments grew in an exceptional way.

Others clearly take risks with their money. They may buy aggressive financial instruments. They may have a brokerage account that allows them to buy "on margin," to borrow to make purchases. They may have dabbled with options trading and other speculative-type investments.

That's fine. But with five years to go, it's no longer time to gamble with one's retirement savings. Most trading accounts need to become retirement spending accounts. A person looking to retire in five years should see if they are exposed unnecessarily to market risk and speculation. If so, they should redeploy their asset allocations to emphasize less risky, less volatile investments. The idea is to balance expected returns with your defined life goals and where you are on the retirement timeline.

With five years to go, there is little time to spare. Make sure that you have reasonable expectations for your investments.

Do You Know about NUA?

At the same time, don't run out and sell all of your employer stock just yet. There may be a downside to doing so.

You may need to research something called *Net Unrealized Appreciaon* or NUA.

- Taking an in-kind distribution of employee stock instead of rolling it over into an IRA may qualify you for special tax treatment on the stock's NUA.

Basically, the IRS allows individuals with highly appreciated employee stock (inside a qualified retirement plan) to take a lump sum distribution and pay ordinary income tax only on the cost basis (what you paid for it) and not the unrealized gain.

Once the stock is sold outside of the retirement plan the gain is taxed at the long-term capital gains rate and not the higher ordinary income rate. The long-term capital gains rate is generally 15% while the marginal ordinary income tax rate can reach 35%.[2]

If you rolled the stock directly to an IRA, no current tax is due. However, the entire amount would ultimately be taxed as ordinary income upon distribution from the IRA.

If you are not yet 59½, you may be subject to a 10% penalty, so check with a tax specialist.

If you don't know about the NUA strategy, you may commit a grave error. Were you at retirement to take a distribution of this highly appreciated employer stock, then the gain would be treated by the IRS as ordinary income. You could cash in some funds, and you could redeploy them. But, it might be a costly your "re-allocation" for you.

If you have a lot of highly appreciated employer stock, you may qualify for the NUA. So, consult with your financial planner and tax advisor.

NUA is something to check *before* you start liquidating your employer stock holdings.

A telephone call can make a huge difference in seeing all your dreams come true.

Meet with an Advisor

Meeting with a financial advisor five years before retirement is critical. It's a chance to make sure you're on track.

Advisors will draw many things to your attention. They will help you understand many investment and insurance options. Likely they will help you understand your goals, your tolerance for risk, and your complete financial picture in detail. Most do so through something they call a Discovery Meeting.

- An advisor can help you transition your assets into retirement, and in the process you will learn a lot about yourself.
- That's why professional advisors should step into the picture with five years to go before your retirement. A telephone call can make a huge difference in seeing all your dreams come true.

Step 3 – Two Years to Go

T-minus two years and counting is the time to look seriously and closely at your retirement expenses. So much of your success in retirement rides on having your expenses accurately projected. People frequently underestimate their retirement expenses, and this can ruin good plans.

How Much is Enough?

People ask all the time, how much money do I need to save for retirement? How much money can I spend in retirement? The bottom line is nobody knows.

No one knows what your expenses will be for the next 20 or so years. Certainly, nobody can predict the rates of return you will receive on your assets. Nobody can say the precise sequence of those rates of returns, which we have seen makes a tremendous difference in ending balances. And, no one can say precisely how long you will live.

Many recommendations suggest estimating retirement expenses using rules of thumb, such as 80% or 85% of your income.

These days, many retirees live on closer to 100% of their pre-retirement incomes. If they haven't paid off their mortgages, or retired other forms of debt, then they may need to plan on working part-time or somehow save more money for retirement.

Because estimating income in retirement needs to be based on planned spending, the traditional "percentage of pre-retirement income" method is not the best approach.

The more accurate the information, the more useful your financial plan will be. You want to be "in the ballpark." Can you get there by ending your working career now? Or, will you be taxing your retirement hopes? Be honest with the numbers. And get good advice.

The following worksheet can help you calculate the income you'll need during retirement. Be sure to compensate for inflation by including the appropriate "inflation factor" at the bottom of the worksheet.

Retirement Planning Worksheet

HOUSING	INCLUDE PROPERTY TAX	$
UTILITIES	PREPARE FOR YOUR COSTS TO KEEP RISING	$
TAXES	YOU MIGHT STILL BE IN A HIGH TAX BRACKET	$
INSURANCE	LIFE, HEATH, AUTO, HOME, AND LONG-TERM CARE	$
HEALTH	EXPECT HIGHER OUT-OF-POCKET COSTS	$
FOOD	MIGHT BE DINING OUT MORE	$
CLOTHING	NEW LIFESTYLE, NEW WARDROBE?	$
LAUNDRY	DRY CLEANING BILLS MAY DROP	$
GIFTS	BIRTHDAYS, GRADUATIONS, ETC.	$
EDUCATION	MIGHT WANT TO TAKE A COURSE OR TWO	$
EQUIPMENT	NEW LUGGAGE, COMPUTER, SPORTING GOODS, ETC.	$
SUPPLIES	MAGAZINES, NEWSPAPERS, ETC.	$
FEES	INCREASED NEED FOR LEGAL, FINANCIAL, AND OTHER SERVICES	$
HOUSEHOLD MAINTENANCE	MIGHT NOT WANT TO DO YOUR OWN REPAIRS, LAWN CARE, ETC.	$
TRAVEL AND AUTO	VACATIONS, CAR REPAIRS, ETC.	$
ENTERTAINMENT	GREENS FEES, SEASON TICKETS, THEATRE, HOBBIES, ETC.	$
CHARITABLE DONATIONS	TO A COLLEGE, CHURCH, SOCIETY, MUSEUM, HOSPITAL, ETC.	$

Inflation Formula Table

YEARS TO RETIREMENT	10	5	2
INFLATION FACTOR (AS OF 2007)	1.6	1.2	1.1

Here are more some points to consider:

• People underestimate the cost of health insurance tremendously. The closer they are to age 65, the nearer they are to qualifying for Medicare, which will help contain costs.

• According to Fidelity Investments (2007), a 65-year-old couple retiring in 2007 will need approximately $215,000 to cover their medical costs in retirement *even after qualifying for Medicare*. The retiree health-care cost estimate increased 7.5% over the 2006 estimate of $200,000. It has increased 34% since first computed in 2002. What's more, this figure does not include other health-related expenses, such as long-term care.

• Retiring before age 65 means bearing medical costs on your own. When one individual took early retirement he paid $250 a month for his family's major medical plan. Today, six years later, the same plan costs him $850 a month – an extra $600.

• Another item to consider is the health situation of your parents. Will their care drain some of your retirement resources? Do you have brothers and sisters who can help, or will you be the primary provider?

• Are your children self-sufficient? These days, many Americans have children later in life. Bills for weddings, college tuition, and the like may come due just when you need those resources to save for retirement.

• If you want to protect your children's inheritance, while protecting your standard of living, you may also need long-term care insurance. It's one expense that many fail to plan for in advance of retirement.

Step 4 – One Year to Go

With one year to go, it's time to make choices regarding your income. Some jump right into retirement, while others enter in phases as they continue to work part-time. What income sources will you have, and how will you begin taking distributions? Income can come from fee-based brokerage accounts, which provide full access to your money.

Many use variable annuities, and some invest in CDs and short-term bond funds. Some people use other types of investment vehicles, such as setting up separately managed accounts.

You will make final choices with six months to go, but for now you decide from which assets to pull and in what order.

A Little-Known IRS Rule

If you plan to retire before 59½, you are advised to exercise caution. This is due to a potential 10% tax penalty on withdrawals from your retirement account. There are several exceptions to this rule that come under section 72, paragraph (t), of the Internal Revenue Code (IRC).

One exception is that you can do a series of equal systematic withdrawals over a period of at least five years. Basically, if you are under 59½ and you wish to retire, you can begin a "72(t) – equal payment" withdrawal on one of your IRAs to generate income. The withdrawals must be made properly for a minimum of five years or until age 59½, whichever is *longer.*[3]

In general, you are not allowed to contribute any further to that specific tax-deferred account. Further, you cannot take any additional amounts out of the account other than the substantially equal distribution. If you take out less or more than what is allowed, then the 72(t) distributions can be penalized retroactively. However, recent IRS rulings have allowed a one-time adjustment to the 72(t)distribution.

We have run across situations where the 72(t) distributions will not cover a person's immediate income needs.

Suppose they will be retiring at age 58½. It may be better to live off taxable assets for a year, rather than setting up a 72(t). Distribution rules under IRC 72(t) are complex and may result in exposure to the 10% penalty if IRS guidelines are not met. Please consult a qualified advisor on your specific situation prior to undertaking a distribution plan.

Social Security Integration

Whether you retire early or late, Social Security needs to enter into the discussion. In general, money earned after taking normal retirement is only taxable, and will not short-change your Social Security benefit.

- Taking Social Security early, however, reduces the benefit. Retiring early and then going back to work may further compromise your Social Security benefit, because money you earn over a certain income ceiling will cost you so much in benefits. The potential exists to lose quite a bit if everything is not carefully planned and executed.

- The withdrawals you make from qualified retirement plans are considered unearned income. Such withdrawals are taxable, but they do not trigger any reduction or loss of your Social Security benefit. However, these withdrawals may increase the taxes you owe on Social Security benefits. That is, you may jump to a higher tax bracket.

Step 5 – Six Months to Go

With six months to go, you have been planning for 9½ years. You have crunched some numbers, revised those figures, and settled on a game plan. It's now time to *start* the retirement process. It's time to sign off on everything.

With six months to go, your retirement is imminent. You need to elect your pension and retirement plan distribution options. You need to select health insurance. You need to set up your income stream. You need to fill out and sign all of your paperwork.

With six months to go, you must decide whether to have your monthly pension benefit direct-deposited to a bank account or mailed to you by check.

Be sure to understand your payout dates. Say, your last day of work is the last day of one month. A typical pension commencement date might be the first day of the next month. But, the company wide payout date may fall 15, 30, or more days later.

Ready. Get Set. Retire.

You have selected financial products. Now, you must open the accounts, buy the insurance, and sign the papers. An advisor will walk you through this step by step.

Typically, you need to start the paperwork process 60 days out, but sometimes it may need to begin with a 90-day time horizon. Usually, you need paperwork signed and back at your company's benefits office 30 to 45 days before your last day of work.

For example, suppose a husband works for a company, and his wife works for the state. She has a good medical/health insurance plan.

Say the husband retires at age 55 and decides not to buy into his company-provided medical plan. He chooses to go with his wife's plan. Now, what if she were to lose her job and her insurance?

That would be no problem as long as he can fall back on his company plan. This may be possible if he checked the correct box on his form – and the company allows it. If he elected to continue with the company plan, but later discontinued that coverage to switch to his wife's coverage, then he may come back if he correctly preserved this option. Otherwise, this benefit may be lost forever.

Six months is the time to give attention to details. It may be a bit tedious. But think of how much your plan has accomplished.

Recap: 10 Years to T-minus Zero

However extraordinary a rocket launch seems, it's based on immutable laws of gravity, propulsion, mass, and so on. Such laws never change, and so a rocket launch is predictable. It can be engineered – just like your retirement.

Yes, a great retirement can be yours. Sure it calls for precise planning, the use of highly calibrated financial instruments, and a good guidance system – that would be your wealth management specialist.

It may seem complex, but fulfilling your dreams is within your reach. In summary, here are the main points of this paper:

- If you are 10 years before retirement, then you have time to make several important decisions. Start by thinking about how you can reduce your debt, and set some specific retirement goals.
- With five years to go, it's time to look at a more concrete financial plan. Be sure your assets are properly allocated, and do not miss opportunities, such as the NUA strategy. This is your last shot at diversifying risks before you retire. So do it right.
- With two years to go, you will want to get more detailed with your financial planning and understand realistically all of your retirement expenses.
- With one year to go, pin down all sources of retirement income you will count on. They include income from part-time jobs, pensions, dividend income, annuity payouts, 72(t) distributions, and your Social Security benefit. The rates of return you receive on your assets, coupled with the various sequences used to tap those investments, determines your final withdrawal stream. One year before retirement is enough time to sort out these issues.
- Finally, six months is the time marker for finalizing all decisions and completing all paperwork.

Retirees face challenges like never before. More than at any time in the modern era, it's difficult to make your dollars last. At this printing, for example, fuel prices are on the rise. Corporate restructurings, layoffs, and plant closures threaten the financial well-being of many workers. Concern over the housing market abounds, and the stock market remains volatile.

While you can't control everything, thinking over your retirement dreams and formulating a plan should set you on the right course.

Trust us. Your 10-year plan can become a reality. You can preserve a nest egg. Your efforts can lead to success on your Retirement Day – and beyond.

About the Authors

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An Eagle Scout loyal to the values of small-town America, John Williams is a principal of Davis Williams Wealth Management and one of its founders. He has been in financial services since 1993.

Mr. Williams holds a B.A. in accounting from North Carolina State University, Raleigh, NC. He enjoys helping clients interpret the complex language of financial services and choose appropriate products.

A family man and an outdoorsman, Mr. Williams gives back to the community. He volunteers with The Gideons International and sits on several local boards.

Scott Davis, RFC, CLU, ChFC

Born on the Fourth of July and an ex-professional baseball pitcher, Scott Davis is very much an "All American." He is a principal of Davis Williams Wealth Management and one of its founders. He has been in financial services since 1992.

Mr. Davis holds a B.B.A. in finance and economics from Adelphi University, Garden City, NY. He began investing in equity mutual funds at age 16.

Goal-oriented and entrepreneurial, Mr. Davis is an active member of his community. He coaches Little League and volunteers with several charities and community-based organizations.

About the Firm

Davis Williams Wealth Management

Davis Williams Wealth Management is a full-service, independently owned, financial services firm based in Charlotte, NC.

John Williams and Scott Davis create comprehensive and tailored financial strategies, offering clients both investment and insurance products. Both John and Scott abide by the vision of "independent financial planning," in which each client receives personal attention and periodic reviews.

Helping to Protect Your Wealth, Family & Values.

John and Scott are committed to representing the interests of their clients by brokering investment and insurance products from many firms. They can deliver both objective information and competitive products. This provides clients with both choice and control.

Davis Williams Wealth Management maintains professional independence so as to help each client achieve their financial goals.

We believe that retirement can, and should be some of the best years of your life. It's a time to travel, perhaps, or to pursue interests and hobbies in comfort and leisure.

By taking into account your financial objectives, time horizon and tolerance for risk we can help you develop an investment strategy geared towards making your retirement years live up to their promise.

– John & Scott

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Securities offered through Securities America Inc., member FINRA/SIPC and advisory services offered through Securities America Advisors. John Williams and Scott Davis, Representatives.

Davis Williams Wealth Management and Securities America are not affiliated.

Any tax or legal information provided here is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor, or legal counsel, for advice and information concerning their particular situation.

1 Standard Deviation: A gauge used to measure risk, or volatility. It's a number indicating the variability of a set of numerical values about their arithmetic average. For example, a $1 million portfolio with a quarterly standard deviation of 5% will fluctuate $50,000 more or less around the actual return 68% of the time, or $100,000 95% of the time (empirical rule). The lower the standard deviation, the more stable the portfolio's performance will be. A high standard deviation suggests a portfolio with more fluctuation and volatility.

2 Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, the highest marginal income tax rate is 35%. The highest tax rate on capital gains was lowered to 15%.

3 Distributions modified (except for death and disability) before the longer of five (5) years or age 59 ½ will be subject to the 10% penalty tax, plus interest. Past performance is no guarantee of future performance. There is a risk that the principal balance of the client's account could be exhausted in the event that the distributions exceed the net earnings and growth of the investments. Clients who live beyond their normal life expectancy may find their account values have been completely depleted. The 72(t) distributions are subject to federal and state income taxes. You should consult your tax adviser for specific tax advice.

* Treasury Bills are represented by the US 30-Day Treasury Bills Index, an index based on the average monthly yield of the 30-day Treasury Bill. Treasury Bills are secured by the full faith and credit of the US Government and offer a fixed rate of return. The Barclay's Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance. The Russell 2000 is an index comprised of 2000 smaller company stocks. Used as a measure of small cap stock performance. You cannot invest direct on an index. Past performance is not a guarantee of future results. As with all indices, returns do not take into account fees and expenses, typically found in an investor portfolio, which would have reduced returns.

Asset allocation seeks to reduce the volatility of a portfolio through diversification. Neither asset allocation nor diversification guarantee against market loss or guarantee greater or more consistent returns.