DAVIS WILLIAMS
Wealth Management

HELPING TO PROTECT YOUR
Wealth, Family and Values

► WHAT TO THINK ABOUT
If You Are Offered an Early Retirement Package

"Should I stay or should I go?" So goes the song by the rock group *The Clash.* These very same words are probably going through your mind as you begin to think about accepting a company's retirement package.

This article reviews the many questions you may have as you go through this process. The combination of correct information and solid advice will make this process financially sound and help you make the correct decision for your financial situation.

The Offer

If you are offered a retirement package the best course of action is to take a deep breath and begin to think about it. Do not take any immediate action. No doubt you have worked for the company for a long time and the financial numbers stated in the retirement package literature could be impressive.

Avoid focusing on the package and take a step back to review the impact on your lifestyle, future goals and family. The objective is to become more informed about your options so you can make the best decision.

No two offers are the same. However, they probably contain a few common components:

1. Payment of retirement plan benefits
2. Insurance coverage
3. Salary continuance or severance pay
4. Separation of service agreement
5. Vesting of stock options

If you receive a retirement package, it can certainly be a psychological shock. Despite what the employer may see as a generous financial offer, the picture regarding you and your family may become cloudy. Emotions may surface.

Eight Critical Points

Let's look at eight issues you should begin to think about when considering an early retirement package:

1. What will you do with your retirement money? If it is not handled correctly, it could become a taxable event with penalties.

2. How will you handle the possible lapse in insurance coverage including: medical, dental, disability or life insurance? Will the offer cover your medical needs until you can apply for Medicare at age 65?

3. How will you handle your day-to-day expenses without a salary? The company may offer some level of salary continuance; however, what happens when that runs out?

4. How close are you to qualifying for Social Security benefits or Medicare? Do not forget if you apply for Social Security early you are accepting a permanently reduced rate.

5. The company may want you to sign a waiver or release that contains important legal information. You need to be aware of the provisions and your rights within this document.

6. What does the employment picture look like outside of your current employer? Can you contract back to the same company?

7. If you decline the package, you should think about the condition of the company. What is to prevent the company from offering another package, at a later date, with a less generous offer? Worse yet, the next offer may be an involuntary layoff.

8. If you accept a package, you may be eligible for unemployment benefits. Check with your local unemployment office.

These are just a few of the many questions you need to address prior to taking any company package offer. Let's review some in more detail:

Retirement Plan Options

If the employer has a traditional pension plan, the benefits you receive will be dependent upon your age, length of service and annual salary. The benefit usually is highest at your normal retirement age. By accepting an early retirement package this benefit could be substantially reduced. Make sure you compare what you could have had at full retirement age versus what you are being offered.

You may have a choice between a lump-sum payout and an annuitized stream of income. If an annuity is to be considered, you should meet with a financial advisor to compare the annuity offered versus a comparable option in the marketplace.

If the balance of your 401(k) is greater than $5,000, you can generally opt to leave it with the company. It will maintain its tax deferred status; however, your ex-employer will likely stop any matching. Further, you may not be able to make partial withdrawals to provide income. If you have an outstanding loan against your 401(k), this will become due when you leave. You can pay this loan back or have it deducted from your account. If it is deducted from your account you could be subject to adverse tax consequences.

You always have the option to rollover your 401(k) or retirement account to an IRA. This will maintain the tax deferred status of your account. Remember, this is your retirement money and needs to be maintained as such.

Insurance

One critical area that needs careful review is your insurance coverage, since employer provided insurance options will probably end on separation of service. Due to the ever-increasing costs of premiums, you need to evaluate your health and coverage options. A careful analysis with a financial advisor of your insurance options and costs is paramount to a solid decision.

If you qualify for retiree medical benefits with your employer, it may be prudent to elect the coverage and then discontinue it in a way that allows you to return to that coverage in the future. If you are eligible, Medicare benefits are available to you at age 65 irrespective of when you apply for Social Security benefits. Making sure you have adequate medical coverage until then is a critical need. Paying out-of-pocket premiums will dramatically impact your retirement plans.

Retirees may also have life, long-term care, or dental insurance coverage as part of their company benefits. Consider if you will need to continue this type of coverage. You may decide to elect some of these options with the idea of reducing them later. These options may not be available to you in the future at the same rates or you may not medically qualify for these additional insurance plans.

Salary Continuance / Severance Pay

The offer may include a severance component regarding a continuation of salary. Salary continuance could be paid for a specific number of weeks, months or in a lump-sum payment. It may sound fantastic to be paid for six months without working; however, what position will you be in when those funds run out?

Cash Flow

Reviewing your future cash flow will give you a better picture of what financial impact the package will have. Whether or not you receive some severance pay; replacing your income is a critical element in your decision-making process. Reviewing your current savings and household expenses in detail will quickly bring to light any significant gaps. What will be the impact of relying on your savings or retirement assets?

Dipping into retirement savings will have a significant long-term impact on your retirement financial plan. Withdrawing funds from retirement accounts could be a taxable event. Further, if you are under age 59 1/2 you could be subject to a 10% penalty. Several exceptions exist to the 10% penalty 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 or until age 59 1/2, whichever is longer.*

If you are age 55 or older at time of separation of service from the firm, you may make a full or partial distribution from the retirement plan without penalty. The distribution is still subject to income taxation at ordinary income rates.

Social Security

Begin to factor in Social Security especially if you are over age 55. Social Security payments are based on your 35 highest earning years. If you are in your peak earning years, by taking a package you could be losing out on further high earning years.

If you take Social Security prior to your full retirement age, your benefits are permanently reduced. This will need to be analyzed in conjunction with your retirement funds to see if they meet your required expenses during retirement.

Many retirees decide to retire early and begin Social Security payments at the earliest opportunity. By not diligently pre-planning their cash flow they find themselves having to go back to work. If you are under your full retirement age, you will lose $1 in social security benefits for every $2 in work salary above the annual limit. For 2009 and 2010 the limit was $14,160. Once you reach your full retirement age, you receive full benefits regardless of earnings.

"The Agreement"

How many times have you heard the phrase "read the fine print?" In the case of a retirement package these words ring true. In some clauses employees are asked to refrain from working for direct competitors or soliciting customers from their current employer.

You could be asked to waive your rights from litigation against the firm. Read the contract carefully making sure you do not check the wrong box and sign up for a benefit you did not want. When in doubt ask questions!

Non-Financial Considerations

If you are financially able to retire, how do you plan to spend the rest of your life? Perhaps you might decide to take a break, or semi-retire. You may be interested in a different career or those illusive hobbies you have always wanted to enjoy. Would you like to do some traveling while you are younger and healthy? As the free spirited Ferris Bueller once remarked, "Life moves pretty fast, if you don't stop and look around once in a while, you could miss it."

Your decision to take an early retirement package can be a challenging one that requires the correct information. Both your current financial situation and your family responsibilities need careful review before you sign on the bottom line.

***Davis Williams Wealth Management* can help answer some of the questions you may be asking:**

Can I retire? We will prepare a retirement analysis regarding the feasibility of retiring and helps calculate a reasonable retirement income stream.

What do I do with my retirement money? We can help facilitate and manage rollover monies making sure no adverse tax consequences affect you.

How do I determine which of my employer provided insurance options are best? We have in-house staff with expertise in health insurance and other types of coverage to walk you through all your options.

How do I secure income from my funds during retirement? Our wealth management approach allows us to incorporate the necessary tools to help you with: tax considerations, social security planning, income distribution planning and retirement planning.

How do I manage my investments? We offer a full range of financial advice that monitors your investments based on your risk profile.

At *Davis Williams Wealth Management* we are very familiar with the workings of retirement packages. Upon receiving notice of your package we invite you to contact us to review the offer and process.

After a few discussions with us, you will be far more informed about the package and the impact on your financial situation whether or not you choose to accept the offer. Our goal is to assist you in making the best informed decision regarding this challenging and exciting time in your career. We are fully committed to that goal.

About the Authors

John Williams, RFC, CLU, ChFC

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 his church and sits on several local boards.

Scott Davis, RFC, CLU, ChFC

Scott Davis is very much the "All- American" guy. He was born on the 4th of July, and played pro-baseball after he graduated from Adelphi University. More importantly, Scott's personal and business ethics are grounded in a deep sense of family, religion and duty to his profession.

A goal-oriented hard worker, Scott was raised in a family-owned entrepreneurial business atmosphere, and began his own investment accounts at age 16. This led to a formal education in finance and economics, a string of professional designations and his own business in 1992. An active member of the community, Scott often volunteers with several charities, community based organizations and athletic associations.

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 advice on 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.

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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 work toward 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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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.

*Distributions modified (except for death and disability) before the longer of five years or age 59 1/2 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 states income taxes. You should consult a tax adviser for specific tax advice.

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