Early retirement

Live your dreams a little sooner

Special Report

For most of us, 65 is a magic number. It's the age we plan to retire. But for some, that magic number may be 60. Or even 55. An early retirement though, means more than simply an end to working full time. It means more planning, more saving and smarter decision-making to prepare for your future.

Defining the disparity

Many of us would gladly stop the daily grind of work immediately, if we could. Of course, we may not be able to. We need the years in the workforce to save for our retirement. For some people though, retiring at an age earlier than the traditional 65 is a conceivable possibility. But an early retirement can be an expensive proposition. However, with proper planning, you can begin to live out your dreams a little sooner.

Not your typical retirement

Retirement doesn't only mean that you're no longer working. It means an entirely new lifestyle. What are your plans? Will you travel? Pursue a hobby? Open a business? Once you decide your goals, you can then figure out how much you'll need to save to fund your retirement.

According to general guidelines, your savings will need to replace 70% to 80% of your pre-retirement income – depending on how active (or expensive) a lifestyle you plan. Saving for an early retirement though, is not the same as saving for a "normal" retirement. You'll need to take several factors into account:

- **More active years** – An early retirement means you'll have more years at a younger age, when you might want to do more and spend more.
- **More overall years** – People are living longer than ever nowadays. If you retire early, odds are that you'll be retired for 30 or more years.
- **Limited retirement funds** – You may not have full access to Social Security, pension and other retirement plan funds yet in your early retirement years.

The bottom line is that you'll have to save even more to support an early retirement than you would if you retire at a more traditional age.

The burden is on you

When you retire early, you'll most likely need to rely entirely on your personal savings and investments – at least in your early retirement years. That's because you won't be able to access traditional sources of retirement income until later, such as:

- **Social Security** – If you're eligible, the earliest you can access Social Security benefits is age 62; however, the earlier you collect, the lower your monthly payments. For example, a 56-year-old worker with a current income of $75,000 would collect a monthly benefit of $1,429 at age 62; that benefit would be $2,077/month at age 66, and $2,672/month at age 70.[1]

- **Pension** – Most pension plans (if you have one) are based on payouts beginning at age 65. And like Social Security, the earlier you retire, the lower your monthly benefit.

- **Retirement plans** – Withdrawals from an IRA or employer- sponsored retirement plan before the age of $59\frac{1}{2}$ are subject to an IRS 10% premature distribution penalty.

So, the burden is on you to fund your retirement in your early years. Will you have enough?

Know your expenses

Retirement will likely cost more than you think. Expenses associated with your job – such as wardrobe, lunches out or commuting – may significantly decrease, as will your housing expenses (if you pay off your mortgage). Other expenses, however, will likely rise, such as those related to travel and hobbies. Some important retirement costs to consider include:

- **Inflation** – When you retire, inflation becomes even more significant because you'll be on a fixed income. Prices may rise, but your income won't. Consider that in 1979, the average price of a new home was $71,800; while in 2013, the average price was $324,500[2].

- **Taxes** – Tax deferral was an incentive to save for retirement with qualified plans, but you can only "defer" taxes for so long. While you may be in a lower tax bracket, once you retire and begin drawing income, you'll have to pay taxes on it. This includes your pension, Social Security benefits, IRA and other tax-deferred savings plans.

- **Medical** – Medicare benefits don't kick in until age 65 (or later); so if you retire early, you'll need to consider paying for your own health insurance, which can be expensive. If taking an early retirement package, be sure to know your options regarding continuing health coverage, including COBRA (which extends coverage only 18 months).

Can you risk it?

If you want to retire early, you'll have fewer years to accumulate money in your retirement savings account. With less time to achieve your financial goals, you may have to invest more and take more risks. For example, if you're planning to retire in 10 years at age 55, you may need to allocate more of your investments towards stocks, which can potentially net higher gains than bonds or cash, but at the risk of losing principal.

Less time invested also means your money has less time to adjust to market fluctuations or a bad investment decision. So, how much risk are you willing to take to accumulate the amount you'll need to retire early?

Keep saving

As you save for an early retirement, be sure to leverage any and all savings opportunities, including:

- **Tax-deferred savings plans** – Take part in your employer-sponsored retirement plan, if offered, and take full advantage of employer matching programs. If your employer doesn't offer a plan, or if you already contribute the maximum, consider a tax-deferred IRA.

- **Employer packages** – Stay alert for employer-sponsored early retirement offers, which often add years of service to your pension and provide medical benefits. Such packages often allow you to withdraw money from your employer-sponsored plan without penalty.

- **Catch-up contributions** – If possible, make additional "catch-up" contributions to your employer-sponsored plan. Depending on your plan, you may have more than one type of catch-up provision available to you.

Early retirement tradeoffs

If you do decide to retire early, you can make a few tradeoffs in your initial years to ease the financial burden, such as:

- **Spend less** – Allow your savings more time to grow by laying low for a few years until you know what your expenses will be.
- **Work part time** – Work as a consultant or take a part-time job that allows you to still pursue areas of interest, while bringing in additional income.
- **Continue to save** – Make smart decisions about your money, conserve what you have and save where you can.

Live your dreams sooner

By setting goals for your retirement and understanding how much you need to achieve those goals, you can plan for a possible early retirement. To learn more about what it takes to live out your retirement dreams a little sooner, contact your local representative.

1 Source: Social Security Website Benefits Calculator, 2014

2 www.census.gov "Median and Average Sales Prices of New Homes Sold in United States." Planning for an early future

Planning for an early future

Here are some actions you may want to consider to begin preparing for an early retirement:

- **Pay off mortgage** – Consider paying off your mortgage by retirement; or, if payoff isn't possible, consider selling your home and using the proceeds to pay off a smaller residence.
- **Get out of debt** – Consider consolidating credit card and other debt to reduce your monthly payments so you can pay off all debt as soon as you can.
- **Scale back lifestyle** – Reduce your current expenses wherever you can by possibly eating out less or putting off big purchases.
- **Protect your assets** – Look into life and disability insurance available through your employer and other sources. Insurance means your family will be less likely to dip into retirement savings should something happen to you.
- **Invest more** – Continue to save and invest as much as you can, especially if paying off mortgage and debt isn't realistic. Every bit now will help later.

Retirement doesn't only mean that you are no longer working. It means an entirely new lifestyle.

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