



## SHOULD I RETIRE EARLY? 7 THINGS TO CONSIDER

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### 1. ESTIMATE THE LOSS POTENTIAL

Sometimes it's not about if you're able to retire, but more about what you could lose if you retire early. To estimate the loss potential, consider the following three important areas of loss:

- Calculate the income you'd bring in between now and your original retirement date. If that additional income could make a big difference for your retirement, it might be a good idea to reconsider your retirement timeline.
- Consider the 401(k) contributions you would have made and any employer match you would have received over that time.
- If you're receiving health care coverage through your employer, what is the cost to replace that coverage between now and when you're eligible for Medicare? For those who aren't yet full retirement age, health care premiums can cut into your retirement income more than you probably realize. While some rare situations allow former employees to continue their former coverage, most retirees will spend between \$500-\$1000 a month for this expense.<sup>1</sup> COBRA can be a short-term solution, but it can be pricey. Additionally, you can find health care options on the Health Insurance Marketplace, but the affordability is often tied to income, so if it's above the typical income threshold, premiums can still be expensive.

<sup>1</sup> <https://www.forbes.com/advisor/health-insurance/how-much-does-health-insurance-cost/>

## 2. UNDERSTAND YOUR EXPENSES

Someone once said, “If your outgo exceeds your income, your upkeep becomes your downfall.” It’s time to get a good handle on your expenses. Because expenses are such an integrated part of everyday life, you probably don’t realize how much you really need to continue your current lifestyle.

A quick way you can do this is to look at your total monthly expenses for the past 12 months and add that together. Yes, you should include that new car you purchased in January and the kitchen renovation because every year will have its own large expenses. A good rule of thumb is to add together those 12 months of expenses and that number is around the amount you’ll need to try and have each year in retirement, plus an additional 2-3% a year to calculate for inflation.

How do these expenses compare to what your income will be in retirement? If your retirement income, including retirement accounts, Social Security, and other forms of passive income don’t match up, or if you don’t know if they can provide a steady enough income in retirement, meet with a financial advisor to develop an income plan.

## 3. LOOK BACK AT YOUR FAMILY, SPENDING, AND HEALTH HISTORY

Patterns can tell us a lot about what to expect in the future. While we can’t predict each circumstance, we can loosely predict our reactions and behaviors based on the past. So, when considering retiring early, it’s important to peek back into your own history. If your family members tend to live long lives, retiring early might ask more of your retirement accounts than they can give. After all, stretching \$141,542<sup>2</sup> (the average amount the American retiree has saved for retirement) for 15 years versus 30 years could cut your annual income by half!

Two other important considerations are your spending habits and your health history. If you’re prone to impulse buys or generous giving, keeping an active income stream by working might be wise. Additionally, if your health is a concern, medical bills and health care costs can quickly eat into your retirement savings, especially without an employer’s health care plan discount.

## 4. KNOW THE RULES WHEN IT COMES TO YOUR RETIREMENT ACCOUNTS

Penalty-free IRA withdrawals typically don’t start until 59.5, so you may need to wait until that age to access these accounts. Even if it’s a Roth IRA, the account generally has a five-year holding period prior to accessing the earnings tax-free. Although you can always withdraw contributions tax and penalty-free, that doesn’t apply to growth and earnings.

Early retirees may be able to take advantage of Substantially Equal Periodic Payments (SEPP) for withdrawals before 59.5 without a penalty, but you need to understand the rules. A financial advisor can help you navigate the rules and explain how this may affect your tax situation.

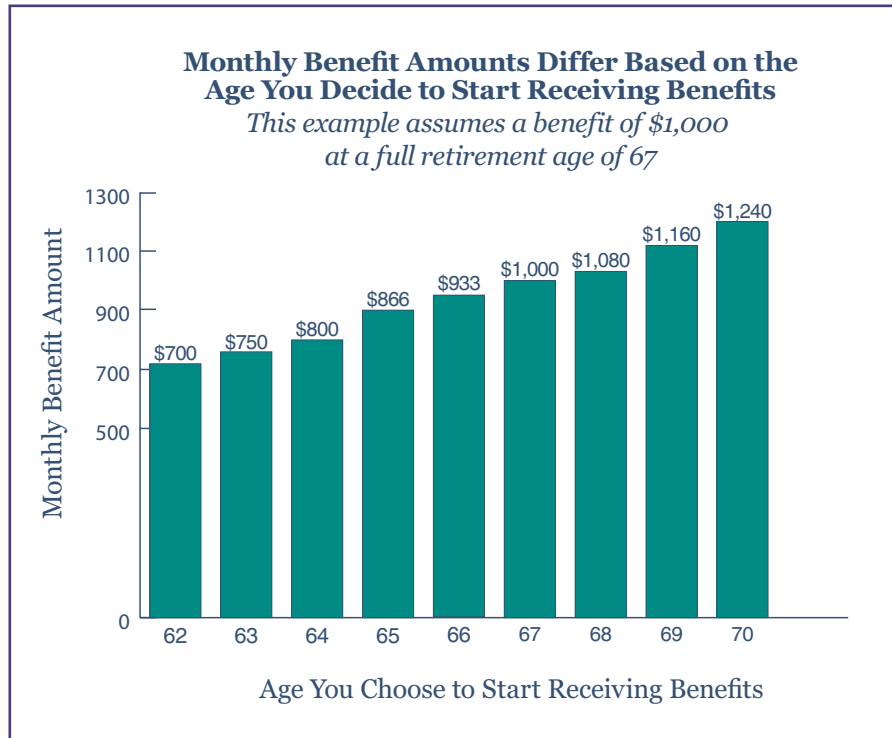
Some 401(k) plans give individuals the ability to take money from their accounts between the ages of 55 and 59.5 if they’ve separated from service, but not all plans offer this, so check your plan documents carefully!

<sup>2</sup> <https://www.cnn.com/2022/07/30/vanguard-how-much-americans-have-saved-for-retirement-by-age.html>

## 5. CONSIDER THE EFFECTS ON YOUR SOCIAL SECURITY BENEFITS

Social Security may be a big portion of your income, but claiming your benefit before your Full Retirement Age reduces your monthly benefit check. By delaying to age 70, you can apply for the highest monthly benefit available to you.

If you're married, you have more scenarios to consider other than just when one individual should retire. If one spouse passes away, the remaining spouse is entitled to the larger Social Security check. By claiming early, this may lock in a lower amount for the rest of their life. There are many strategies to consider on how and when to claim your benefit. Meeting with a financial advisor can be beneficial to making the best decision for you.



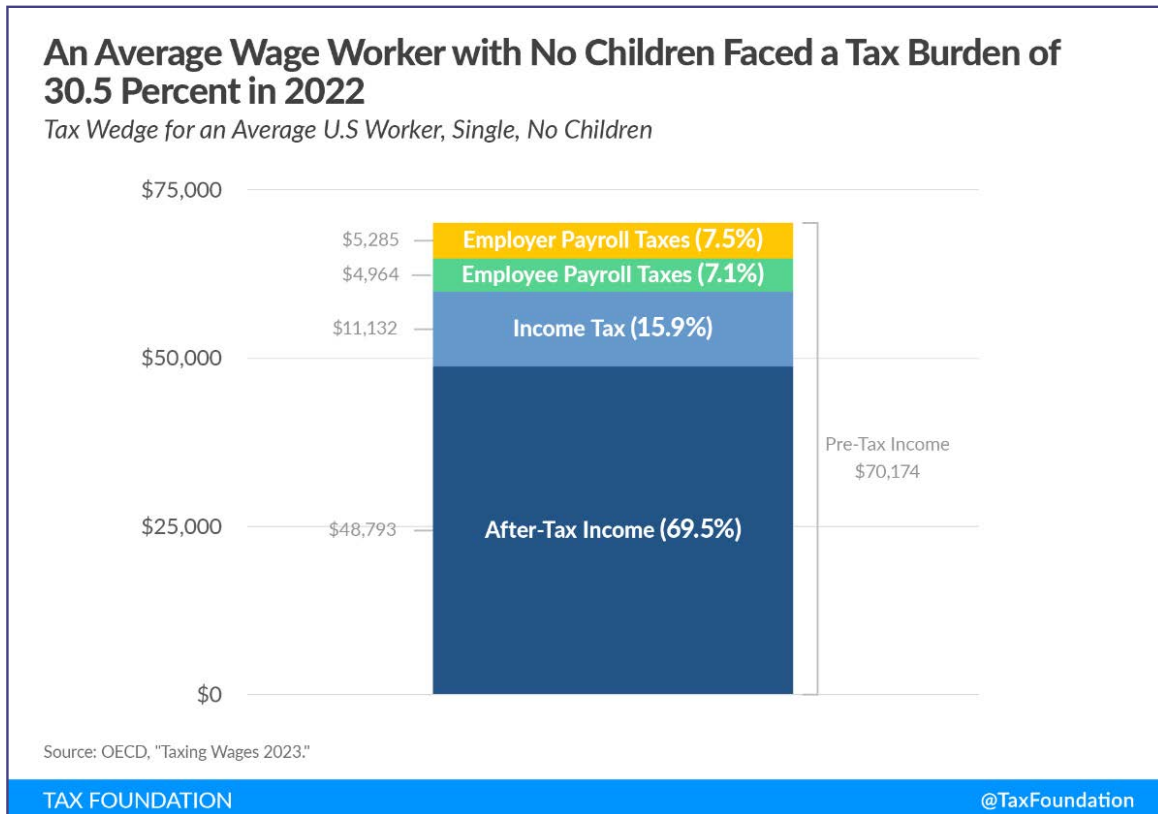
<https://www.ssa.gov/pubs/EN-05-10147.pdf>



## 6. DON'T FORGET ABOUT TAXES

The average American has a “tax wedge” of around 30.5%.<sup>3</sup> A tax wedge is defined as the ratio between what the average American pays in taxes and what they would have taken home in earnings if they hadn't had to pay those taxes. And this is just income taxes. That doesn't take into account sales tax on purchases.

If all your retirement savings are in traditional IRAs or 401(k)s, this could add to your tax burden in retirement and reduce your spendable income



<https://taxfoundation.org/data/all/federal/us-tax-burden-on-labor-2023/>

## 7. ABOUT YOUR RETIREMENT GAME PLAN

A lot of people have a plan for getting to retirement, and they might even have plans for the big things they want to do once they're retired. Dreaming about travel, spending more time with friends and family, or starting a new hobby? Most people do! What many don't consider is the everyday routine and task list they'll take on in life after work. If you have 25 years ahead of you in retirement, that's the equivalent of half of most people's working life!

Now try and break down just one year of that time into months, weeks, and days. How would you spend your time? They say every day in retirement is Saturday, and when do we spend a lot of money? On Saturday! What does that look like for you? Is your travel going to be domestic or international? Financially, there's a big difference. Does your view of retirement match up with what your spouse wants to do? That honey-do list may get longer, but what else do you want to do together in retirement?

Consider talking with your financial professional to make sure your retirement income can sustain the things you want out of the future with an earlier retirement deadline.

<sup>3</sup> <https://taxfoundation.org/data/all/federal/us-tax-burden-on-labor-2023/>



Everyone's retirement and financial situation is different, as well as each person's retirement goals. That's why it's important to talk to a financial professional. They can help you map out your retirement years, what it would look like to retire early, retire when you originally planned, or delay retirement. They can also help you understand how far your income can stretch so that you have the tools and the information to make the best decision, **because you deserve the very BEST retirement.**

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