Retiring Early: Here's Three Steps to Consider

Sometimes retirement is not an active decision; more often than not the decision is made for you. A 2016 study by Transamerica Center for Retirement Studies showed 60% of retirees left work earlier than planned. Among retirees in their 50s, 79% retired early. The reasons for retiring early ranged from health issues to employment-related issued. If you are facing the prospect of an early retirement what actions should you take.

Meet with a Financial Advisor
Just like an accomplished author has a trusted editor review a book before it is published, even the savviest of investors need someone to look over their financial picture, stress test plans, and review options. A financial advisor can provide an objective perspective, point out overlooked opportunities, and help avoid costly mistakes. The advisor can do a gap analysis to determine the best strategies to bridge income to expenditure gaps.

For instance, when retiring early age matters. If you separate service with your employer before age 55 it is important to know tax consequences associated with each type of account you have before tapping into those accounts or transferring them. In contrast, if you are retiring or changing jobs and are age 55 or older you have additional options. If you are at least 55 when separating from your employer you can access a plan like a 401(k) without incurring a penalty. However, to access an IRA, you need to be at least age 59.5. If you are in your 60s, depending on your situation you may be able to tap into Social Security early. Although most financial advisors recommend healthy people of solid financial means against taking benefits early, if you are retiring early due to health issues or a terminal illness taking Social Security early may be a needed lifeline.

Know Your Health Options
Prepare for sticker shock. In a recent interview Director of Advanced Planning at Baird, Tim Steffen, commented "I don't think people realize how much employers pay for health insurance until they have to pay for it themselves." Medicare coverage doesn't begin until age 65 so if you have been laid off or retiring before age 65 it is necessary to find health insurance. Your options include being added to a spouse's plan if possible or private insurance. If you are separating from service "retirement eligible" you may be able to sign up for your employer's retiree medical plan. But be prepared, no matter your choice you have a limited time to make a decision and it will most likely cost more than the subsidized employee rate you paid with your previous employer.

Consider Other Employment Options
If you have been laid off, look for employment, even in another field – especially if savings is tight. This may be the perfect time to explore that second career of which you dreamed. When my husband retired early, this was his opening to start his own business. Since our savings was in good shape, and we had already saved for our children's college, the severance package gave him the transition cushion and seed money to go for it.

Steffen notes many more jobs can be done at home, something older workers may not realize if they've worked in an office their entire life. Seeking other employment may depend on one's health or other circumstances, such as leaving the workforce to take care of a family member. If it's the latter case, Steffen says talk to the employer before deciding to leave entirely. "Employers, we're finding, are going to be a lot more flexible in trying to (create) an arrangement that works for both sides," he says. "Employers recognize the value of these experienced veteran workers."

At Baird, our specialty is assisting pre-retirees and retirees prepare for and navigate retirement. Whether your retirement is on-schedule as planned or coming earlier than expected contact

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