



# Retiring Early? Don't overlook these 5 things

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April 10 2018 11:56 AM

**EDWARDSVILLE** - Retiring early. To most people, that phrase has a beautiful ring to it. In fact, it's difficult to find individuals who would choose to continue working if the possibility of early retirement presented itself. However, if you're fortunate enough to be in the position to actually retire early, there are a few things you'll want to take into consideration before taking that leap into retirement.

## 1. Health insurance

Say what you will about the healthcare industry in the United States, but one thing is for sure, health insurance can get expensive quickly without group coverage. And, if you're retiring early, you may lose access to the group health plan you've been covered by in the past.

Some companies will offer continued coverage for early retirees until they reach Medicare age. The cost to remain on the group plan could vary, however. At the discretion of the company, an early retiree might be able to continue coverage while paying the same premium, but he/she may also have to pick up a higher portion of the premium or pay for the entire premium altogether.

Alternatively, an early retiree could search for coverage independently. The options for individual plans can be more limited based on the state you live in. Also, without the ability to leverage an entire group plan, the cost can be significant and the benefits minimal. In fact, many employees completely misunderstand and sometimes take for granted how good their group health insurance is compared to the alternatives in the marketplace. Large companies may subsidize or even completely cover premiums for employees, leaving the employee with a minimal obligation.

So, if you're retiring early, be sure to do your homework on health insurance ahead of time. See if your company will allow you to continue coverage on your current plan. Verify what the cost would be to do so. Shop around for other alternatives. It's certainly not impossible to gain coverage elsewhere, but it's important to understand how you're going to do that before you decide to retire.

## **2. Social Security estimates**

As long as you have a sufficient work history, you may be entitled to Social Security retirement benefits. However, it's easy to misunderstand what your retirement benefit will be if you retire early. In fact, some people that think their benefit can go down by retiring early. On the surface, that looks correct, but in reality, it's not actually true.

Per the Social Security website ([www.ssa.gov](http://www.ssa.gov)), the Social Security Administration sends out statements to workers age 60 and older (and who have not created an online SSA account). These statements show an estimated benefit at age 62, full retirement age, and age 70.

However, these benefits assume that the worker will continue to work until age 62. Therefore, if you were to stop working before age 62, you would not be entitled to the benefit estimation shown on the statement. So, it could appear that an early retiree's benefits does decrease as a result of early retirement. But, the benefits originally shown had not been fully earned yet.

The bottom line here is that you need to understand that your Social Security benefit estimate assumes you'll keep working until age 62, so be prepared for a lower benefit from Social Security if you retire early.

## **3. Withdrawals from a 401(k) vs. an IRA**

For retirees, rolling over a 401(k) into an IRA is a popular strategy. This could provide access to more investment options, easier user interface, access to work directly with an investment advisor, etc. However, early retirees should be careful about rolling money from 401(k) accounts into IRAs if distributions are needed before age 59 ½.

For qualified retirement plans, the IRS states there is a 10% penalty for distributions made before age 59 ½. However, there are exceptions to that rule. Per [irs.gov](http://irs.gov), one exception for 401(k) plans is for a distribution "made to a participant after separation from service if the separation occurred during or after the calendar year in which the participant reached age 55." This exception does not exist for IRAs.

Therefore, if you separated from service, or retired, after age 55, you can take a distribution from your 401(k) without a 10% penalty. If you planned on using the funds in your 401(k) to live off of from age 55 to age 59 ½, then it would be important to leave those in your 401(k) and not roll them into an IRA. Once you hit 59 ½, you would be out of the penalty phase for either type of account.

#### **4. A longer retirement may require a bigger portfolio**

It almost goes without saying, but retiring early not only adds years to your retirement, but it also shortens your working years, meaning you have to save more in a shorter amount of time. In other words, retiring early is kind of like a double whammy!

A top fear of retirees is outliving retirement assets. Regardless of what age you are considering to retire, you should always take into account important factors like inflation, income, and life expectancy.

#### **5. The psychological side**

Retirement has often been described as the “golden years” of life. However, for some, retirement can actually be pretty scary. When a person goes from working 40+ hours per week, for 30 or 40 years, being engaged and depended on daily, and in the habit of a routine, to working zero hours per week, in isolation, and with no routine, it can be quite the change. Often times, what may seem like a dream come true can quickly turn into a nightmare.

Many retirees suffer from negative psychological effects as a result of not being engaged in activities and relationships post retirement. There are many studies on the subject, and some would even suggest the retiring could have a negative impact on health.

The thing to remember here is that it's not only important to have financial retirement plan, but also to have a plan for continued activity, brain health, and engagement with others. Find something that gives you a reason to get up every morning and contribute to. If you retire early, it's even more important to take time and build that plan since retirement will constitute a larger portion of your life.

#### **The Bottom Line**

Retiring early can be an enormous plus for anyone with the opportunity to do so. But, it's important to evaluate each of the 5 things listed above to make both an informed and healthy decision about when you decide to call it quits.

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