

Should I Retire Early?

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Many savers are itching to enjoy their free time when they're young and healthy. They want to travel, explore hobbies, or simply spend more time with family and friends. While these are all great reasons for early retirement, you need to consider the trade-offs that come with it.

What Are the Costs of Retiring Early?

Retirement Benefits

We classify early retirement as occurring before the age of 60. Depending on when you retire, certain benefits and areas of your financial plan may be greatly affected. For instance, withdrawing from your IRA before age 59 ½ will incur a penalty of 10%.

Your social security benefits may be affected as well. You can't claim social security benefits until at least age 62, and if you claim before Full Retirement Age (FRA), you will receive permanently reduced benefits. Early retirement may also negatively impact the amount you receive from Social Security. The highest 35 years of income are used to calculate your monthly benefits. By retiring early, you could miss out on peak income years.

Lastly, Medicare doesn't kick in until age 65. This leaves early retirees wondering how to afford healthcare in the interim. If your spouse is still working, consider joining their health insurance. If that isn't an option, you could consider going through the Health

Insurance Marketplace or a private insurance company to find a policy that fits your needs. However, some plans come with high premiums. Make sure you understand the intricacies of the policy you sign up for.

Opportunity Costs

Early retirement means you need to rely on your savings and investments for a longer period, forgoing the power of compounding interest and potentially subjecting yourself to financial insecurity. Transitioning to withdrawing from your account instead of contributing will result in losses of future earnings.

Life Expectancy

According to the Social Security Administration, the average American lives well into their 70s. Life expectancy is increasing as our day-to-day living conditions and healthcare system improve. If you don't anticipate your life expectancy being reduced by health issues or genetic predispositions, you should approach your planned retirement date with caution. We often recommend having enough saved to last until at least age 90 to avoid the risk of outliving your assets due to living longer than expected (i.e., longevity risk).

Can I Afford to Retire Early?

Whether you can afford early retirement depends on how much you have saved and the amount you need to maintain your lifestyle in an uncertain future. Remember, inflation will increase prices over time and healthcare costs must be budgeted for as well. Since the future is unpredictable, you should plan for a healthy margin of error. While early retirement does not change how you save for retirement, it will increase how much you need to save since you will live off your savings for longer.

As always, how much you need for retirement will heavily depend on your individual circumstances and there is no clear-cut answer. Before retiring early, make sure that you have a clear understanding of how to save for retirement, how much you should save, and how to plan your withdrawals.

More To Consider Than Just Money

Being free of a structured life is often what draws people to an early retirement. However, many retirees end up going back to work out of sheer boredom. Instead of retiring early, consider taking on a part-time job, consulting position, or turning a hobby into a business. It's important to

give thought to how you'll spend your free time during retirement, as this can have a significant impact on your mental well-being.

People often don't prepare for the psychological impact of retirement. Many retirees feel a lack of purpose when they enter this stage of life, leading them to experience anxiety, cognitive decline, and/or depression. Getting a part-time job or even a volunteer position can ease the transition and help individuals have a fulfilling retirement.

The Bottom Line

Early retirement can be a dream come true for some, but it's important to consider the benefits and drawbacks before making a decision. By weighing the pros and cons and considering factors such as your financial situation, retirement benefits, and mental health, you can make the best decision for your personal situation.