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The 4 Types of Retirement

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Many full-time workers dream of retirement. But what does that dream look like to you? Is it the traditional view of a succession of sun-drenched beach chairs at the water's edge, sipping on a cocktail? Or is it a calendar open enough to accommodate a variety of chosen volunteer opportunities? How about operating a small retail or coffee shop with time to chat at leisure with regular customers? Or freestyle mornings or afternoons spent at the park with grandkids?

Admittedly, there are thousands of different ways to 'retire' and countless activities that can define a retirement. In this sense, each retirement is or will be unique—and therefore, it's possible that there is no set 'type' of retirement to begin with. However, there are definitely physical and demographic limitations to our lives that will come into play sooner or later, and these limitations (for which age is a realistic proxy) serve as a useful demarcation of the range of possibilities. No individual article can be comprehensive in determining what retirement will look like for you, but in this survey, I discuss four broad categories for types of retirement that use age as a set of guiderails.

- Financial Independence (Retirement-ish)—Before Age 55
- Early Retirement—Ages 55-62
- Traditional Retirement—Ages 62-70
- Delayed Retirement—After Age 70

Generally, the category of retirement that you are aiming for entails very different considerations and opportunities across a wide variety of financial aspects to life. Let's take a look at each broad category of retirement below.

Financial Independence (Retirement-ish)

Retiring before age 55 is a category in itself and apart from the Early Retirement category because it encompasses a much greater variety of financial circumstances - from inheritances and windfalls to aggressive savings programs (for instance, as promoted by the FIRE movement) and very early career success. Whether this financial success comes at age 25 or age 45, it will not be retirement in the traditional sense, and many would argue that this type of retirement is not really retirement at all. After all, most people younger than age 55 are not ready to 'hang it up' for good, regardless of their financial situation. Retirements in this category will almost certainly involve activities that look suspiciously like 'work' in form. Examples include entrepreneurship, part-time clerking, blogging or making YouTube videos, teaching, and consulting, all of which likely include some amount of compensation. So is it really retirement if it doesn't look traditional? I would argue that it is if ‘retirement’ here involves a clear separation from a former work lifestyle, especially one lived in a corporate setting where time is controlled by an employer. Financial independence allows an individual (or couple or household) to control/take back their own time and spend it how they see fit. After all, many people forget that there are actually two general resources in life—money and time. To me, using financial resources to impact the availability of time is the essence of retirement. As an alternative label and to address the lack of clarity here, though, I call this stage ‘Retirement-ish’.

Using an approximate age of 55 as the transition point between Financial Independence and Early Retirement allows us to consider some of the different tax and retirement planning considerations that come with the territory. The obvious one is that a (much) longer retirement timeframe necessitates a proportionately greater need for funding. After all, planning now needs to incorporate the likelihood of more decades without the prior employment. But there are other reasons for choosing age 55 as the demarcation. For one, workers who leave employment at age 55 or later can access their 401(k) assets from that job without penalty. Further, other tax provisions such as Rule 72(t) and the particulars of Roth IRAs (and conversions) create the possibility of accessing retirement funds in the years shortly before age 59.5 in flexible ways which are harder to replicate if retiring much earlier than age 55. Other less intuitive concerns and opportunities that come with Financial Independence include:

Concerns: access to affordable healthcare insurance pre-Medicare, potentially lower Social Security in later years, possible deterioration of employable skills over longer periods of retirement, skipping what could be the highest earnings years of employment, limited tax-efficient access to retirement accounts, potentially complex planning for financial assets, retirement before peers/friends

Opportunities: more time with loved ones, greater ability to participate in activities without health limitations, non-traditional or ’for fun’ work activities, tax minimization possibilities, much greater flexibility of lifestyle design, more time to take care of necessary checklist items, ability to take advantage of off-peak hours

Ultimately, the retirement experience here will not look much like retirement from the outside, even if it involves a significant amount of leisure time. Most will either not believe that it’s possible (so it must not be real) or they will not understand how to value time freedom (so it must not be worthwhile). But for those aiming for or achieving Financial Independence, the possibility of retirement in some form on a unique set of life terms is real.

Early Retirement

At ages 55 to 62, most people retiring can expect a combination of long-ish life expectancy and the relative health to enjoy it. Similar to Financial Independence, there is some variety to this category of retirement based on age. In this case, because of the tax rules governing retirement accounts, this retirement category covers two separate stages—one from age 55 to 59.5 and the other from age 59.5 until the earliest age when Social Security can be claimed (leaving aside special circumstances of disability or death).

As described above, workers who leave employment at age 55 or later can access 401(k) assets from that job without penalty, creating a window of opportunity for rollovers of prior 401(k) assets to that employer’s plan before leaving employment. Further, the IRS’ Rule 72(t) allows for disbursements from IRAs prior to age 59.5 if taken as equal installments using a specially derived formula. Finally, the particulars of Roth IRAs (and conversions) allow access to the growth in these accounts 5 years or more after deposit.

For the second stage of this category, anyone aged 59.5 or older with 401k or traditional IRA funds can now access them without tax penalties and without any of the special provisions needed at earlier ages.

On the back end, there will be overlap between this category and the Traditional Retirement category largely based on when an individual or couple chooses to claim their Social Security benefits. In fact, I would argue that Social Security is one of the defining lines between Early Retirement and Traditional Retirement, whether this happens at age 62, age 65/67, or age 70.

Different from other retirement categories, some of the concerns and opportunities that come with Early Retirement include:

Concerns: funding any gap in age before access to retirement accounts at age 59.5, access to affordable healthcare insurance pre-Medicare, skipping some higher earning years of employment, some potential degradation in Social Security benefits

Opportunities: more time with loved ones, greater ability to participate in activities without serious health limitations, access to retirement accounts from age 59.5 on, some tax minimization possibilities prior to Required Minimum Distributions

In some respects, this may be considered the 'best' retirement category as a blend of the benefits from very early financial independence and the idea of traditional retirement, without the financial risks of missing too many traditional working years.

Traditional Retirement

Retiring between the ages of 62 and 70 is considered traditional retirement because the most prominent external markers of retirement are pegged to this age range. In particular, the earliest age that a U.S. citizen who has earned enough working credits can claim Social Security is age 62. Further, at age 65, under current tax laws, a worker can claim Medicare as their primary health insurance. Finally, age 70 is the latest age at which a U.S. citizen (who has earned enough working credits) can delay taking Social Security and have their benefit grow.

Most people who think of retirement implicitly assume this age range and category as their definition. Because of this, it is the most familiar type of retirement. Some of the concerns and opportunities that come with Traditional Retirement include:

Concerns: decreasing ability to participate in activities without health limitations, higher potential to be involuntarily retired (lack of as many employment opportunities), possibility of cognitive declines, growing medical costs

Opportunities: guaranteed access to Medicare health insurance at age 65, easy access to retirement accounts, robust peer group and social possibilities, age-based discounts and perks

Delayed Retirement

Delayed retirement is for those who enjoy working or who have to work past age 70 out of financial need. As above, there is no growth in the size of Social Security benefits from age 70 on, but there still can be valid reasons why someone may want to delay their Social Security benefits.

While this category may not be the primary retirement plan for most people, it is certainly a legitimate backup.

Concerns: limited ability to participate in activities (including work) without health limitations, Social Security benefit offset from employment income, less time with loved ones

Opportunities: access to Medicare health insurance, access to retirement accounts, ongoing employment income and benefits, more possibilities to be social

Overall, these categories are not meant to be bright line separations of the retirement experience. There will certainly be many gradations within and among the categories. Further, some aspects of one category could show up in another for your particular retirement, muddling the opportunities available to you—for instance, with couples of different ages at retirement.

Additionally, nothing in this article addresses whether someone SHOULD retire at any particular time. That decision is not a financial one alone. In fact, I would argue that there are psychological and emotional aspects to the retirement decision that are as important as the financial considerations, if not more so. Looking back at the categories, it's very apparent that retirements in each one will mean very different lifestyle choices and opportunities. You may not be ready for or willing to accept the conditions of a particular category, which is okay. My hope is that this general discussion is helpful in knowing more about what each type of retirement entails, though.

Which type of retirement are you aiming for?

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