

DECIDING WHEN THE TIME is Right to Retire

BY ROCHELLE L. MOORE, CFP®, CDFA®, CPA/PFS



I am excited for the opportunity to be practicing in McLean County. Having begun my career in Chicagoland and then moving to a small rural town to start a family, the Bloomington-Normal area brings the best of both worlds together.

I enjoy getting to know my clients and helping them acquire the financial education and discipline necessary to fulfill their life's dreams. I look forward to getting to know you too.

How do you know when it's the right time to retire?

For some it may be as soon as they feel they are financially prepared. For others it may be more of an emotional decision around their role in the workforce or health concerns. Whatever the reason(s) to be contemplating retirement, there are several factors that should be considered prior to taking that step toward financial independence. It's also important not to underestimate the psychological issues involved with transitioning into retirement. Some approach retirement as a time to reinvent themselves, perhaps immerse themselves in a hobby they always wish they had more time to enjoy. Others may decide to work part time or volunteer so they can maintain the feeling of being productive and connected with others socially.

Perhaps the most difficult change is the mental shift from the many years of saving and accumulating income to investing those funds and managing the streams of income from the various sources that will replace your paycheck. Deciding on when to retire may be a series of decisions, assumptions and calculations. You'll need to estimate your anticipated expenses, what sources and the amount of retirement income you'll have and how many years you'll likely need those retirement savings to last after taking into account your life expectancy and health.

Thinking about an early retirement?

Retiring early means that you will have fewer earning years and less accumulated savings. Not only that, but it also means more years that your retirement savings will need to produce income. Current life expectancy estimates for a 65 year old man

is 82.5 and for a 65 year old woman it

is 85.2 (Source: National Center for Health Statistics, November 2023). Depending on how early you retire could mean that your nest egg may very well need to last 25 years or more. After factoring inflation into the equation, you'll probably need your retirement income to increase each year just to cover the same expenses as the year before.

Retiring early may have an impact on the amount of your Social Security benefits. If you decide to file early and to start receiving benefit payments at age 62, they will be lower than if you waited until your full retirement age. The Social Security Administration has more information on your specific situation.

If you are fortunate enough to receive pension payments, an early retirement may adversely affect them. Generally, the greatest increase in benefits occurs during your final years of employment, when your earning power is presumably highest. Therefore, an early retirement could reduce your monthly pension benefit, your Social Security benefit and also any benefits your employer provides for health insurance coverage. Medical insurance and out of pocket expenses can be a significant hit to a fixed income budget since you're not eligible for Medicare coverage until you turn 65.

Delaying your retirement

Postponing retirement gives you the opportunity to continue adding to your retirement savings. That's especially advantageous if you're saving in tax-deferred accounts and also if you're receiving matching and/or profit sharing contributions from your employer. Additionally, delaying retirement postpones the date that you'll need to start withdrawing from them. That combination could significantly improve the chances that you will not outlive your nest egg. Furthermore, if you delay filing for your Social Security benefits, you will be awarded with an 8 percent increase in your monthly benefit each year, up to age 70.

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Key Decision Points

	AGE	Don't forget...
Eligible to tap tax-deferred savings without penalty for early withdrawal	59½*	Federal income taxes will be due on pre-tax contributions and earnings
Eligible for early Social Security benefits	62	Taking benefits before full retirement age reduces each monthly payment
Eligible for Medicare	65	Contact Medicare three months before your 65th birthday
Full retirement age for Social Security	66 to 67, depending on when you were born	After full retirement age, earned income no longer affects Social Security benefits

*Age 55 for distributions from employer plans upon termination of employment
(Source: Broadridge Advisor Solutions Copyright 2024)

The sooner you start planning for your retirement, the more time you'll have to make any adjustments necessary to help ensure those years are everything you envision. Financial plans are not set in stone and should be revisited regularly to monitor your investments, ensure that your assumptions are still valid and to determine what impact any new laws or regulations may have had on your situation.

We are happy to answer your financial questions, to walk through the financial and non-financial decisions surrounding your stage of life and help you to achieve the goals you may have. Give us a call at (217) 441-2200 or visit us online and check out the free resources available at www.MySoundPlan.com.