A Guide to Early Retirement

The pandemic crisis has made many people consider early retirement, and they are trying to change their retirement goals. I retire about two people per day and, the consensus is that people are retiring now. If you are interested in early retirement, here are five things you must consider before making your decision…

1. Last Day on Payroll

a. Date of separation from your employer

1. If you have a pension from your employer, make sure you coordinate your last day on payroll and retirement date. Some employers require that there is no gap between you last day on payroll and retirement date before you can receive health or other benefits.

b. Age at retirement

1. f you are 65 or older, be aware that you might need to apply for Medicare part B. You will need to consider the cost of the premium if you are not eligible for Medicare yet.
2. If you are planning to use your retirement funds to start getting income and you are younger than 59½, there will be a 10% IRS penalty for withdrawing money too early. This is in addition to the federal and state income taxes.

c. Do you plan to work after retirement?

1. If you believe that your income is not enough to pay for your lifestyle, consider that some of your skills can help you increase additional income during retirement. Reflecting on all your work experience will give you the confidence to either work for somebody else part-time or create your own small business.

2. Health Insurance Plan Cost

a. Would you qualify for Medicare Part A and B?

1. As I mentioned, if you are over 65, you will need to enroll for Medicare part B unless you do not qualify for Medicare. Apply for Medicare three months prior to retirement so that you can coordinate your health benefits.
2. If you are under 65, you must need to know how you are going to pay for your health insurance premiums. Health insurance premiums can be very expensive for you to be fully insured. Talk to your employer and ask them if they will contribute any money for your insurance premium after you retire. This issue can be a deal breaker for you or make it harder to achieve your goal.

b. Would you need a supplemental health insurance?

1. Aside of paying for your Medicare part B, you might need to buy a supplemental plan. Generally, Medicare part B will cover up to 80% of your medical bills. The other 20%, you will have to pay out of pocket or buy a supplemental insurance. Take that into consideration because health care in America increases every year.

c. Can you afford/get basic health coverage?

1. Once again, if your employer will not contribute any money for your health premiums, you will have to pay for it all. Make sure you know this before you retire as it can put you in a not so good situation.

3. Cost of Lifestyle

a. Add up all your personal & household monthly expenses

1. This information will let you know of how much income you need to have every month to live your current lifestyle. It will take some time, but it will be well worthy because you want to make sure that there is no financial pressure of making more money.

b. Which expenses will be eliminated after retirement?

1. As you review your expenses, look into every single transaction and determine whether or not is important for you to have. Some sacrifices might need to take place in order to achieve your early retirement goal.

4. Retirement Income

a. Would you qualify for social security pension?

1. To qualify for social security benefits, you must have paid into social security for at least 10 years or 40 quarters in your lifetime.
2. To start collecting from Social Security, you must be at least 62 years to receive a reduced amount. Depending on your birth year, you might need to wait later to get the full pension amount.
3. There is something called "Windfall Elimination Provision" that you must consider. Schedule an appointment with Social Security to find out if this will affect you.

b. Would your employer offer a pension?

1. A pension from your employer will play a factor in your planning. Pension amounts are calculated based on a formula rather than how much there is into the plan. The benefit is also a lifetime benefit. You will not outlive your pension benefits. Once it is calculated, that is what you will receive as your pension for the rest of your life.
2. Some pensions allow you to even leave benefits to your loved ones. You can leave 100% or 50% or any percentage to your beneficiaries. Just keep in mind, when you leave a benefit to somebody, your current pension will decrease. The decrease amount will be based on your beneficiary's age. Consult with pension agent for these amounts.

c. Would your personal savings be enough to supplement your income?

1. Your income primarily will come from your 401K, 403B, 457, Traditional IRA, Roth IRA, deferred compensation, and pension plans. Keep in mind that there will be income taxes to consider.
2. Additionally, if you own rental properties or businesses, income will have to be generated from these sources.
3. Any other investments such as mutual funds, stocks, bonds or other investments will be part of your income. Always check with your tax advisor before liquidating any of your investments for potential tax liabilities.

d. Is your income taxable or tax free?

1. Most of your tax-deferred programs will be subject to taxation as soon as you start using your funds. Before you make any withdrawal, check with your tax advisor for the tax amount consequences.

5. Outstanding Debts

a. Would you have debts at retirement?

1. When you start working on your plan, always take into account for minimum monthly payments. Never skip a payment because it might damage your situation even worse. Your plan should allow you to pay for your debts and at the same time achieve your retirement goal. Once again, some sacrifices must need to be made to achieve your early retirement goal.
2. Depending on your situation, in your plan, you should consider fully eliminating your debt; especially those with very high interest. Once again, a good plan will help you project how soon you can eliminate this debt.
3. Your debt should not prevent you from achieving your goal as long as this debt is taken into account in your plan. You do need to have the determination of fully paying it off. Period!

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So, do you want to retire early? Start planning for your retirement today. You have nothing to lose. On the contrary, you will learn how soon you can retire. It's NEVER too early to plan. Planning is the key to achieving any financial goal. Let me help you! To learn more, go to... www.wealthydollar.com.