



EARLY RETIREMENT

Hoping that Next Year is When You Retire Early?

A pre-retirement checklist to make early (or earlier) retirement a reality

As we approach the New Year, maybe the dream of an early retirement starts to take shape in your mind. Maybe you're researching when you might first qualify for Social Security retirement benefits (hint: for Social Security income, the youngest age when you can apply is 61 years and nine months old – you would then receive your first Social Security check four months later – one month after your 62nd birthday).

But as attractive as monthly checks may be, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

When reviewing your retirement income, incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To estimate your Social Security benefit amount, you can go to the Social Security Administration's website at www.ssa.gov to use the agency's online calculator.

Think Beyond Social Security

Beyond your Social Security benefits, however, are other major factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from employer-sponsored retirement plans, such as 401(k)s, Individual Retirement Accounts (IRAs), or annuities.

Once you have determined your retirement resources, add up your current living expenses and calculate a rough estimate of how much income you may need during retirement. It is possible to live on less than your pre-retirement income, depending on your lifestyle. If you find that your retirement funds will be insufficient, explore the possibilities of selling your home, and moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction.

Other Considerations

Another critical point to consider is whether retiring from your job would leave you without life and health insurance or other necessary benefits. You may want to investigate the cost of private health coverage until you reach the age that you will be eligible for Medicare. It is also important to prepare for medical costs in retirement, including potential long-term care needs.

Typically, many people underestimate the cost of long-term care and overestimate the funding that will be available through public programs and private health insurance. In reality, Medicare only covers short-term care. It may also cover some nursing home or assisted living costs, but only for skilled care that is deemed medically necessary for the duration of an illness, usually limited to 100 days following a three-day hospital stay.

Consequently, Medicaid has become the primary source of public funding for long-term care. But, because it is a government program designed to help those in financial need, individuals must “spend down” their personal assets and meet the Federal poverty guidelines before qualifying for assistance.

However, long-term care insurance is an alternative that can help cover extended care expenses before you or a loved one become eligible for Medicaid. Policies vary, but in general, they provide a daily, set amount of coverage that can be used in a number of ways. This type of insurance may help cover the expenses of nursing homes, assisted living facilities, adult day health programs, and/or at-home care. The cost of coverage is typically based on your age, current health status, and specific policy features, such as scope of coverage, levels of care, and duration of benefits.

Your Pre-Retirement Checklist

To begin preparation for an early retirement, read the following statements. If you have given careful consideration to the task, check it off.

- I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- I have determined which of my expenses may be lower after I retire and which may be higher.
- I have determined how much I can expect from Social Security, veterans benefits, and pension plans.
- I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- I have reviewed my insurance policies to ensure that they meet my present and future needs.
- I have organized a strategy to pay off my large bills and debt before retirement.

Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may help improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with Social Security benefits, is enough to meet your projected retirement expenses, you may want to focus on making your dream of an early retirement a reality.