Mariner
WEALTH ADVISORS

Retiring Early?

Plan Ahead for Income and Health Care

You may choose to retire early, take a buy-out package or have to retire sooner than expected due to an illness or other life event. Whatever your reasons, plan for how you will provide income before you can tap retirement accounts without penalty and cover health care prior to Medicare.

Income Strategies

To fund your lifestyle, especially before age 59½, you'll need to wait to pull from your 401(k) and traditional IRA to avoid the 10% early withdrawal penalty.

- **The exception to the rule is** that you can make a withdrawal early from either account without paying the 10% penalty if it's done as a Substantially Equal Periodic Payment (SEPP). Keep in mind that distributions are still taxable.
- **If you leave your company after age 55 and before age 59½ you may be able to withdraw from your 410(k)** without paying the 10% early withdrawal penalty. However, you do have to pay taxes on the taxable portion of your distribution.
- **Taxable brokerage accounts:** Ultimately, it's preferable not to tap into your retirement accounts before age 59½. That means you'll want to establish other investments such as a taxable brokerage account. There's no contribution limit or rules for when you can invest or withdraw cash, but keep in mind, your money isn't growing tax deferred and there's no tax deduction on this type of account.
- **Work part-time:** If you retire early by choice and are healthy and able, you may choose to work part-time to generate income. According to a 2020 retirement survey, 31% of retirees plan to work for pay in retirement, compared to 27% in 2019.

Ways to Fund Health Care Until Age 65, When You Can Apply for Medicare

- **HSA account:** If you worked for an employer that offered an HSA account, that account is portable, so you can use the funds in it to pay for eligible medical expenses, but you'll still need insurance coverage.
- **COBRA:** While it only insures you for up to 18 months, you may find it makes sense to initially fund your health care with COBRA before buying private insurance. COBRA is offered when you separate from service and is typically provided through most group health plans, such as a private sector employer plan (assuming the employer had at least 20 employees), and you typically have to fund the full amount plus an administrative charge.
- **Private insurance:** You may choose to purchase a high deductible plan as a form of private insurance for the primary purpose of covering big, unexpected expenses.

- **Affordable Care Act:** You may want to price plans on the health care exchange and compare them to the cost of a private plan. Keep in mind that these plans are tiered and although they include prescription drug coverage, the cost for drugs varies by plan so you'll want to project your total expenses for this type of health care plan.
- **Spouse's Plan:** If you're married or have a domestic partner and are eligible, you may be able to be covered on his or her insurance plan.

Roth IRA: Now Might Be the Time to Consider a Roth Conversion

- Once you retire, you may be in a lower marginal tax bracket, so you may potentially pay less tax when transferring funds from a traditional IRA to a Roth IRA.
- There's no limit to how much money you can transfer from a traditional IRA to a Roth IRA but transferring lower amounts can ultimately be more tax efficient than larger lump sums.
- It can be a good way to transfer your wealth to your heirs since distributions from a Roth IRA are tax free if certain requirements are met.
- Roth IRAs aren't subject to required minimum distributions in most cases.
- You will have to wait until age 59½ to withdraw **earnings** on your principal balance from a Roth IRA without penalty. **Funds** can be withdrawn penalty free earlier but are subject to certain rules.

Social Security

You aren't eligible to start receiving Social Security until age 62. To maximize this benefit, you'll want to wait until your full retirement age, which could be between age 66 and 67, depending on when you were born. If you take it sooner, you receive less. Wait longer, you'll receive more. It's important to factor that into your income planning.

Estimate Your Spending

Ultimately, you'll need to save enough to cover your spending until you can access retirement accounts, so consider looking at your expenses to figure out what's essential and what's discretionary. Once you quit working, for example, you'll have the cost of paying for your health care plus prescription drugs, which could add up. You'll also need to determine, over time, which discretionary expenses you can afford, such as increased travel.

Plan for Free Time

Most of your friends will probably be working and, if you have children, they'll be in school. You'll want to think about how you'll spend your time in a way that's fulfilling. If you're someone who put a lot of meaning and identity into your career, you'll want to plan ahead for new places to put your focus such as volunteering for a cause you're passionate about or mentoring younger professionals.

Consider Meeting With an Advisor

These are just a few of the topics you'll need to consider if you're aiming to retire early. It's a good idea to meet with an advisor who can stress test your portfolio to look at various market conditions and how your investments might hold up over time in various scenarios.

No matter what, it's a good idea to plan ahead. Keep in mind that, according to a 2020 retirement study, more than 44% of retirees retired earlier than planned.

At Mariner Wealth Advisors, we're committed to being here for whatever life brings your way. We can help you build a road map for what retiring early would look like so that you're prepared before you make the decision.

For more information visit: marinerwealthadvisors.com

Sources:
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"Key Findings of the 30th Annual Retirement Confidence Survey," Employee Benefit Research Institute.