Mariner
WEALTH ADVISORS

Retiring Early? Put These 5 Planning Strategies in Place

If you are among those who chose to retire as part of "The Great Resignation," or you're contemplating retiring early, you'll need to have a well-thought-out financial plan in place first that includes having enough income throughout retirement and the ability to fund health care.

5 Key Early Retirement Strategies

1. Create a Retirement Budget
2. Complete a Cash Flow Analysis
3. Determine Sources of Income
4. Create a Plan to Fund Healthcare
5. Work With Your Wealth Advisor

1. Create a Retirement Budget

- **Track Your Spending:** The best place to start is by estimating the monthly income you'll need to meet your expenses. For a more accurate estimate, track your monthly spending before you retire. If you're still working, you can set a monthly budget and do a test run to see if you can stay within it. If you have excess cash, you can funnel it into personal savings or make an after-tax contribution to a retirement account. If you go over budget, analyze areas where you can cut back. If you're already retired, look back at the last few months of expenses, including Medicare premiums, as a measure of what you'll need going forward.
- **Estimate Income Needs:** One common rule of thumb is to expect to need 70% to 80% of your pre-retirement income in retirement. For example, if you're working and your salary is $250,000 a year, you could estimate that you'll need $175,000 to $200,000 a year.
  You'll also need to factor in inflation and any lifestyle changes, such as traveling more, as you determine your income needs. It is important to know that, while rules of thumb like this can be a helpful starting point, you'll want to meet with your wealth advisor to address your specific needs.

2. Complete a Cash Flow Analysis

Once you've mapped out a budget, monitor your cash flow—the amount you have coming in and going out each month. As part of this process, make sure you have sufficient cash or cash equivalents to tap into for expenses such as an unexpected surgery or purchasing a new car, so you aren't drawing from your retirement accounts at a potentially inopportune time.

By the same token, you don't want to have too much money in cash or other liquid investments. You'll still need to invest in assets that grow over time. Work with your wealth advisor to analyze your cash flow and allocate assets in a way that fits your financial situation.

3. Determine Sources of Income

You'll likely have multiple sources of retirement income, such as retirement accounts, pension plans, Social Security, rental income, a part-time salary, personal savings and a funded HSA account.

Retirement Accounts: If you withdraw money from a 401(k) or other retirement account prior to age 59½, it may result in a 10% early withdrawal penalty. In addition, income tax will be withheld.

- **Exceptions to Early Withdrawal Penalty**
  - **Age 55 Rule:** If you participate in a company retirement plan, such as a 401(k), and are 55 years or older in the year you leave your job, you may qualify to take withdrawals without incurring the early distribution penalty. The rule is sometimes called the "age 55 rule."
  - **72(t) Exception:** If you need to take withdrawals from an IRA, 401(k) or 403(b) or other tax-advantaged retirement account prior to age 59½, the IRS allows for "Substantially Equal Periodic Payments" or the "72(t) exception." In that case, you are allowed to make withdrawals at least once a year and must keep taking withdrawals for at least five years or until you reach age 59½, whichever is later.
  - **Separation From Service:** You can leave the money in your company plan and take withdrawals from that account. The reason for this is that distributions from your company plan, when you leave the company in the year you turn age 55 or later, are not subject to the 10% early distribution penalty if you no longer work for that company (known as "separation from service").

  Remember, though, even with these withdrawal exceptions, it is only the penalty you are potentially avoiding. The distributions would still be subject to federal income taxes.

- **Withdrawals From a Roth IRA**
  Roth IRAs are funded with after-tax contributions, and those contributions may be withdrawn anytime and are not subject to the early withdrawal penalty or taxes. You do have to wait five years to take a withdrawal on Roth earnings, otherwise you will pay a penalty for early withdrawals. There are some exceptions. You can work with your wealth advisor to determine whether you qualify for an exception.
- **Withdrawals From a Pension Plan**
  When an employee reaches the age at which they are eligible to receive Social Security, they are entitled to periodic distributions from a pension plan generally equal to a percentage of their income in pre-retirement years. An employee who leaves a firm before retirement age likely would be eligible for a partial distribution of their pension funds, depending on the vesting rules established by the employer and the plan.

4. Create a Plan to Fund Health Care

Consider the following strategies for funding 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.

5. Work With Your Wealth Advisor

As you think about retiring early, be sure to check in with your wealth advisor first to map out a plan that takes into account your budget, cash flow, income sources and health care expenses.

With a plan in place, you'll be better prepared to turn the page on the next chapter of your life.

At Mariner Wealth Advisors, we're here to help you navigate life-changing events like retirement with the goal of making your income last as long as you need it.

For more information visit: marinerwealthadvisors.com

Source:
"Early Withdrawal Penalties for Traditional and Roth IRAs"