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Retiring Early?

How Will You Fund It?

If you want to retire early, you'll need a strategy for which accounts to withdraw from to generate income plus a plan to project how long your money will last.

6 Retirement Income Factors to Consider Before Retiring Early:

1. Advantages of Waiting Until Age 59½
2. Roth IRA Considerations
3. Exception for Early Withdrawals
4. Leaving Money in a Company Plan
5. Projecting How Long Funds Will Last
6. Estimating Your Rate of Return

1. Advantages of Waiting Until Age 59½

If you wait until at least age 59½ to retire, you don't have to worry about a potential 10% early withdrawal penalty for taking money out of a traditional IRA early. Note that any withdrawals are taxed. There are exceptions to the penalty, such as using IRA funds to pay for your medical insurance premium after a job loss.

2. Roth IRA Considerations

Because you fund Roth IRAs with after-tax contributions, those contributions may be withdrawn anytime tax- and penalty-free. However, you do have to wait five years to withdraw earnings, otherwise you pay a penalty for early withdrawals. There are some exceptions.

3. Exception for Early Withdrawals

If you are under age 59½ and need to take withdrawals from an IRA, 401(k) or 403(b) or other tax-advantaged retirement account, the IRS allows "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. Remember, it is only the penalty you are potentially avoiding. The distributions would still be subject to federal income taxes.

4. Leaving Money in a Company Plan

You can leave the money in your employer-sponsored retirement plan and take your withdrawals from there. When you leave the company the year you turn age 55 or later, you aren't subject to the 10% early distribution penalty if you no longer work for that company (or what the tax code refers to as "separation from service"). The rule is sometimes called the "age 55 rule."

5. Projecting How Long Funds Will Last

When considering whether to retire early, estimating your approximate life expectancy will help determine how much you may need during retirement. Family health history and longevity also factor into your estimate, along with other variables, but of course no one can predict life expectancy.

6. Estimating Your Rate of Return

Applying an estimated rate of return on your portfolio (based on historical averages) may help you determine if your funds may potentially last long enough to support you through your life expectancy. You'll also want your wealth advisor to run various investment return scenarios based on a variety of market conditions. Because markets are cyclical, you won't earn a consistent rate of return year over year.

Consult With Your Wealth Advisor

If you become a client at Mariner, your advisor will work with you to create a retirement income strategy designed to fit your financial situation.

For more on what to know before you retire early, check out our 5 Considerations for Early Retirement podcast.

For more information visit: **mariner.com**

SOURCES:

"What if I Withdraw Money From My IRA?"

"Early Withdrawal Penalties for Traditional and Roth IRAs"

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