Lifescapes

Questions you're asking: Can I retire early?

By: Mark Tosczak   1/26/2023

Your ability to enjoy an early retirement could depend on how soon you identify and address any gaps you may have in your plan. Here's what to consider next.

Retiring early might be something you've daydreamed about — or something you're planning. Even if it isn't your goal, it can be smart to prepare for it so you can feel empowered to make the best decision for you in case of an unexpected event such as a late-career layoff or even a health crisis.

How do you define early retirement? Is it prior to age 62 when Social Security benefits can begin? Maybe early means before age 65 when Medicare coverage begins. Based on your birth date, your full retirement age as defined by Social Security may not be until age 66 or later. In order to develop a plan, it is helpful to define a retirement age that makes sense for you.

Being able to retire at your desired retirement age could depend on identifying and addressing any gaps in your retirement plan sooner versus later. "Effective planning is often the key to helping ensure that someone's resources will fund a happy, secure retirement," says John Knowles, lead business growth strategy consultant at Wells Fargo Wealth & Investment Management.

Knowles offers these five considerations.

1. Know your goals — and where you can be flexible

Well-rounded retirement planning is about more than managing money. "I always talk about managing a portfolio of goals," Knowles says. That means outlining what you hope to accomplish with early retirement, understanding what you'll do with your time, and making sure that you and your partner, if you have one, are on the same page. For example, do you hope to enjoy your winters on a beach? Tour the United States in an RV? Or spend more time cooking, creating art, or volunteering?

Before retirement, many people simply focus on accumulating lots of assets and assume that those assets will pay for whatever they decide to do, Knowles says. Don't assume, Knowles counsels. Targeting a certain amount of assets isn't enough, as health care costs or other needed expenses might take priority over recreation. The key is to create a retirement plan based on how you want to spend your time but includes built-in flexibility.

In other words, what goals are you willing to change? And how will you change them? "It's having options for the trade-offs that could arise," Knowles says.

2. Understand your spending

Many financial advisors now recognize that spending in retirement can be the same as — or even higher than — what individuals spent before retirement. This is due to more active lifestyles in retirement and to the increasing costs associated with health care and other necessities.

To prepare, Knowles suggests establishing a baseline budget before retirement that you keep updated over time. This will help you understand and plan for the amount of income you need to live, pay for health care, and meet other obligations. Doing this can also help you see places where you can cut expenses to help you save more for retirement.

"I can't control market volatility," Knowles says. "I can't completely control my health. I can't control inflation. But I can control what I spend on things other than necessities."

3. Take health care costs into account

Identifying possible retirement planning gaps could also involve weighing health expenses if you retire early. Even if you become eligible for Medicare soon (coverage starts at age 65), a younger partner could need another form of coverage.

If you have a spouse who will continue to work for an employer who provides health insurance, one option may be to get coverage under that plan. Otherwise, paying for health coverage until you qualify for Medicare at age 65 will be an important expense to consider in your retirement planning.

This will also be a time to explore costs associated with long-term-care insurance to help cover costs associated with in-home health care, assisted living facilities, or nursing homes. These costs aren't covered by traditional health insurance, making them a common planning gap that can be costly: Today, the median annual cost of a private room in a nursing home is more than $100,000.[1]

4. Carefully consider when to start collecting Social Security

You can opt to take Social Security payments as early as age 62, though delaying can mean bigger checks in future years. However, postponing receiving Social Security isn't always the best choice.

"What a lot of people don't consider is what effect that has on their overall plan," Knowles says. Delaying Social Security could mean you would need to live entirely off your savings and investments for several years. "That's less money that might potentially be there at the back end of your life expectancy — less money that you might need or may want to go to your kids."

Once you've retired, Knowles recommends reevaluating your situation annually before deciding whether to continue delaying these payments. One item you need for that annual review in retirement: a current copy of your Social Security benefit estimate from ssa.gov.

5. Explore ways to fill potential income gaps

Understanding your anticipated expenses allows you to begin to identify the income sources to help pay for them in retirement. With your income sources clearly defined, you can have a plan in place to offset potential disruptions from market volatility.

So what happens if you find a gap between your retirement goals and your expected or actual retirement income? It mostly boils down to two main choices: Reduce your spending or find more income. Learn more about creating a retirement income plan.

Knowles shares the example of an airline pilot who was retiring in his 50s; he planned to get a job at a home improvement store, which he saw as a win-win because it would bring in extra income and be less stressful than flying passenger jets. Some retirees start new jobs or careers based on hobbies and interests — giving music lessons or overseeing operations at a golf course, for example.

"Earn a few bucks to supplement what you want to do," Knowles says. "If it's something you enjoy at the same time, that's great."

1. Genworth 2021 Cost of Care Survey, genworth.com/aging-and-you/finances/cost-of-care.html