

What about early retirement?

What does early retirement mean to you? A chance to escape the pressure and routine sooner rather than later? To get started on the activities that you've delayed for too long? It even may not truly be retirement in the usual sense, but the chance to start work on your own schedule, one that doesn't make too many demands on your time or energy.

The same, but different

Many aspects of planning for early retirement cover the same territory as planning for retirement at a more traditional age. There is at least one significant difference, however. You need to plan for a longer period of time in retirement and, therefore, are likely to need greater resources.

Suppose that you and your spouse plan to retire at age 55. According to the 2003 United States Life Tables, a couple both age 55 had a joint life expectancy of 81.3 years. But few people rely on these statistics and set the endpoint for their planning based upon an abstract life expectancy. That's especially true today, with so many people in their 90s leading active and productive lives, still living independently and relying on their own resources.

Take maximum advantage of what your retirement plans offer

What retirement plans offer is the opportunity to grow your money within the plan tax deferred. If possible, set aside the maximum amounts allowable in your company 401(k) or other similar retirement plan. The same holds true for your IRA, Roth IRA or Keogh plan. If you are at least age 50, take advantage of the "catch-up" contributions to which you are entitled.

If you decide to retire in the very near future, know that you are doing so at a time when you will be permitted to make contributions at historically high limits to 401(k) and similar plans. In 2006 the maximum participant contribution is \$15,000—with catch-up contributions added in, \$20,000. Starting next year, these amounts will be adjusted for inflation. (Alert: These limits are not permanent and could drop dramatically in 2011, unless extended. Congress has been considering legislation this year to do so.)

If you are going to receive a lump sum payout from the plan, leave yourself enough time to consider all of your options. You will need to make a decision whether to: (1) take the money in hand, pay tax on it and reinvest; or (2) arrange a “direct rollover” of part or all of your payout directly from the plan to an IRA, avoiding all tax as long as the money remains in the IRA.

Find out how early retirement affects your pension

If you participate in a traditional defined benefit (pension) plan, you will need to know the impact of early retirement on your benefits. A preset formula will determine what you receive. But in most of these plans, the latter years of earnings are the most important for arriving at this figure.

Make sure that you know how this “average annual base pay” is determined and if your benefit is offset by early retirement. Leaving early may have a significant impact on your pension payments, often 5% a year for every year that you retire below the normal retirement age, according to Michael Carter, with the Hay Group, a Philadelphia consulting firm.

Factor in Social Security

Although Social Security benefits serve as a limited source of retirement income, you still need to understand your options. A study conducted just a few years ago by the Employee Benefits Research Institute revealed a somewhat startling statistic: 56% of the workers surveyed were confident that full benefits would be available to them at age 65, even though a majority of today’s workers won’t receive full benefits until age 67.

A key issue that you will want to explore: Does early retirement have an impact on your choice as to when to begin receiving benefits (at age 62; at normal retirement age; or when the maximum benefit is available at age 70)? For example, if you plan to begin receiving benefits at age 62, and will be working part-time, find out by how much your benefits will be reduced. (This year, if you are under full retirement age, \$1 in benefits will be deducted for each \$2 of your earnings that exceed \$12,480.)

The knotty problem of health care

Does your employer provide retiree health care coverage for you and your spouse? If so, before you do any other exploration of the coverage that you need, request an explanation of the benefits offered. It's especially important to find out the circumstances under which you may be required to pay a greater share of premium costs and if coverage might be reduced or discontinued.

When you reach age 65, Medicare will pay certain of your medical expenses. Although the retirement age is rising, age 65 remains the starting date for Medicare eligibility. However, if you decide to delay receiving benefits, the Social Security Administration strongly urges you to sign up for Medicare about three months before you reach age 65. And although Medicare coverage is fairly comprehensive, there are very likely to be holes that you will want to fill with a "Medigap" policy.

Starting this year, you can enroll in Medicare's drug prescription plan. The next enrollment period runs from November 15 through December 31, 2006.

To obtain comprehensive information about Medicare and Medigap policies, go to Medicare's home page on the Web: www.medicare.gov and click on "Plan Choices." Links for information about the prescription program are on the home page as well.

(July 2006)

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