

# Key considerations for an early retirement

**For most Americans, retirement represents the ultimate goal, the reward after decades of working, saving and investing. Popular culture often paints a familiar picture, mornings on the golf course, afternoons at the beach and visits with family and friends.**

**While many spend much of their adult life working toward this milestone, some individuals find themselves reaching it far earlier than expected. Whether through disciplined saving, a liquidity event like selling a business, receiving an inheritance or another financial windfall, the opportunity to retire early can arrive sooner than imagined, and with it, important decisions to navigate.**

The average retirement age in the United States is 62.1 Yet expectations for retirement continue to evolve across generations. Another survey found that Gen Z expects to retire at age 62, Millennials at 65, Gen X at 66, and Baby Boomers at 69.2

While early retirement mostly occurs unexpectedly due to things like health challenges, corporate restructuring or financial hardships, more people today are choosing to step away from full time work earlier. A growing focus on work-life balance, lifestyle flexibility and personal well being has made early retirement a desirable goal for many who are financially able.

In considering retirement, it's important to understand the difference in having enough money to retire at 65 versus having enough to retire at 50 — or even 55. Supporting a 20-year retirement may be manageable for many, but supporting a 40-year retirement requires a different level of strategic planning and discipline.

## Create a sustainable withdrawal strategy

The first step is to ensure you have a sustainable withdrawal strategy. A common rule of thumb for retirees is to limit annual withdrawals to about 4% of their portfolio. However, with a longer retirement horizon and added uncertainty around market returns and inflation, a more conservative rate may be necessary.

## Determine where your income will

# come from

Equally important is where withdrawals come from. Implementing a tax-efficient and flexible withdrawal strategy can not only extend portfolio longevity but can also help manage your taxable income which, for early retirees, can also affect eligibility for Affordable Care Act (ACA) healthcare subsidies.<sup>3</sup> Generally, withdrawals should begin with taxable accounts to allow tax-deferred accounts to continue compounding undisturbed until needed in later years.

If retirement accounts need to be accessed before age 59 ½, retirees should understand IRS Rule 72(t), which allows penalty-free withdrawals through Substantially Equal Periodic Payments (SEPPs). These payments are determined using IRS-approved methods tied to life expectancy and growth assumptions and must be completed for at least 5 years or until the retiree reaches age 59.5.<sup>4</sup> Another potential strategy to be considered in coordination with your tax advisor are strategic Roth conversions. These can potentially increase future flexibility, tax-free income and allow for penalty-free access after 5 years if properly structured.

# Maintain a diversified portfolio

Retiring early can mean your investments need to be managed for decades in order to help provide income. That long horizon can magnify risks to the portfolio, especially sequence of returns risk, where a market downturn early in retirement can have an outsized impact on long-term sustainability.

To mitigate this, it's essential to maintain a diversified portfolio with an allocation that balances stability and growth. This may include holding enough cash and fixed income to fund near and mid-term expenses while helping to reduce volatility, as well as sufficient equity exposure to combat inflation and support long-term growth.

An overly conservative portfolio can be just as risky as an aggressive one, where the risk that inflation erodes purchasing power can be introduced. Working closely with your Mesirow Wealth Advisor can help ensure your portfolio is positioned to support both your short-term needs and your long-term goals.

# Early retirement is a lifestyle shift

Early retirement isn't just a financial decision; it's a lifestyle shift. Many retirees underestimate how much structure, identity and social connection their careers provide. Without thoughtful planning, the sudden change can bring unexpected challenges such as boredom, loss of purpose, or changes to relationships as friends and family continue working.

Before making the leap, consider how you'll stay engaged, whether through volunteering, consulting, mentoring or pursuing new hobbies and personal interests. Thinking through how you'll spend your time before retiring can make it that much more fulfilling and sustainable.

## Conclusion

If you find yourself in the fortunate position to consider retiring early, it's critical to look beyond just the dollars and cents. The decision is about much more than financial independence; it's about aligning your resources and goals with an appropriate plan to help ensure success in the next phase of life.

Working with your Mesirow Wealth Advisor to develop a customized plan and make informed choices can help ensure your early retirement is not only secure but rewarding.

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[1 2024 MassMutual "Retirement Happiness Study"](#)

[2 Charles Schwab 2024 Annual Workplace 401\(k\) Survey](#)

[3 EarlyRetirementAdvice.com How to Qualify for ACA Health Insurance Subsidies as an Early Retiree](#)

[4 IRS.gov Substantially Equal Periodic Payments](#)

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