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Is early retirement right for you?

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At one time or another you may be offered the opportunity to "retire early" — well before your 65th birthday. It is important to plan for this contingency in advance.

Although retirement is often thought of as a stage that inevitably occurs at the end of a career, many individuals do not give it serious consideration until well into their 50's. Based on policy related to programs such as Social Security, Medicare, and pension funds, most Americans target their mid-60's as the time period when they will enter into retirement. Approximately 81% of individuals exit the workforce by age 65; in other words, 19% of adults ages 65 and older are employed today. This represents an increase in the number of people working over age 65 compared to 1987, when only 11% of older adults were working. [1]

Early retirement (defined as retirement prior to age 65) is often offered to employees when organizations seek to reduce cost. As a result, organizations may be willing to share a portion of their cost savings with employees who opt to take early retirement packages. Early retirement, especially if it is involuntary, is often not discussed or considered as a scenario when working on a comprehensive financial plan. This leaves many asking the question, "What should I do?" when they are approached with an early retirement package.

Two key considerations include **Social Security benefits** and **retirement lifestyle readiness**.

Social Security

Your full retirement age, as defined by Social Security, depends on your birth year. It's crucial to realize that the Social Security payments you qualify for will be reduced if you claim them before your full retirement age. Monthly Social Security benefits increase approximately 6.5% to 8.0% per year between the ages of 62 and 70, so incorporating this expected income into your retirement financing can become a critical planning component. [2]

Retirement lifestyle readiness

Retirement adjustment is reached when individuals are no longer preoccupied with retirement transition, but are comfortable with the changed circumstances of life in retirement. Individuals transitioning from work to retirement experience meaningful changes in areas of their everyday lives, such as having daily structure to account for their time, socialization through work friendships, a sense of accomplishment through achieving work goals, and predictable economic resources. The steps taken in the retirement process — as well as the circumstances leading to retirement — can impact overall well-being. Early retirement can positively contribute to well-being if an individual is leaving a role that may be stressful or overwhelming. It can also detract from well-being if an individual is leaving a role that provides meaning and psychological success. In addition, early retirement can be a source of stress and detract from well-being if individuals do not have a full understanding of the trade-offs from exiting work and gaining more lifestyle freedom.

Because individuals make meaningful sacrifices to accumulate and maintain resources, they are negatively impacted by losses or the threat of losses. The potential for gains has less emotional impact than the threat of losses in most transactions. Early retirement could be associated with the loss of social status, economic value, and other key social and emotional benefits. The actual loss or perception of a loss of a key resource presents a threat that contributes to stress and negative well-being. Financial planning has been shown to be an effective way to understand value in a trade-off between work and retirement.

The benefits of financial planning

Individuals often do not have a full understanding of their benefits and options in retirement. Financial planning allows for the early interpretation of situations, so that the negative outcomes resulting from abrupt, unwanted, or ill-timed transition can be minimized. An accurate assessment of potential losses can eliminate anxiety and lead to greater satisfaction in retirement.

Researchers have found that an understanding of psychological, emotional and financial loss in the pre-retirement process contributes to more positive well-being at multiple stages — pre-retirement, retirement transition, and full retirement. There is a positive correlation between individuals having positive retirement expectations at early stages and overall satisfaction throughout retirement.

Early retirement considerations

If early retirement may be an option for you, here are a few things you should consider and discuss with your Wealth Advisor:

1. **What is your employer's financial strength?** If early retirement is being offered due to financial strain that may eventually lead to layoffs, an early retirement package may be a more attractive option than remaining at a particular company. Consideration should be given to the dynamics in your organization, industry, and community.
2. **What are the financial benefits of working longer or exiting?** Staying in the workforce allows your existing assets to compound instead of being exhausted in retirement. Early retirement packages often offer financial incentives for employees to exit the workforce. Careful evaluation of an early retirement package versus full retirement benefits will provide a clearer understanding of the trade-off value of staying or leaving work and let you know if you are a experiencing a financial gain or loss.
3. **How is your pension calculation impacted?** Although defined benefit plans have become less common in recent years, some organizations continue to offer them. The amount of the annuity payment in these plans is often based on factors such as age, income, and years of service. You should make sure you understand if the early retirement incentives being offered appropriately compensate you for lower monthly annuity payments in retirement.
4. **How will you fund healthcare?** Healthcare is one of the largest expenses faced in retirement. Some organizations allow retirees to continue to receive benefits in their plan. However, if this is not an option and you are not yet eligible for Medicare benefits, COBRA benefits may be your best solution. COBRA allows you to maintain health insurance, however the cost is not subsidized by your employer. COBRA benefits can cost up to 102% of what your employer pays. COBRA is temporary, but in most circumstances, you can stay on COBRA for 18 to 36 months. When

considering a package, ask if and how you will be compensated for the additional expense. Also, consider if the time period is adequate to bridge you to the age you can receive Medicare.

5. **How will you replace the non-financial benefits of work?** Evaluate how you will structure time, build relationships, and have psychological successes that will contribute to your positive well-being. Often converting hobbies to part-time work, volunteering, and spending additional time with family and friends can create a blend of activities that provide enjoyment and retirement success.

Summary

Understanding the full value of your resources can lead to a more positive experience in all stages of retirement. Mesirow Wealth Management has an 87-year history of advising clients through life events including career transition to retirement. We can provide guidance as you figure out what the value of career transition will be for you.

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1. https://www.pewresearch.org/social-trends/2023/12/14/the-growth-of-the-older-workforce/

2. https://money.usnews.com/money/retirement/social-security/articles/the-most-popular-ages-to-collect-social-securityFeldman, D. (2013). Feeling like its time to retire: A fit perspective on early retirement decision making. In M. Wang, The Oxford Handbook of Retirement (pp. 280-292). New York, New York: Oxford University Press.

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