Bridging the Retirement Gap

Article by Wealth Management Systems, Inc.  Courtesy of a Morgan Stanley Financial Advisor

Nearly half of all Americans retire by age 62—before Medicare and normal Social Security kick in. This article looks at ways to bridge this gap, suggesting tax-efficient withdrawal strategies and other tips.

Early retirement can be a dream or a nightmare. It’s a dream if you’re healthy enough to enjoy the leisure pursuits you want and if you have the resources to fund them. It could be a nightmare if you’re forced out of the job market by ill health or disability, or you can no longer find meaningful employment. Either way, planning ahead will help you make the best of your situation.

RETIRING EARLY BY CHOICE?

You’ve worked hard, saved diligently, and your retirement fund is flush, so you want to enjoy the fruits of your lifelong labors. Here are some of the things you should think about as you embark on this journey:

- Setting your withdrawal strategy should be a high-priority item. Do it correctly and you can be positioned to meet the financial needs of the future head on; take too much too quickly and you could find yourself without the tools to address unforeseen needs. You’ll want to lay out a blueprint for how much you can appropriately withdraw each year. You should also consider constructing a portfolio optimized to provide stable income flow and the flexibility to adapt to changing market conditions.

- You will probably need to obtain individual health insurance to meet the terms of the Affordable Care Act (ACA), at least until you reach age 65 when Medicare takes over. HealthCare.gov can get you started and show you a range of options, or you can deal directly with insurance carriers.

- The question of when to collect Social Security has no simple answer. You must wait until at least your 62nd birthday before you can begin collecting. But generally speaking, the longer you put off starting after that point, the more you’ll receive each month. You can use the Social Security Estimator to see how different scenarios might play out. Once you do take your first Social Security benefit check, the decision is effectively irrevocable except for certain limited circumstances. So consider your financial resources and your general health status carefully when you start weighing these possibilities.

WHEN RETIREMENT IS thrust upon you

There is a fair possibility that your last years of work life may not go as planned. In fact, 49% of retirees told the EBRI Retirement Confidence Survey that they had to retire sooner than they originally expected.\(^1\) When the U.S. General Accounting Office (GAO) examined census reports, they found that ill health, obsolete job skills and the death of a spouse were the biggest drivers of early retirement.\(^2\) If you are find yourself in this group, where does it leave you? With some difficult choices, certainly, but you are not without options:

- Social Security says its payout formulas are set up so that someone living to the actuarially normal life expectancy would end up with the same total lifetime benefit amount regardless of what age he or she began collecting benefits.

- Health insurance for individuals may be more widely available now than it ever has been, especially for people who’ve lost their employer-sponsored coverage but are still too young to qualify for Medicare. HealthCare.gov can show you a range of potentially subsidized options.

- Consider ways to minimize your taxable income until you reach age 65 to help you qualify for health insurance subsidies under the ACA.

Remember, retiring early poses some unique challenges. I can help you focus on choices that might work well for you.

Sources:

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