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Potholes in the Road to Early Retirement

Early retirement certainly *sounds* like a good idea to many people—but is it? Here are a few financial considerations worth navigating through before calling it quits in the workplace:

o Income. Retiring early means less time in which to add accumulated savings to the nest egg. Likewise, a few extra years of earnings, including any potential salary increases, bonuses, and promotions may boost Social Security and pension benefits considerably. Lower lifetime earnings may also translate into a significant reduction in the amount of these benefits, as less money paid into the system means less money received.

o Life Expectancy. The longer an individual lives, the greater the effect of inflation on retirement savings, and the more resources may be necessary to provide for any potential lifestyle changes and leisure activities. As individuals live longer, early retirement plans should include a budget to cushion the financial burden incurred by more years of leisure time enjoyed during post-retirement.

o Inflation. Variable inflation rates over the years will impact the amount of money accumulated for retirement, even if the rate is low. Budget calculations for this leisure period, which could span 30 years or more, should include adjustments for this erosion factor.

o Social Security. According to the Social Security Administration (SSA) as of 2001, early retirement may significantly reduce Social Security benefits—up to 30 percent for those individuals retiring and receiving benefits at least ten years before full retirement (currently ages 65 to 67, depending on year of birth). Recipients earning any post-retirement income may also be subject to the Social Security "giveback." For 2001, benefits will be reduced by $1 for every $2 in income earned above $10,680 until the year an individual reaches full retirement age. For the year full retirement age is attained, and until the actual month in which full retirement age is attained, benefits will be reduced by $1 for every $3 in income earned above $25,000. Once full retirement age is reached, there is no earnings limit requiring a giveback.

o Income Tax. Another consideration of Social Security is the potential impact of income taxation. About 20 percent of those individuals receiving Social Security benefits must pay taxes, according to the SSA (2001)—so don't underestimate the power of Uncle Sam. Individuals who are collecting benefits should receive Form SSA-1099, *Social Security Benefit Statement*, at the end of each year. Information contained in this form will assist recipients in completing their federal income tax return to determine whether benefits are subject to taxes. Inquiries and information regarding this process can be directed to any local offices of the Internal Revenue Service (IRS) and the SSA.

The Early Bird Gets the Worm

It may be desirable to retire early, *but*, before you pack up the office and head for sunny skies, weigh the financial aspects of early retirement carefully. Your financial service professional may be able to provide you with some pre-retirement advice and guidance for achieving a fiscally comfortable post-retirement lifestyle.

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