FLYNN ZITO CAPITAL MANAGEMENT

Greetings!

Our newsletter this month is titled "Thinking of Retiring Early? Mind the Gap!"

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Thinking of Retiring Early? Mind the Gap!

According to a recent Gallup poll, the average American retires at age 62.[1] That's at least four years away from collecting full Social Security retirement benefits, not to mention pensions, which typically begin at age 65, when available. Collectively, these programs can account for a significant share of retirement resources. According to the Social Security Administration, Social Security and public and private pensions make up 53% of an average retiree's income.[2] What's more, Medicare coverage does not begin until age 65, leaving early retirees with potentially hefty monthly premiums until Medicare kicks in.

Anyone contemplating an early retirement will want to plan carefully and ask several important questions.

How Will You Fund Health Care Costs?

One of the biggest obstacles to early retirement is health insurance. If you are working for a company that pays all or most of your health insurance, you could face a significant added monthly expense if you retire before age 65. What's more, most companies no longer offer retiree health benefits.

A 2012 survey by the Employee Benefit Research Institute (EBRI) indicated that health care costs account for 10% of total spending for individuals between ages 50 and 64.[3] In addition to health insurance premiums, there are also co-pays, annual out-of-pocket deductibles, uncovered procedures or out-of-network costs to consider--not to mention dental and vision costs.

On the positive side, the Affordable Care Act (ACA) may work to the advantage of eligible early retirees. For those with lower incomes, government subsidies may be available.

When Should You Begin Collecting Social Security?

You can begin collecting Social Security retirement benefits as early as age 62. But you will face a significant reduction if you start before your normal retirement age: 66 or 67, depending upon when you were born. Those choosing to collect before that age face a reduction in monthly payments by as much as 30%. What's more, there is a stiff penalty for anyone who collects early and earns wages in excess of an annual earnings limit ($17,040 in 2018).[4]

What retirement age is best for you will ultimately depend upon your financial situation as well as your anticipated life expectancy. For most people, waiting until normal retirement age is worth the wait. But you may want to consider taking your benefits earlier if:

- You are in poor health.
- You are no longer working and need the benefit to help make ends meet.
- You earn less than your spouse and your spouse has decided to continue working to help earn a better benefit.

If you think you may qualify for a health care subsidy under the ACA, you may want to delay collecting Social Security until at least age 65 (when Medicare kicks in) since Social Security benefits are fully counted as income in determining your eligibility for subsidies.

What Will Early Retirement Mean for Your Investing and Withdrawal Strategies?

Perhaps the most significant concern for early retirees--and one that is often overlooked--is how retiring early will impact their investing and withdrawal strategies. Retiring early generally means taking larger distributions from your retirement savings in the early years, until Social Security and pension payments begin. This can have a significant impact on how long your savings last--potentially much more than if larger distributions are taken later in retirement. Consider the following:

- Delaying withdrawals from tax-deferred retirement accounts, such as IRAs or 401(k) plans. The longer such money can remain tax deferred (or potentially tax free for Roth accounts), the greater the potential for any tax savings to boost returns. You may want to consider tapping into taxable accounts first.
- Adjusting your withdrawal rate to ensure that your savings last throughout a lengthened retirement. Financial planners frequently recommend a 4%-5% annual withdrawal rate of principal at retirement. You will need to determine whether the withdrawal rate you choose will be sufficient to last through a longer retirement.

The first place to start early retirement planning is with a detailed plan that includes estimated income and expenses. Consider working with a financial advisor to help you decide.

Footnotes/Disclaimers

1 Source: Gallup News, Average U.S. Retirement Age Rises to 62, April 28, 2014.
2 Source: Social Security Administration, Fast Facts and Figures About Social Security, 2017.
3 Source: Employee Benefit Research Institute, Expenditure Patterns of Older Americans, 2001-2009, February 2012.
4 Source: Social Security Administration, http://www.ssa.gov/oact/cola/rtea.html.

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Tracking # 1-681126 Exp: 1/20