

Early retirement: What it's all about

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It's never too early to start planning for retirement, especially if you hope to retire before you're 65. Here's a guide to help you get started

After decades of punching the clock, you'd love to quit your job when you turn 65 (or soon after). But retiring early isn't as simple as saying, "I quit." Here's what you need to know about the financial and health insurance aspects of early retirement.

What is early retirement?

Some people think [early retirement](#) means quitting work before 65 and beginning a life of leisure. Others see it as a chance to launch a business or keep working (or volunteering) on a part-time basis.

"Early retirement might look different for everyone. However, to put it simply, it is leaving the workforce and living off savings or investments at a younger age than the traditional retirement age of 65," says Rajiv Nagaich, J.D., L.L.M. He's an elder law attorney and the author of the book *Your Retirement: Dream or Disaster?*

The "traditional" retirement age of 65 comes with an important footnote. You are eligible for Medicare when you turn 65.

But the "full retirement" age, according to the Social Security Administration, is actually between 65 and 67 years old, depending on what year you were born. That's the age when you will receive 100% of the Social Security benefit you are entitled to. You can start receiving Social Security benefits as early as 62, but you'll receive a reduced amount — more on that later.

It's also worth noting that some people have to retire early because of a disability. If you're in that situation, you may be eligible for both Social Security Disability Insurance and Medicare benefits before you reach age 65.

What's the process for retiring early?

To successfully retire early, you'll need to do some careful planning to make sure you'll have the money and health insurance you'll need for the rest of your life.

- **Finances.** You'll need to figure out how much money you plan to spend in retirement and how much you're likely to get from Social Security, retirement accounts and other investments.
- **Health insurance.** You'll need to figure out your health insurance options since Medicare likely won't be available until you are 65. (More on this below.)
- **Leisure time.** You'll need to figure out what you're going to do with all the spare time you'll suddenly have. The transition away from working full time can be challenging for some people.

Once you have it all figured out, and you know early retirement makes sense, you need to tell your boss. "Most companies have an official process for retiring," says Brian Colvert, CFP. He's the CEO of Bonfire Financial in Colorado Springs, Colorado. "It's good practice to consult with your human resources department (and financial adviser) to ensure a smooth and successful retirement transition."

How does early retirement affect my Social Security benefits?

If you retire early, you may not be able to rely much on Social Security income. The younger you are when you start receiving Social Security, the smaller your check will be.

"If you retire early and start taking Social Security benefits at age 62, which is the earliest age you can start receiving benefits, your monthly benefit amount will be reduced based on the number of months between your early retirement age (62) and your full retirement age," Colvert says.

If you start getting benefits at age 62, your check will be about 25% to 30% smaller than if you wait until your full retirement age. On the flip side, your check gets 8% bigger for each year you delay beyond full retirement age, until you reach age 70.

Early retirement may reduce your Social Security income in another important way, because your benefits are based on your 35 best earning years. "People typically have the highest earnings toward their later years, and they miss out on those higher earnings if they retire too early," Nagaich says.

What are my health insurance options if I retire early?

Many retirees transition to Medicare when they leave their job and lose their employer-sponsored health coverage. But you can't sign up for Medicare until you are 65, in most cases.

So, if you plan to retire early, you'll need another source of coverage until you can sign up for Medicare. (If you have a disability, end-stage renal disease or amyotrophic lateral sclerosis, you may qualify for Medicare sooner.)

You have a few options to cover that gap period:

1. Continue your work-based health coverage. Your employer may offer health benefits to retirees. This coverage may look like what you've had as an employee, although you may pay a higher monthly insurance bill (premium). Also, there's no guarantee that the coverage will continue forever.

You may also be eligible for COBRA (that stands for Consolidated Omnibus Budget Reconciliation Act). Under COBRA, you can keep the same health coverage you have now for up to 18 months after you leave your job. However, you'll likely have to pay the full cost of your premium, since your employer won't be paying any portion of it once you leave. On top of that, you may have to pay a 2% administrative fee.

2. ACA Marketplace plans. Some individual plans are governed by the Affordable Care Act (ACA) and are available to all Americans. Most people can only sign up during Open Enrollment (November 1 to January 15 each year).

However, you may qualify for a [Special Enrollment Period](#) if you experience a "qualifying life event" that makes you lose your coverage, including retirement, marriage, divorce or relocation. You can sign up if you lost coverage in the past 60 days or expect to lose it in the next 60 days.

3. Buy a short-term health insurance plan. Another option is a [short-term health insurance](#) plan. These plans are designed to fill a lapse in health insurance coverage. You don't need to wait to enroll in them either; you can typically sign up for a short-term plan at any time and stay on it for 4 months of total coverage (that's 3 months plus a 1-month extension in a 12-month period).

4. Get a part-time job with benefits. Consider taking on a part-time job that offers benefits. While those can be hard to find, they do exist. In fact, nearly one-quarter of part-time state and local government workers have access to health insurance, according to the Bureau of Labor Statistics.

How much money do I need to save to retire early?

"The amount of money you need to save to retire early depends on several factors, including your desired retirement lifestyle, your expected expenses and your investment returns," says Colvert.

He adds that a general goal is to save 25 times your annual expenses. This calculation is based on withdrawing 4% of your savings each year that you're retired. So, if your annual expenses are \$50,000, your savings goal should be \$1.25 million to retire comfortably, he notes.

Another way to calculate your needs is based on your current income. Nagaich notes that people are generally advised to save enough that they'll have 60% to 70% of their preretirement income each year. "Personally, I counsel clients to retire with 100% of preretirement income," he says. "Because when we earn income, we become used to the amount and spend on balance what we make."

To figure out a sound financial plan, Nagaich recommends meeting with a fee-only financial adviser, who can help you look at your likely expenses and income sources, as well as the impact of inflation. "Yes, that takes time, effort and money, but it gives you answers that are more important than how your investments are doing," he says.

How can I save for retirement?

A retirement account, such as a 401k or IRA, is the most traditional way to save for retirement. These investment accounts grow over time. And they have tax advantages if you wait until retirement to make withdrawals from them.

There are limits to how much you can put into a retirement account each year. But older workers can make "catch-up" contributions. For 2023, the standard contribution limit is \$22,500. But if you're 50 or older, you can contribute another \$7,500.

"Saving is easy to talk about and hard to live up to," Nagaich says. "It's best to set aside at least 10% (if not 15%) of your net earnings and pretend you don't even get that money. If you cannot come up with that amount, start with a small amount but work on increasing it."

How can I save for medical costs in retirement?

As you get older, you're more likely to experience health problems. So, your health care costs may be higher in retirement than they are now. That's why it's important to be prepared.

A good option is to contribute to a health savings account (HSA). That's a type of account that you can contribute pretax dollars to and use to pay future qualified medical expenses. To get an HSA, you would've had to have had a [high deductible health plan](#), or HDHP, while you were still employed. That's a type of insurance plan with lower monthly premiums but higher deductibles.

Money that you contribute to an HSA is yours for life, so you can save it for your retirement years. You can also invest your HSA funds so that they grow over time, just like a retirement savings account.

“An HSA is a triple tax-advantaged savings account — money goes in, grows and comes out tax-free — and is a valuable tool for managing health care costs and saving for future health care expenses,” Colvert says.

Besides setting aside money for health care, you can also work to keep your health care costs down. Some great options for maintaining good health include:

- Eating right
- Exercising
- Staying social
- [Quitting smoking](#)

Also, having the right people on your care team is a good option, too, notes Nagaich. “The longer you are healthy, the less money you will spend on uncovered medical and long-term care costs.”

What else can I do to successfully retire early?

“The best way to successfully retire early is to have a plan,” says Colvert. “It’s never too early or too late to work with a financial adviser to develop a comprehensive plan that will increase your chances of successfully retiring early and enjoying a fulfilling retirement.”

And if you’ve figured out a good exit strategy and feel confident that you can retire tomorrow, congratulations. “You have one life to live; live it to the fullest,” Nagaich says. “You should not work a day longer than you have to, but you should not retire a day earlier than necessary. It’s a delicate balance, but it’s achievable if you have a retirement plan that looks at all facets of retired life, not just the phase when you are healthy.”