

Considering Early Retirement (12/23/06)

For a fortunate few, early retirement is the fulfillment of a personal goal, achieved through careful financial planning and wise investing. In today's corporate cost-cutting environment, however, it is quite likely that your employer may take the initiative, extending an early retirement offer to you as part of an effort to reduce overhead and increase profitability.

With ever-increasing life expectancies, your retirement years may account for up to one-third of your total life span. For some who have or will take early retirement in their fifties, it is quite conceivable that your retirement years could make up almost half of your lifetime.

Whether you choose early retirement on your own initiative or as the result of a company offer, your top priority is to carefully assess your own financial needs and resources. While some of your expenses will decline or disappear after you stop working, typical retirees need at least 75 percent of their pre-retirement income to maintain their current lifestyle, although this amount can be much higher depending on healthcare and other costs. And don't forget that taxes and inflation continue to take their toll. Therefore, you will need an increasing income stream over time to keep pace with increasing cost of living expenses.

Because early retirement packages can be complicated, it is wise to consult an independent financial advisor to help you investigate the "what-if" scenarios. First, you will need to weigh the value of the incentives being offered to retire early against what you would get if you continued to work. While you may be offered cash and other benefits in an early retirement package, you will be giving up a regular paycheck. This means giving up future pay increases that would create larger pension benefits down the road. You also forego the opportunity to accumulate assets in your company savings plan. However, you may prefer to take advantage of a sure thing now rather than gamble on the prospects for a better offer down the road. Most importantly, however, you need to be sure you will have enough savings and future income to afford the lifestyle you choose after retirement, whether it is complete retirement, working part-time, or perhaps beginning a new career or starting your own business.

Early retirement will also affect the amount you will ultimately receive from Social Security, which is based on your average earnings over 30 to 35 years of work. You can start receiving Social Security payments as early as age 62. Although there is a reduction in the regular payment amount you would receive if you wait until age 65 or older, it may make sense depending on your financial situation. For help in estimating what your Social Security will be, you can call the Social Security Administration at (800) 772-1213. Some early retirement packages offer lump sum or monthly payments to help bridge the gap until Social Security payments begin.

Previous early retirement offers at the automakers have included an addition of as many as five years to your current age and length of service for the benefit calculation, thereby increasing your income considerably. Besides pension benefits, companies may offer a severance payment. Sometimes severance payments are based on length of service or a flat percentage of salary. While the extra cash may help you through the transition period, remember that it will probably be taxed as ordinary income.

If your early retirement offer includes a lump sum payment, you will need to decide what to do with it. Before you make such a decision, you should consult your independent financial advisor, who can help you analyze the financial ramifications of your options and develop an investment plan suitable for your retirement needs.

With the longer-term uncertainty over the Social Security System, and now the concerns about some company pension plans, the investment success for your retirement savings has become more important than ever. Severing with your employer opens up many options for the assets in your company retirement savings plan. We recommend considering the enhanced investment flexibility of a Rollover IRA managed by a fee-only, independent investment advisor. [To learn more about a Rollover IRA click here.](#)

You can call Mainstay Capital Management toll-free at **1-866-444-6246** to discuss how early retirement may impact your retirement planning, income, and investment portfolio strategy, among other considerations. Mainstay Capital Management can provide a Retirement Income Analysis and help you explore "what-if" scenarios.

For any questions on this article or retirement planning in general, feel free to call us toll-free at 1-866-444-6246.