Kiplinger's PERSONAL FINANCE

What to Do If You Have to Retire Early

Life throws you a curveball, and you end up leaving the workforce earlier than planned. Here's what to do next.

By Eileen Ambrose (excerpt)
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Early in his career, Drew Parker's goal was to retire at age 57—or at least be financially prepared to quit working by then. But three years ago, at age 55, his retirement came sooner than expected when his employer, Nordstrom, restructured and offered him a buyout. …

… Like Parker, many older workers find themselves suddenly retired—sometimes years ahead of their target date. According to a 2018 survey by the Employee Benefit Research Institute, nearly one-third of workers predict they will remain in the workforce until age 70 or older, and only 10% expect to retire before 60. But in reality, only 7% of retirees surveyed stayed on the job until at least 70, and more than one-third had quit working before age 60. Many end up retiring early because of a job loss, a health problem or caregiving responsibilities. …

… Tap accounts to minimize taxes. If income from part-time work or a spouse's job isn't enough—and you've gone through your severance or emergency fund—you might have to start drawing down your investment or retirement accounts. …

… **Lump sum or annuity?**

If you leave an employer that provides a traditional pension, you'll likely be asked if you want to take it in a lump sum or as an annuity that will pay you an income for life.

There are advantages and risks to both options, says David Kudla, founder of Mainstay Capital Management in Grand Blanc, Mich. The advantage of rolling a lump sum into an IRA, he says, is that you'll be able to decide when to withdraw money and control taxes on those withdrawals. You can leave a lump sum to heirs if you're in poor health and unlikely to collect many pension checks. You may also be able to invest the money to keep up with inflation; most pensions don't have cost-of-living increases, and your purchasing power decreases over time. Plus, if your employer fails and its pension is taken over by the Pension Benefit Guaranty Corp., which insures private pensions, the PBGC may not cover the full pension you're due, Kudla says. (The PBGC's maximum annual benefit for plans it takes over in 2019 is $43,742 for a 60-year-old, or $39,368 with a survivor benefit.) …