# Early Retirement, Can It Be A Benefit Or Hindrance?

Can You Afford Early Retirement?

Now that individuals over age 50 comprise the fastest growing segment of the population, the standard retirement age of 65 is losing ground to both early-and late-retirement options. Better health and increased longevity often translate into longer retirements and, quite simply, when you retire earlier and live longer, your savings must last longer as well.

Can you afford to retire? Better yet, to retire early? With sound financial planning, you can sort through the maze of retirement options fully armed to make the most of your retirement years. According to the North Carolina Association of CPAs, the key to smart and effective retirement planning is to start as soon as possible so your retirement investments have time to grow and so you won't feel the strain of suddenly supporting yourself on a significantly reduced income.

**Evaluating An** Early-Retirement Offer In cost-reduction efforts, a growKeep in mind that if you retire before age 62, you are not eligible for Social Security benefits until you reach that age.

ing number of companies have tempted many employees with early-retirement offers. If you've been faced with such an offer, or know that one is in the offering, it's time to ask yourself some hard questions.

For starters, are you ready to retire? If you do retire, how will this affect your Social Security benefits? Will you have enough income from savings, investments, pensions and the like to cover your expenses? If you turn down an earlyretirement offer from your company, could you be laid off anyway?

Undoubtedly, some people have no alternative but to grab the offer. But even if you count yourself among those who welcome the opportunity to leave the work force, make sure you understand all the financial ramifications.

Pensions Pension-plan benefits are usually

calculated by multiplying a percentage of your salary by the number of years worked for the company. For this reason, if you plan to retire early, you may well end up forfeiting some pension dollars. In fact, many large companies reduce pensions by as much as 50 percent if you retire at age 55, while about half will allow you to quit at age 62 without reducing your pension. In general, therefore, it pays to work until you reach the age at which your employer eliminates or substantially reduces the early-retirement penalty.

Today, many companies include "sweetened pensions" in their special early retirement packages. As part of these offers, the company calculates your benefit by adding three to five years to your age or years of service. Both can increase your benefit by up to 30 percent more than if you retired early without the "sweetener."

If you're under age 65, any offer that will pay a pension benefit equal to or better than that which you would get by retiring at age 65 is worth considering, especially if you're ready to leave the work force. Also, keep in mind that by the time you reach 60, if you have been with your employer for a long time, working additional years may not result in a significant increase in your monthly benefit.

#### Social Security

Many people still erroneously believe that they can rely on Social Security benefits to support them when they retire. While Social Security benefits and pension distributions can help you to meet your monthly expenses, they may not be enough for you to live in the lifestyle you may have envisioned for yourself.

Keep in mind that if you retire before age 62, you are not eligible for Social Security benefits until you reach that age. And if you retire before age 65, your monthly benefit is reduced permanently. You

may be able to live with the reduction in benefits if you have income from other sources and if your employer has provided you with a generous benefit package at the time of your retirement.

#### Life Insurance

The best early-retirement packages offer you the same life insurance coverage that you enjoyed as an employee. Some companies only give you the option to switch from the company's group-life policy to an individual policy, which can cost upwards of \$400 per year per \$10,000 of coverage. But this can be more expensive than buying your own policy elsewhere. If your company offers you a death benefit less than half of what you enjoyed as an employee, be aware that this may not be nearly sufficient to cover the expenses of surviving family members.

### **Health Insurance**

Regardless of your age, if your employer requires you to take an early retirement, he is required by law to continue your group health insurance coverage for up to 18 months at your expense. Dental insurance, however, generally expires the day you retire.

The most attractive retirement package enables you to keep your employers health insurance coverage for life. If this is true for you, check to see that the deductibles and benefits remain the same for an early-retiree as-for an employee.

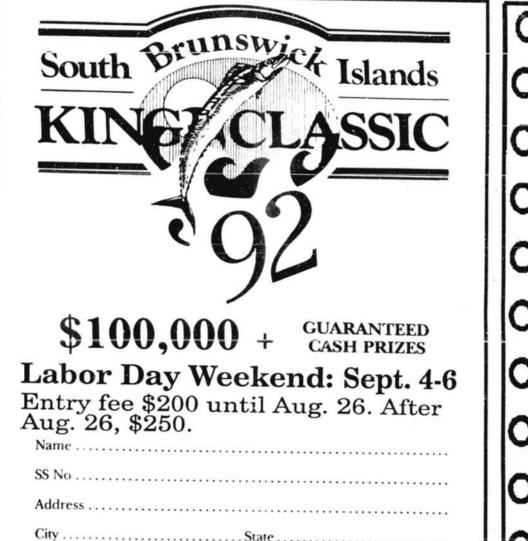
## **Taxes and Other Considerations**

Before deciding whether or not to retire early, take a close look at all your retirement savings - including Individual Retirement Accounts, 401(k) plans, SEI's or Keoghs - and assess how much you need to draw on these savings to maintain your current lifestyle.

You'll also want to take a close look at the tax implications of receiving distributions from these plans, as well as from your pension. Most retirement payments are taxable whether they come from your IRA, an employee pension plan or a disability plan. However, a CPA can advise you on how to minimize the tax bite when you draw on these savings. Indeed, adopting the right tax strategy can make early retirement more affordable and acceptable to you.

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