

How to plan for an early retirement

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Exiting the workforce as soon as possible may be the dream, but what's the best way to save up for an early retirement?

People in the U.S. can start receiving reduced Social Security retirement benefits at age 62 and full benefits at 66 or 67, depending on their birth year. But plenty of Americans dip out of the workforce early, with a 2022 Gallup survey finding the average retirement age is 61.

Financial experts warn that early retirement requires a lot of saving and planning.

"(It's) looking at expenses and really figuring out how much you can save every month and then putting that to work and putting it to work in assets that are going to grow for you," said Autumn Lax, a certified financial planner with New York-based financial firm Drucker Wealth. "The earlier you start the better."

How can I retire early?

The short answer? Save as much money as possible.

Financial services giant Fidelity says those who make between \$50,000 and \$300,000 in annual income who want to retire at 67 should plan for their savings to replace about 45% of their pretax, preretirement income, or aim to save about 10 times of their current income by age 67. So for someone earning \$100,000 a year, they'd need to save up enough to spend \$45,000 a year, not including Social Security benefits.

An early retirement will need an even larger nest egg.

Fidelity's guidelines note that retiring at 62 would boost the savings estimate to 55% of pretax, preretirement income and require about 14 times of a person's current income by age 62. Anything earlier than that will require even more savings.

Keep the retirement age benchmarks in mind

Early retirees should keep in mind that Social Security retirement benefits won't be accessible until 62, and they'll have to wait until they reach the age of 65 to be eligible for health care through Medicare. Most retirement accounts like IRAs are also better left alone until the age of 59.5, unless retirees are okay with a 10% penalty tax.

While it's important to invest money for retirement to allow your money to grow, Lax noted that early retirees should make sure to keep money in accounts that are accessible before the set retirement ages, such as Roth IRA accounts (which allow contributions to be withdrawn at any time tax- and penalty-free) as well as individual

investments or brokerage accounts not tied to retirement.

"(It's) not just 'Are you saving enough?' but 'Are you saving it in the right vehicles?'" Lax said.

Early retirees should also be aware of the rule of 55, which lets retirees withdraw early from some employer-sponsored retirement accounts like 401(k)s or 403(b)s without a tax penalty so long as they leave their job at 55 or older. For qualified public safety workers, the rule of 55 starts even earlier at the age of 50. This rule does not extend to IRAs.

How early can you retire with FIRE?

The FIRE movement – which stands for "Financial Independence, Retire Early" – is a retirement plan where people commit to extreme savings and investments to retire early. The goal for many is to save up to 70% of their income and stop working decades before the standard full retirement age, which is 67 for those born after 1959.

But Lax warns that early retirement may not be the right move for everyone.

"If you are going to scrimp and save every penny right now, to the point that you're never leaving the house or you're eating peanut butter and jelly every single day," Lax said, "just so that you can retire early to then continue to barely get by – is that really the best way to go about it?"

What sort of accounts should I be using to save for early retirement?

In general, people should have enough money in their checkings and savings accounts to cover three to six months of expenses during their working years and six to 12 months of expenses in retirement, Lax said.

"Beyond that, I would make sure you're rounding out the rest of your savings between retirement and non-retirement investments. The correct amount to have in each really varies depending on each individual situation though," Lax said.

CFP Marguerita Cheng, CEO of Maryland-based Blue Ocean Global Wealth, notes that workplace retirement plans like 401(k)s are a great tool to save for retirement, especially if an employer offers a match.

"If you can get close to 10% (contribution rate) in your 20s I think that's going to be really helpful," Cheng said. "But if you can't get to that, at least do the full match."

Michael Liersch, head of advice and planning at Wells Fargo, said once people make sure they have access to cash for large expenses or emergencies, they should start carving out a chunk of their income for retirement. This should be through accounts designed for retirement like Roth or traditional IRAs as well as contribution plans

from an employer like 401(k)s, pensions, deferred compensation plans or HSAs.

"There are so many different options with employers that you can lean into where you get a lot of tax benefits," Liersch said. These savings create the "potential to have a very successful retirement. It's not necessarily all you can do, but it certainly provides a good start."