5 Challenges Of Early Retirement

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Retiring early is a goal few people can even dream about, but if you're someone who is working to achieve that goal, there are a few things you need to make sure you plan for.

***US News* Staff Writer, Emily Brandon, says there are 5 potential challenges to be aware of when planning to retire early.**

1) Social Security

Most people can't claim Social Security benefits until age 62, and you'll need to wait until age 66 or 67 in order to get the full payment you are entitled to. If you retire before age 62 you typically won't have a Social Security check coming in to help pay part of your bills. Early retirement could also negatively impact the Social Security payment you will eventually receive. Social Security payments are calculated based on 35 years of earnings. If you don't work for 35 years, zeros will be averaged into your Social Security calculation and result in a lower payout in retirement.

2) Medicare

Retirees can sign up for Medicare beginning at age 65. If you retire at a younger age you will need to set up health insurance from another source. Early retirees can currently buy health insurance through their state's health insurance exchange and might even qualify for subsidies to help pay for it. Some people are also eligible for retiree health insurance through a former employer or coverage under a working spouse's plan or a group plan through membership in an organization.

3) Early retirement penalties

IRAs and 401(k)s have an early withdrawal penalty that is typically applied to distributions taken before age 59-1/2. However, there are a couple of ways around the early withdrawal penalty. If you leave your job at age 55 or later, you can take penalty-free distributions from the 401(k) associated with that company. However, if you roll your 401(k) over to an IRA, you will need to wait until age 59-1/2 to avoid the penalty. IRAs provide different exceptions to the early withdrawal penalty if you use the money for specific purposes, such as college costs, large medical bills, health insurance after a layoff, or part of a first home purchase. Retirement accounts also allow penalty-free early withdrawals if they are taken as a series of equal payments set up using an IRS-approved distribution method. In all of these cases, income tax will be due on each traditional retirement account withdrawal.

4) Friends still working

Not everyone can manage to save enough for an early retirement. Some early retirees leave their jobs, only to find that their friends and neighbors are too busy with work and family life to socialize. Before leaving your job, develop a plan for how you will spend your time that does not heavily rely on other people.

5) Making your money last

If you retire at age 65 and live until age 95, you will need to pay for 30 years of retirement. Your retirement will be a decade longer if you retire in your 50s, which is even more years to finance, so you'll need to save even more in your working career. You may have to rely on a combination of what you have saved, your pension, or even a partial-retirement part-time job to generate enough income.

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