BUSINESS PERFORMANCE ADVANTAGE

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Backing Up Is Hard to Do
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Understanding Financial Ratios
The Basics of Retiring Early

CFO Plus LLC
Partners In Growth

Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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How Much is Enough? The Basics of Retiring Early

It's a fact that we're all living longer.

What is more amazing is to think that in the 18th Century, the infant mortality rate was estimated at only 43 percent during the first three years of life. Today, according to the National Center for Health Statistics, men are expected to live until 76.9 years of age, while females might live, on the average, 79.5 years.

While living longer means you're going to be around for a long time, it doesn't guarantee quality of life. Putting illness aside, even the healthiest of human beings can't live a modest lifestyle if money isn't going very far. Will the dollar you earn today go as far as it does 10, 20 or even 30 years from today? Consider this: at a modest three percent inflation per year, the $50,000 you think you have to live on will be worth $48,500 next year, $36,871 in 10 years and just $27,189 in 20!

So, just how much does it take to retire, and can you retire early? You bet – with some careful planning and advice.

Annuity Payments vs. Lump Sum
Let's assume you're employed by an organization with whom you earn a regular paycheck. If self-employed, some of these observations may not apply, although the concepts still are just as meaningful. When you signed on with your company, you also signed something in your paperwork that asked, upon retirement, whether you wanted your accumulated pension all in one check or monthly payments. While many financial professionals' opinions differ, there is a consensus that taking a lump sum is preferred should you need a great deal of money at one time. While annuity payments serve as regular, steady income, you could have a catastrophic need requiring a large up-front payment.

Ensure your pension plan deposits the lump sum directly into an IRA, or you'll face a 20 percent withholding tax liability. And, if you do take the lump sum, make sure it does not cut off the company's entire retirement plan benefits, including any health insurance.

If you opt for monthly payments, check out the options, such as taking higher payments now and having payments end upon death, or taking smaller payments now and having payments continue to your surviving spouse after your death.

We've always been told that you theoretically can't touch any retirement monies until age 59 – without paying a 10 percent penalty plus tax. However, this isn't true in all cases, because you can withdraw some of it upon disability or to pay certain medical expenses, and can even use it to buy a home or finance a family member's education.

In addition, you can set up withdraws that function as annuity payments by using IRS Rule 72T. Committing to this program for a minimum of five years, the payments are based on life expectancy and total amount, but under the right circumstances, you actually could take regular sums of money, each month for five years, without incurring any penalty, as long as you committed to doing it regularly for five years. A tax liability would be incurred, but you would essentially have created your own annuity.

Social Security
Based on today's Social Security, if you retire too early you'll miss out on important benefits. Because Social Security payments are based on the average of your best 35 years of work (adjusted for inflation), if you retire too soon some of those years will be computed as zeros. For example, if you started working at age 22, you won't have 35 years of earnings until you're 57, so retiring early can displace average income. If you earned an annual average of $60,000 over your best 35 years, your benefit will be computed on that $60,000. If you only worked 30 years, and want to retire early, your benefit will be computed as the average of those 30 years at $60,000 plus another five years at $0, bringing your 35-year average down to just over $54,000.

How Much is Enough? The Basics of Retiring Early (cont.)

Mortgage Considerations

Early retirees usually want to know whether to pay off the mortgage. Of course, any interest you pay on your mortgage is tax deductible at your regular income tax bracket, so it's probably best to pay off auto loans or credit cards first. If there is enough money to still cover the payoff on the mortgage, compare the after-tax cost of the debt with how much you recoup on investments. For example if a portfolio averages an 11 percent return, and your mortgage interest is at eight percent before your tax deduction, it makes sense to leave the money in the market and continue paying the mortgage. However – one note. If you only have five years left on a 30-year note, most of your payment is applying to your principal, which means you have no deductible interest.

Other Thoughts

There may be hundreds if not more other considerations for retirement based on your lifestyle, income level and longevity. If you want to play golf 24/7, green fees can be exorbitant depending on where you play and which club you belong – which also carries a hefty fee.

What about car repairs or a new car to replace your 10-year-old clunker? Can you afford repairs or even monthly payments? How about where you intend to live ... today's chic retirement communities boast joiners' fees that may be the same as your son or daughter's last annual college tuition.

Many considerations ... and many decisions. The best approach is to keep a level head, develop a retirement plan that touches on these observations and consult your accountant for his or her opinion. This is the right time to do it. Don't wait until the end of the year. Meet – at the latest – in November to ensure you are taking advantage of all current-year tax saving and deductions. You can then put changes in place that will ease you into retirement – and may just enable you to retire years before your parents did. Now that's an opportunity! Call us today to schedule an appointment to talk about what keeps you awake at night. We have solutions!