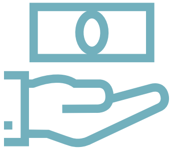
Retiring early?

Taking these 5 key steps can help ensure that your income lasts a lifetime.

The idea of retiring early is almost universally appealing. So much so, in fact, that there's a growing movement known as FIRE — financial independence, retire early.

Some people, though, are forced to retire early even if they want (or, more often, need) to keep working. This can happen due to illness, job loss or other life events. In fact, in a recent Nationwide Retirement Institute® survey, 20% of respondents who are currently drawing Social Security said they retired earlier than planned.[1]

[1] "The Nationwide Retirement Institute 2024 Social Security survey," conducted by The Harris Poll on behalf of the Nationwide Retirement Institute. This online survey was conducted April 19 through May 13, 2024, among 1,831 U.S. adults age 18 or older.



Regardless of whether you're considering retiring early by choice or by need, there are 5 key steps you can consider in your planning to help ensure that your retirement income lasts a lifetime. Your financial professional can help you work through each one.

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1. Get a personalized Social Security filing assessment.

One of the most frequently asked questions about retirement is when to file for Social Security benefits. Starting Social Security benefits before full retirement age (FRA) can be costly. Claiming at age 62 (when you're first eligible for reduced benefits) instead of age 67, for example, results in a permanent 30% reduction in monthly benefits.

Indeed, it's a delicate balance. On one hand, you might need the income now for immediate expenses or financial goals. On the other hand, waiting to file could potentially increase your benefits in the future. This decision may be further complicated by other factors, such as working during retirement. If you claim Social Security benefits before your full retirement age, earnings above the annually set limit ($22,320 per year in 2024) could lead to cuts in payments.

Action item: Work with your financial professional to get a personalized Social Security filing assessment. This assessment should detail potential outcomes of filing for benefits at various ages so you can make an informed decision.

2. Create an income bridge.

Depending on how early you retire, you may need an "income bridge" for a few years or longer. That's because you'll probably have an income gap between the time you stop working and the time you start collecting Social Security benefits or become eligible for Medicare.

As you plan, keep in mind that your living expenses may not decrease as much as you think during retirement, if at all. More than half (55%) of people age 60 and older found that their living expenses stayed the same in retirement, according to our 2024 Nationwide Retirement Institute Social Security Survey.

Action item: Assess your current and future spending projections, breaking down your income requirements by how much you must have to meet essential needs and the additional amount you'd like to have so you can do the things you want in retirement. A simple worksheet or a host of software and app options can help simplify this review.

3. Diversify your savings.

Just like you wouldn't eat a 3-course meal with just a fork, starting retirement with only a single bucket of tax-deferred savings (such as a traditional IRA) may present challenges. After all, taxes can take a big bite out of your retirement income, and IRS penalties for early withdrawals can take even more. That's why it may be advantageous to save in — and withdraw from — multiple retirement accounts at different times.

For example, withdrawals before age 59½ from tax-deferred retirement savings accounts such as traditional 401(k) or 403(b) plans may incur a tax penalty. If you're considering retiring before that age, avoid taking withdrawals from those accounts until you reach age 59½.[2]

Once you turn 59½, you could consider spending from tax-deferred accounts because those withdrawals will probably be taxed at lower rates after you stop working. Measured withdrawals between age 63[3] and filing for Social Security can be combined with Roth conversions to beef up future sources of tax-free income. Earnings on investments held for at least 1 year in a brokerage account may also be a source of income that can be taken with no (or minimal) taxes owed.

Action item: Review your current retirement savings and explore opportunities with a tax or financial professional to build a tax-efficient retirement income strategy for each of your early years of retirement. Our worksheet, "Are you planning for a tax-efficient retirement?" can help.

4. Explore protected lifetime income options.

Certain expenses — such as housing, food and health care — are obviously essential and must be covered in retirement. Sources of protected lifetime income can help, and Social Security alone may not be enough.

A guaranteed retirement paycheck can offer guardrails so you know how much you can spend each month. It can also offer protection from what's called "sequence of returns risk." This kind of risk involves events such as recession and poor investment performance draining your savings early in retirement — and forcing you to return to the workforce.

Action item: Work with your financial professional to build a retirement paycheck that provides the income you need to cover essential expenses. Newer investment options possibly available in your employer's retirement plan, along with annuity options offered by your financial professional, may help provide you a level of consistent income you can count on.

[2] An IRS provision referred to as the rule of 55 may enable access to savings in the workplace retirement plan at the employer from which you retired. Please consult with your tax advisor and human resources contact for further details. Refer to "How to use the rule of 55 to take early 401(k) withdrawals," Emily Brandon for U.S. News & World Report (April 13, 2022).

[3] Note that your income 2 years prior to beginning Medicare is used to assess whether Medicare surcharges will be assessed. For many, this means you and your financial professional should take a closer look at income levels at age 63 before you make any decisions.

5. Review your personalized health care cost assessment.

When you retire before age 65 (when Medicare eligibility kicks in), planning for health care costs is a must. Out-of-pocket costs for insurance premiums and health care expenses not covered by insurance can really add up — especially if you live in states with higher-than-average health care costs. For example, Florida, Texas and Arizona — 3 popular choices for retirees — are among the most expensive states for health care.[4]

Keeping in mind that the client must participate in a high-deductible health plan, a health savings account (HSA) can help you plan for these costs. With an HSA, you can stash away savings pre-tax, earnings on your savings grows tax deferred, and withdrawals for qualified medical expenses (including health insurance premiums) are tax free.[5]

Action item: Ask your financial professional to help you create a personalized health care cost assessment so you can estimate how much of your income may go toward health care once you retire.

Your financial professional can help.

Retiring early is a complex decision that requires careful planning and consideration. Your financial professional can provide the expertise and personalized guidance necessary to address your concerns and help ensure a smooth and successful transition into retirement.

[4] "The Most (And Least) Expensive States For Healthcare 2024," Cassidy Horton and Kelly Anne Smith for Forbes (March 18, 2024).

[5] To be tax-exempt, an HSA withdrawal must be used for qualified medical expenses. Most (but not all) states recognize HSA withdrawals as tax exempt. Please consult a tax advisor.

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