5 STEPS TO EARLY

RETIREMENT

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Five Steps to Early Retirement

Retiring early can be done! Just like everything else in life worth having, it takes careful planning, and then rigor in sticking to your plan. If you're young, don't wait around before starting these five steps. As you'll learn, the sooner you start, the better. But anyone at any life stage can benefit from taking these steps to improve their retirement outlook.

FIVE STEPS

- **Save Early, Save Ofte**
- **Go the Roth Way**
- **Monitor Your Expenses**
- **Maximize Those Other Employee Benefits**
- **Put Away Unexpected Income or Savings**

Save Early, Save Often

If you work for someone else, start with your employer-sponsored plan. With decades to grow (on average 7%), these monies will accumulate and even double over the decades. It also helps that many employers match your savings contributions, often around 3%.

Here's an example: Let's say you're 30 years old and make $65,000 per year. You put $10,000 each year into your 401(k) and your employer puts in 3%, or $1,950. The hypothetical index fund then returns the 7% average and so by the time you're 55, you have more than $800,000.

The maximum you can contribute is $19,500 each year, but when you turn 50, you can make "catch up" contributions of up to $6,500.

Another boost comes from employer-sponsored plans being tax-deferred, saving you on taxes in the current year, so you can put in a little bit more. With no taxes being taken out, more money is working for you year over year (until you take the money out, of course). But still, you're only taxed on the money that's taken out; the balance remains tax-free as it continues to work hard to make you more money.

If you're self-employed, you can still create an employer-sponsored plan for yourself. Your trusted wealth advisor will be happy to make that happen for you.

Go the Roth Way

While traditional IRAs and employer-sponsored plans are tax-deferred, eventually you'll have to pay taxes on that growth. When you take out the hypothetical $800,000 from step 1, you'll pay taxes on all of it.

The Roth IRA allows you contribute after-tax money, so you won't pay taxes when you eventually withdraw it.

Go the Roth Way

And even better, you'll never pay taxes on any returns your contributions generate.

Let's check the math to see if a Roth IRA makes a difference.

Let's say you fund your IRA with $5,500 every year between the ages of 30 and 55. Ultimately, you will forego $20,625 in deductions over the next 25 years if your marginal rate is 15%. With that traditional IRA, though, you will eventually pay more than $50,000 in taxes at that same marginal rate, all because you'll be paying taxes on not only all contributions, but on the growth generated by those contributions.

IRA contributions are phased out for singles with incomes between $120-$135K and couple with incomes between $189-199k. Yet, there are alternatives routes to take advantage of the Roth.

Earners exceeding the Roth thresholds can contribute non-deductible (after-tax) dollars to a traditional IRA and then convert amounts from that IRA to a Roth. It's called a "back door" contribution. Typically, taxes would be owed on growth at the time of conversion but if the conversion happens soon after the contributions, the growth will be minimal.

Some employer-sponsored plans offer Roth options within the 401(k), and there are no contribution restrictions. You would forego the tax deduction up front, but you would gain from not having to pay tax on the growth when you withdraw the funds.

Monitor Your Expenses

It's so easy to track your expenses these days with banking apps, or online access to your account. By noticing what you're spending money on, you'll know how much your lifestyle is costing you, and you can then prioritize.

We've all heard buying expensive coffee drinks should be stopped and the money saved instead. That would be a nice little chunk of money. Yet, if a daily coffee adds to your lifestyle and brings you joy, it's hard to deny yourself. So, look at all of your spending and make an intelligent trade-off. Maybe you only get coffee three days a week and make your own the others.

When you track your expenses and know where your money is going, it sets up a healthy habit of reasonable spending to continue into retirement. Imagine you have $1.5 million and retire at 55. That's a $55,000 annual income for you if you live to 85. And prices of goods go up. They always have. Already being in the habit of closely monitoring your out-go will make retirement easier.

Maximize Those Other Employee Benefits

Beyond your employer-sponsored 401(k) and health insurance plans, most employees offer benefits where you can maximize your disposable income. Take a deep dive into your benefits manual and see if you can save even more money.

It can pay to compare health insurance plan options offered by your employer. If you're healthy, a high-deductible plan might work for you. You can open a Health Savings Account (HSA) and contribute up to $3,550 for yourself or up to $7,100 for your family.

You must use the money for health-related expenses only, or there will be a 20% penalty for any non-health transaction.

The best part is that HSA contributions roll over if not used in that year, can grow tax-deferred, and can be used for any non-health expenses after you turn 65 (although tax would then be owed on the growth).

An HSA allows you to spend money on health care expenses and never pay taxes on it. And it goes with you when you leave your employer or retire.

Other employer benefits to check out that can impact your bottom line:

- Child- and dependent-care accounts
- Actual child- and dependent-care assistance
- Discounts for on-site childcare
- Tuition assistance
- Public transit and parking passes, or subsidized ride-share programs
- Free or reduced-cost gym memberships
- Adoption assistance
- Discounts on financial planning services

If your employer doesn't offer these benefits, your tax professional can assist in understanding any advantages you might be able to take.

Put Away Unexpected Income or Savings

Sometimes you might receive an unexpected bonus from work, a small inheritance, or a larger-than-expected tax return. If you've been watching your expenses and taking full advantage of all your employer's benefits, you might be ready for a small splurge. But check yourself.

Because you never had the money as part of your budget/spending plan to begin with, it's best to sock it away into savings designated for retirement. Or at least sock away a large percentage of your windfall.

You know best how to balance your need to save for early retirement and your desire to enjoy your life on a daily basis right now.

Retiring early takes know-how, smart choices, and commitment, and it is do-able.
Taking these five steps will help you get there!

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