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Prepare Your Clients to Retire Early With This Checklist

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To millions of Americans, retiring early is the lifestyle Holy Grail. But many who attempt early retirement find the financial burden too tough, and by then it might be too late.

Money managers like to think that's where good planning enters the picture – along with a good financial planner.

And why not? A good financial advisor can assess a client's key financial needs, identify income sources, and lay out a road map (okay, Google Map) for access to cash and investments, among others.

All that would help both the advisor and client understand the reality – and the realistic potential – of an early retirement.

But there are some harsh realities linked to any talk of an early goodbye to one's working years – and savings is at the top of the list.

"By and large, early retirement only makes sense for individuals who have enough saved to cover 70 to 80 percent of their pre-retirement income, as that's usually the amount needed to maintain one's standard of living in retirement," said Karen Wimbish, senior vice president at U.S. Bank Wealth Management.

In addition to typical retirement planning strategies, Wimbish said advisors must also consider immediate as well as long-term considerations. The shorter timeframe constraints that go with early retirement planning demand it, she added.

Steps to Take

To cover those planning issues, advisors should take the following steps:

Assess likely expenses: Expenses from property, taxes, healthcare, and large one-time expenses, must all be catalogued and considered.

“It's important to remember that lifestyle expenses such as entertainment, dining, and gifting are all not likely to diminish, and may even increase, in retirement,” Wimbish noted.
Understand your income sources: On the opposite front, tally up all income from sources such as plans and pensions, social security, and savings. Then strategize on the order in which to withdraw from those sources to minimize the tax impact, Wimbish added.

Understand the access to those sources of income: One of the challenges to overcome when working with early retirees is how to access retirement funds for income, without being subject to the 10 percent early withdrawal penalty, said William Stack, founder of Stack Financial Services in Salem, Ore.

“There is an exception to the penalty, called Rule 72t, which must be followed strictly, and is effective for those retiring prior to turning age 591/2,” Stack said. “We have seen clients as young as 47 retire, using this method.”

The primary challenge for advisors is that withdrawal rates allowed by the IRS will probably not match the earnings rate of the account. “That has to be coordinated with the earnings rates of their other assets,” he added.

Plan ahead . . . way, way ahead: This tip is really more applicable to younger retirement savers, but the fact is, the sooner a client starts planning for early retirement, the better the chances of achieving that early retirement.

“I don’t know one person who decided they want to retire early late in their career then actually did it. I think every person should decide to retire early the day they begin their career,” said Terry Kennedy, president and CEO of Appreciation Financial, a retirement services’ company focused on public sector employees. “(But) getting people in their 20’s to think about what their 60-something-year-old self will want and need in retirement is the challenge.”

Plan for unexpected purchases: Planners and savers need to have a spending plan in retirement, but a big part of that is planning for big purchases that aren’t on the spending radar right now.

“For example, what many people don't think about, particularly if their car is already paid for, is that they will likely need to replace their vehicles at least once or twice during retirement,” said Ilene Davis, a money manager with Financial Independence in Cocoa, Fla. “If they don't allow for the purchase price at the start, they may find their retirement planning undermined.”

Davis advised early retirement savers to allow for big purchases and emergencies separately from investment funds, “so when average investment return is calculated, those funds are not included in principal.”

Nobody is saying that early retirement is too steep a client for advisors and their clients. But reality dictates early preparation, a significant financial checklist that needs addressing, and some candid discussions between planner and client when early retirement really makes sense.

Cover that ground, and early retirement may not be too late to think about.

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