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Early retirement: Is it right for you?

John Tolley once planned on retiring early at age 55. But that was before the late 1990's stock market boom went bust. "It became obvious that 55 wasn't the optimum age to do this," says Tolley, 57, vice-president of student services and enrolment, and associate professor of ministry at Meadville Lombard Theological School in Chicago. "Now I'm looking at 60 at the best, and probably 62."

While Tolley anticipates a bright and sunny financial horizon by his early 60's, his notions of how he will spend time in retirement are clouded with uncertainty. What he does know is he would like to work in the community in some sense. "Another really important ingredient in my personality is that my activity must be purposeful, in the sense that I'm doing something for someone, or improving a situation," he adds.

Tolley isn't alone in his indecision regarding when and how to retire early. Many people would like to retire before the traditional age of 65, but aren't financially prepared to fund decades of life without a paycheck. And even among those who have Grade A nest eggs sufficient to last them the rest of their days, many haven't adequately prepared themselves for the non-financial challenges of retirement, experts conclude.

Of course, if early retirement were easy, there wouldn't be so many reporting they intend to retire later rather than earlier. In a 2005 survey conducted by Korn/Ferry International, the world's largest executives surveyed report planning to continue working past age 64, and 15 percent plan to stay on the job past age 70. Moreover, 62 percent of execs surveyed say they plan

to work later than they thought they would just three years earlier.

Meanwhile, the 2006 Merrill Lynch New Retirement Survey of more than 6,000 individuals revealed 41 percent did not feel at all prepared financially for retirement, and that money concerns – due to continued pension cutbacks, concerns about Social Security and the rising cost of living – were primary factors behind that ill-preparedness.

In real estate, the key to success is location, location, location. But in early retirement, it's planning, planning, planning, says Nora Winsberg, first vice-president of investments with Merrill Lynch in Chicago. Those seriously considering early retirement must examine every facet of their financial picture before making the leap, she says.

Among other considerations, that examination should include:

Your home

Contrary to what some may believe it's not necessary to have a fully paid-off home in order to contemplate early retirement. "If there are enough assets and income that you are in a relatively high tax bracket, many financial advisors recommend you keep a small mortgage, for the tax advantages of home ownership," Winsberg says. In addition, retaining a mortgage makes sense if the after-tax cost of the mortgage is less than the after-tax return on a suitable conservative investment.

Health insurance

List potential disasters that could decimate your nest egg, and major

illness or injury would certainly come first. If not covered by an employer's retiree health plan, budget to acquire your own health insurance until Medicare kicks in at 65, or consider joining an association offering group health insurance, Winsberg says.

Long-term care insurance

Today, retirement advisors use a term rarely used decades or even a few years ago. The term is "longevity risk," and refers to the risk of out-living savings, Winsberg reports. The longer we live, the greater chance we will need long-term care, which can quickly drain retirement reserves. Long-term care insurance can be an effective hedge against those enormous costs, she says.

Income Sources

To live in retirement 30 years or more, as many of today's early retirees will, could cost millions of dollars. Before contemplating early retirement, examine where those millions will come from. First, build an "income floor" by laying out expected ongoing income streams, Winsberg says.

These streams will start with Social Security, but might include income from an employer's pension program, annuities, laddered certificates of deposit or bonds.

"From that floor, look at growth investments to make up the gap between those expected income streams and your needs," Winsberg says, noting investing in the stock market is essential in obtaining needed gains. "[Consider] stocks, mutual funds, closed-end funds and managed accounts. And for those with a tolerance for risk and

with the income, alternative investments like managed futures funds and long-short funds.”

Part-time work

Speaking of that “income floor,” part-time work can be very helpful in building the foundation, Winsberg says. The Merrill Lynch New Retirement Study found 71 percent believe the ideal retirement includes some work, and that 45 percent of U.S. Adults don’t plan to stop working – ever.

All this said, some early retirees have their ducks in a row then it comes to funds, and know they will have plenty of money in retirement. But many don’t give enough thought to what they will do after the thrill of playing golf every day wears off.

AARP’s director of workforce issues Deborah Russell urges those thinking about retirement to plan for both short and long-term. “Are you going to spend the first year decompressing and enjoying not working, doing things around the house?” she asks. “And after the dust settles, whatever time frame that is, what are you going to do?”

Those who haven’t formulated an answer to either question put themselves in position to “flunk retirement,” says Eric Sundstrom, a licensed organizational psychologist and co-founder of Memphis-based My Next Phase.

Sundstrom’s organization assists clients with personality-based planning for the emotional side of life transitions, especially retirement. He finds many retirees, whether early or late, buy into popular culture’s glamorization of the golden years. Their image of retirement is of standing hand in hand with their spouses, watching the sun set on a Florida beach after a day of resting and doing nothing. “Many people think they step across the threshold into the golden light... when they have enough money to do it,” he says. “They don’t pause to ask the next questions: ‘Okay, now what?’

A successful retirement requires an active engagement with life, Sundstrom says. To achieve that, My Next Phase recommends four strategies for early retirees:

1. Understand yourself, your personality and traits. Determine what you were born to do, not what you were paid to become in your work, Sundstrom urges.

2. Understand your circumstances. Change produces stress, and retirement is a huge collection of changes. At minimum, those changes are likely to include changes in income, in relationships with your spouse and family, in your daytime pursuits and in where you spend your time during the day.

“It’s change in six or seven things – at once,” Sundstrom says. “The myth is it’s an easy transition, as long as you have the money. And of course, the reality is if you haven’t thought about what you’re doing, you might find yourself flunking retirement.

“Ask ‘What’s fulfilling?’ Really understand your sources of fulfillment.”

3. Identify and explore options. Sundstrom pushes clients to brainstorm, looking into the past as well as the present, to come up with 50 things they might want to do. “You haven’t done your job unless you have 50 things on your list,” he says.

4. Redefine your role. Figure out what your goals are and make a plan. Some people might want to start a private consulting business. That’s a goal of almost a quarter of people who want second careers in retirement, according to the Merrill Lynch New Retirement Study. One way to become a consultant is to launch your business, but a better way is to go work with someone who already has a consultancy before you establish your own.

“When you redefine your role, do it slowly,” Sundstrom says. “Get a realistic preview of a new vocation. The smart way to do it is not to plunge into something new without knowing what you’re getting into. It’s to get a realistic preview without putting a lot of money or time or effort into it.”

As for this last point, long-time academician Tolley has a solid head start. “As I picture my ideal retirement, I would love to teach a class from time to time,” he says. “I understand the desire not to cut the ties completely, but to do it on my own time.”

By Jefferey Steele