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Retire on Your Terms: Planning for Early Retirement

May 15, 2024

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Retire on Your Terms: Planning for Early Retirement

Today we will discuss:

- What does early retirement look like?
- When is it a good fit?
- Strategies to achieve financial independence
- What are the risks?

What does early retirement look like and when is it a good fit?

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Finding Early Financial Independence

$	**Lean Financial Independence**	Minimalists who plan to achieve financial independence by living a frugal lifestyle both before and during retirement.
$$	**Light Financial Independence**	Individuals focused on retiring 5 to 10 years early. Requires saving above the general recommendation of 10-15% of gross income.
$$	**Hybrid Financial Independence**	Individuals focused on saving more now to work less later. Their goal is to partially retire at an early age. Many people continue to work but work less demanding or part-time jobs.
$$$	**Full Financial Independence**	Individuals focused on earning and saving as much as possible to retire early and afford the same comfortable lifestyle.

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Who is a good fit?

Early Retiree Profile

- **Desire to retire earlier than the norm and have strong motivators behind it**
  - In a challenging or unfulfilling career
  - Significant financial life experience/crisis
  - Have hobbies or passion project that will fulfill them
  - Health issues
  - Future caregiver to parents or family members
- Strong work ethic and diligent savers
- Good budgeters
- Those who can start early enough to take advantage of compound interest.
- On the same page with spouse or partner
- Have relationships and community that support this lifestyle

Strategies to Achieve Early Financial Independence

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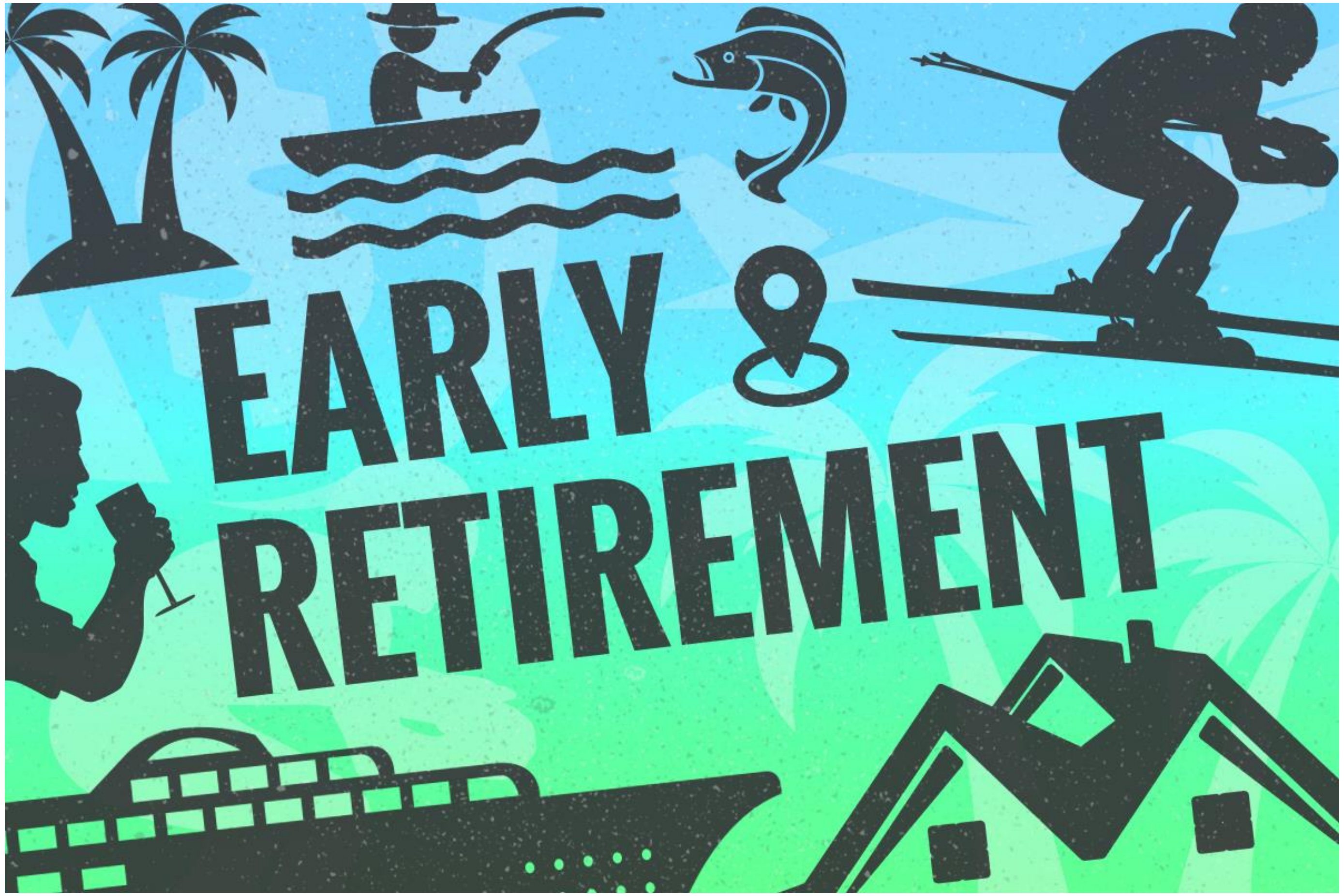
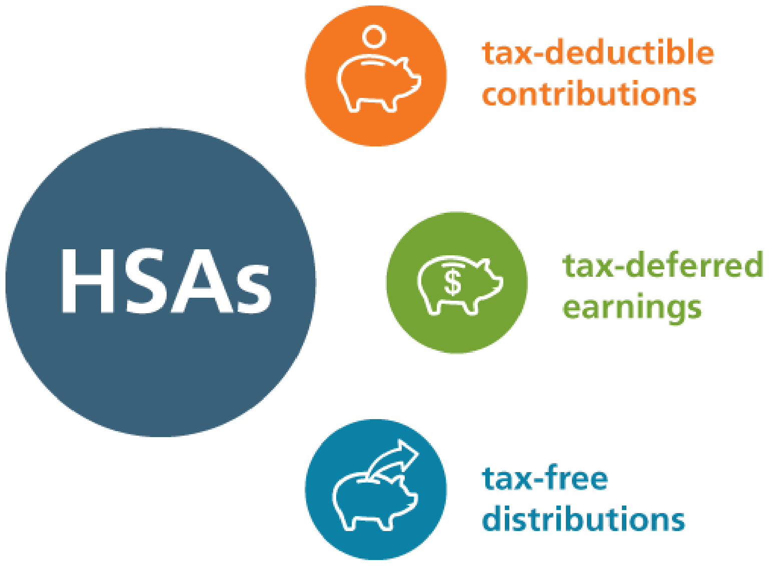


How does it work?

- **Determine the timeline and how much you need to save**
  - Rule of 25 and 4% Distribution Rule are good starting points
- **Begin budgeting and dramatically reducing expenses**
- **Seek ways to increase income**
- **Save dramatically and invest aggressively**
  - 30% or more of your gross income
  - Diversified portfolio that is mostly stock
- **Need to have a purpose when financial independence is reached**

Ways to Save Most Effectively

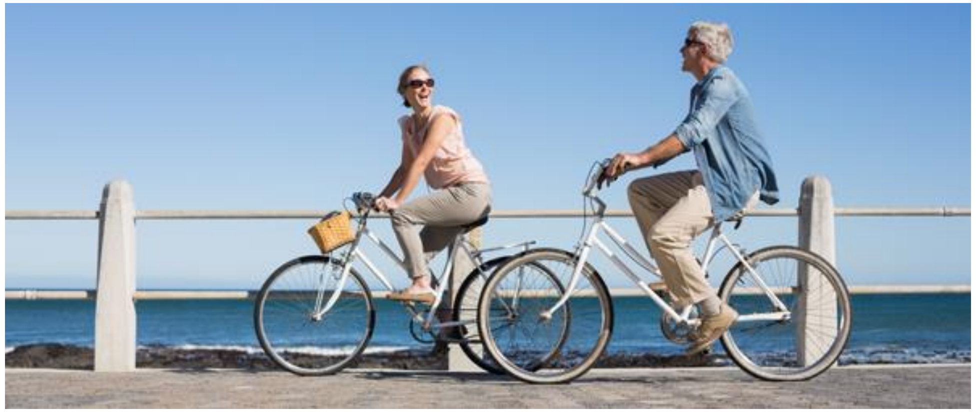
- **Maxing out your employer retirement plan contributions**
  - Set up automatic contributions and be aggressively invested
  - Those 50 or older can make additional catch-up contribution
- **Contribute to a Roth IRA (if eligible)**
- **Contribute to a taxable account**
  - This becomes extremely important for flexibility in early retirement years.
- **Start maxing out Health Savings Account (HSA) contributions for future use**
  - This can be particularly helpful during the years you do not have employer health insurance coverage but are too young for Medicare
- **Take advantage of Deferred Comp and Employee Stock Purchase Plans or any other employee benefit you have available to you to build your wealth**
- **Work with an investment and financial planning fiduciary**



How Do You Effectively Manage Budgeting to be Successful?

- Create and manage a detailed budget
- Keep disciplined but allow flexibility for the unknown
- Have an emergency reserve fund
- Have a 2nd job or side hustle for additional cash flow
- Benefit of eliminating all debt (there are exceptions)

- Design your life around low cost, free activities and communities that supports this lifestyle
    - Active lifestyle vs passive couch potato



How to Provide Cash Flow

- You can start withdrawing from your retirement accounts penalty free at 59 ½
- Contribute to a taxable account to supplement this and provide cash flow before you can access these accounts
- Part time income
- Passive income from assets such as real estate
- Pensions
- 72T Distributions
- Rule of 55
- Longevity Annuity

72T Distributions and Rule of 55

72T Distributions

- Allows you to take distributions from an IRA before age 59.5 without incurring a 10% penalty
- Distributions must be substantially equal periodic payments.
- Distribution amounts based on IRS equations – 3 different approaches
- Must be taken for at least 5 years or until age 59.5 whichever is longer

Rule of 55

- Allow you to take distributions from a 401(k)/403(b) plan as early as 55 with no penalty
- Can only be done from a retirement plan where you left the job after age 55
- The balance must stay in your employer plan

What are the Risks?

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Risks of Early Financial Independence

- Longevity
- Healthcare expenses
- Giving up some social security benefits
- Poor Market performance
- High Inflation
- Cost of lifestyle in 20s & 30s
- Kids
- Paying a mortgage or necessary home improvements
- Social risks –
    - Boredom
    - Will your friends and family be retired?
    - Will you be missing out on major life occasions?

Summary and Closing Thoughts

- To be successful requires thoughtful planning and discipline – you can't wing it!
- Make your timeline to financial independence fit your desires – not one size fits all.
- Aggressive savings and implementing a well-designed aggressive investment plan are keys to success.
- Having a plan on what to do after you are financially independent is as important at the plan to get you there.
- How much cash flow and where you get it are important elements of a plan.
- As with anything in life, you need to be enjoying the ride and not just focused on the destination.

Thank you for joining us!

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