CONFIDENT CONVERSATIONS® on Retirement: Retire Early: Embrace Financial Freedom and Design Your Ideal Lifestyle

Francisco Negrón: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Francisco Negrón, and I'm grateful to be your host. For the past 35 years, I have been privileged to work with organizations to help their employees prepare for retirement. My colleague joining me today is a financial professional who also helps people on their retirement journey, whether they are planning for retirement or already there.

In today's episode, we will explore the concept of retiring early. Get ready to discover the strategies, mindset and financial considerations that can help you retire years ahead of the traditional timeline. Retiring early is a dream for many, but it requires careful planning and a commitment to financial independence. We will delve into the key insights and practical steps you need to take to make early retirement a reality.

Joining me to discuss this topic is CERTIFIED FINANCIAL PLANNER™ professional and Thought Leadership Manager, Lindsay Theodore. Welcome to the show, Lindsay.

Lindsay Theodore: Thanks for having me, Francisco. I'm so happy to be here.

Francisco Negrón: It's great to have you. Well, let's start with the basics. What is considered early retirement?

Lindsay Theodore: Sure. So, Francisco, as you know, T. Rowe Price defines normal retirement age as around 65. And that's typically when people can qualify for Medicare. And it's shortly before they become full retirement age for Social Security benefits. So, retiring early could be any time before normal retirement age, age 65. But of course, if you retire at 45, that's very different than retiring at 55. There's a lot more planning involved for planning on a 50-year retirement versus a 40 year. So, you want to make sure you define what early retirement is to you.

Now, in previous decades, early retirement has been available only to the very wealthy or those who could count on a sizable pension, private or public, that they could collect earlier than full retirement age. But the truth is, anyone can retire early, regardless of having a pension or having a really high income, because ultimately retirement planning is planning to replace a certain percentage...

Francisco Negrón: Right.

Lindsay Theodore: ...of your pre-retirement income at a set point in time and then have that money last over the remaining years. So as long as you are willing to save a significant percentage of the income you earn today, live well below your means so that you can save aggressively, and also maintain the willingness to adapt your lifestyle as needed both before and after retirement, you could retire early.

Of course, some people may be forced into retirement because of layoffs or an illness, or just they might wake up one day and realize I have enough saved, and I'd love to enjoy it and have more financial freedom and that's great. But where possible, we definitely recommend having a plan in place because it gets quite complex.

Francisco Negrón: Absolutely. No. So, it's so encouraging that it is available to anyone, but it does require careful planning and starting early.

Lindsay Theodore: And discipline.

Francisco Negrón: Exactly. And the discipline to stick to that plan. So, we hear a lot about the FIRE movement when it comes to retiring early. What is the FIRE movement?

Lindsay Theodore: Sure. FIRE stands for Financial Independence, Retire Early. And so, the goal for FIRE seekers is to cut expenses drastically, save aggressively – anywhere from 30% to 70% of your income – and ultimately have enough savings and budget flexibility to gain financial independence. And the meaning of financial independence varies, but we'll go into that in a minute.

Just for some context, you know, this movement has gained a lot of traction in recent years with millennials and younger members of Gen X, and it might help to think about the social and economic environment that those generations faced very early in their lives and career journeys. So, on the eve of the Great Recession in 2007, the mid-age range for millennials was around 19 years old and younger Gen Xers were in their late twenties. And financial markets at that time, as you'll remember Francisco, were in turmoil.

Francisco Negrón: Right right.

Lindsay Theodore: The S&P 500 lost 50% between 2008 and 2009. Corporations were faltering. Banks were on the brink. Individuals were losing their homes and their jobs in droves. And the government was really struggling to keep up with all of it. And so suddenly you have this group of young people who realized that the government and/or a corporation is not necessarily going to be reliable, a reliable thing to depend on for sustaining you in your working years, and certainly not in retirement.

But at the same time, you know, the recovery, the stock market recovery and the economic recovery after the Great Recession, it felt pretty slow, but it was actually quite strong. And around that time, thanks to technology, more affordable trading, easier access to financial information made it possible for investors to take more power of their financial destinies. So, I think the FIRE movement was kind of born of this perceived loss of faith in the government or a corporation...

Francisco Negrón: Right.

Lindsay Theodore: ...to take care of the individual worker. And also, just the realization that if you want to truly gain financial security and financial freedom, you would have to have the discipline to make that for yourself.

Francisco Negrón: Well, that's helpful context. Out of necessity, I mean, from their perspective, at that point in time, absolutely. I didn't know that. Thank you.

Lindsay Theodore: Absolutely. Yeah. Well, for those who actually subscribe to FIRE, that that's kind of what they took from it and one of the reasons. I would argue also that the pandemic, you know, 12 or 13 years later, only added fuel to FIRE, not to use a cheesy pun, but because, you know, in times of societal turmoil, you want to gain more control. And if that can be financial independence, then that's all the more incentive.

Francisco Negrón: Very interesting. Thank you for that. So, let's circle back to what you mean when you say the meaning of financial independence varies. Can you talk a little bit more about that?

Lindsay Theodore: Sure. So, it certainly does. There's a broad spectrum of how folks define it, but to some it means fully retiring at an early age and never clocking in at any job ever again. To others, it means maybe quitting their 9 to 5 job and all the long hours and the stress associated in exchange for work that either ignites their passion and maybe pays less or work that simply affords them more flexibility with their hours and their paycheck.

Some people want to save aggressively now so that they can live on a lot more later. And some want to save aggressively now and always live frugally at the same lower levels that they've become accustomed to.

But regardless of their differences, successful financial independence seekers do share several common characteristics, and I would like to highlight them. So, they're personally committed to saving a significant portion of their income and they therefore train themselves to live on less. Regardless of enjoyment, they do tend to view their careers as fluid resources for generating income, wealth and financial autonomy. And because they view work as a means to a happier and less stressful lifestyle, they're generally more open to the concept of unretiring at some point in retirement. So, picking up full time or part time work whether to reduce financial strain, increase personal fulfillment, or in some cases both.

Francisco Negrón: And it's interesting because you can have the latter only if you address the former, that commitment to saving a significant portion. Without that, that's foundational, right?

Lindsay Theodore: Exactly. Absolutely. Because you need to have options. Right?

Francisco Negrón: Absolutely, very interesting. So how can someone determine if they are indeed financially prepared to retire early?

Lindsay Theodore: Sure. So, let's start here with the basic planning steps and kind of prerequisites, and then we'll get into more of the logistics of executing a plan later on.

Francisco Negrón: Yes, sounds good.

Lindsay Theodore: But so, before deciding whether FIRE is even feasible, feasible for you and your situation, it's good to have your basics covered. So have an emergency fund that's worth about 3 to 6 months of expenses, have little or no high consumer credit debt. So that's personal loans or credit card balances. Be saving 15% of your paycheck already, preferably with money to spare. So, expenses you'd be willing to cut to save more or just extra cash flow. And have savings that would put you on track currently to retire at normal retirement age because if you're not on track to retire at 65, it might be difficult to target earlier retirement. So, you want to make sure those basics are covered.

And once they are, you probably want to get a baseline by running your numbers using an online tool. Now, once you've gotten the kind of idea of how things look, it would be helpful for many to talk to a financial professional because they can help you fine tune the strategy and kind of identify any blind spots. Also help you implement a savings strategy and hold you accountable to sticking to it.

Francisco Negrón: Absolutely.

Lindsay Theodore: And the last thing I'd say is to make sure is if you're targeting early retirement, there's a lot of planning that goes involved and a lot of discipline and sacrifice. So, make sure that you're involving your planning partner in those discussions. You want to make sure that you're both on board with that plan because it's going to be more likely to be successful that way.

Francisco Negrón: So obviously, we've talked a lot about planning, planning, planning, discipline. So, we all know we understand that retiring early requires careful planning and just towards building that solid foundation that will give you those options. So, what are some of the common strategies for achieving financial independence and early retirement? And you started to touch on some of those, but could you elaborate?

Lindsay Theodore: Absolutely, Francisco. So those are the basics of planning that we just discussed. Now, when it comes to actual logistical steps, you need to sustain an elevated savings rate. And part of that is automating your savings and investment plan. If you never see it hit your bank account, you won't be tempted to spend it. So, have any savings vehicles that you've set aside to diversify for future sources you can pull from in retirement, make sure that it's coming out of your paycheck or out of your checking account automatically, just as a bill would, okay? Invest wisely. So, when we say invest wisely, we mean invest in something diversified, competitively priced, and that's going to invest in the broader market. And then carefully managing your spending is a crucial step toward maintaining that elevated savings rate. It's also crucial to making sure that you're limiting the expenses you're going to have to cover in early retirement. So, the more you can lower your fixed expenses, your required expenses, it's going to free up a lot more flexibility later on.

And the last thing I'll say that's really crucial, especially for early retirees, is optimizing your savings through diversification of account types. And I'll highlight the importance of that. The more you can diversify the types of savings you have – 401(k) pretax traditional type savings, having some Roth 401(k), perhaps, or Roth IRA assets that you're funding regularly, as well as Taxable accounts - it'll give you better options for pulling income later on and you might be able to take smaller withdrawals to net the same amount to live your lifestyle.

Francisco Negrón: And understanding the proportion of your savings that would be to one of those options versus the other is an important consideration.

Lindsay Theodore: Absolutely.

Francisco Negrón: Which brings to mind one point you made earlier, which is finding, you know, somebody who can help you evaluate those considerations.

Lindsay Theodore: That's exactly right.

Francisco Negrón: Yeah, very important.

Lindsay Theodore: Yep.

Francisco Negrón: it is doable, but it is a lot.

Lindsay Theodore: It's complicated to know what percentage to put in your Roth 401(k) and your traditional and then how much to put into the taxable account and what's a tax efficient investment for that. You can certainly do the research to figure out what other FIRE seekers have done and what they advocate. But talking to a financial planner professional can be a big step and really help put you on a path of knowing what you're doing and why.

Francisco Negrón: Absolutely. So, what would you say is a good age to aim for early retirement?

Lindsay Theodore: Yep. So, for a variety of reasons, many investors who want to retire earlier than 65 may find that it's unrealistic to do so in their forties or thirties. So, in a recent article I authored with my colleague Roger Young talking about the Steps to FIRE, we focused on the slightly more attainable goal of attaining financial independence by 55.

Francisco Negrón: Okay.

Lindsay Theodore: And that's the year at which you can gain penalty free access to your most recent employer sponsored retirement savings plan. You might still have some taxes but because so many workers do have high balances in their 401(k)s that seems like a feasible objective for people at a variety of income levels and asset levels, and it's still ten years earlier than normal so.

Francisco Negrón: No, it definitely is, but it is on the latter part of your peak earning years. The fact that it's an age where you don't have those penalties so that's one less barrier,

Lindsay Theodore: Correct.

Francisco Negrón: …that you have to overcome. So, it makes sense…

Lindsay Theodore: Correct.

Francisco Negrón: …a good age to aim for. Yeah. So, this I don't know why, but it brought to mind Social Security benefits because that's something that there is a lot of discussion when people are considering retirement. So, could you tell us what impact retiring early could have on your Social Security benefits and other retirement saving vehicles?

Lindsay Theodore: Sure. Yeah. So, we'll talk about it the impact on Social Security and other kind of income benefits. So Social Security benefits are based on your highest 35 years of earnings, it's the average of those. So, retiring early might prevent you from further building your benefit base. So that's a benefit to planning on consulting or staying on with your firm part time in early financial independence, because it adds to the years that you won't have zeros factored into that calculation.

Francisco Negrón: That's an important point I hadn't heard before.

Lindsay Theodore: Right. So, staying on and doing some part time work may help to build your benefit base. So generally, the longer you can live off of your assets and maybe some part time work, a side hustle, and avoid collecting Social Security, the higher your lifelong income from Social Security could be. And then with regard to pensions, you know, these are much less commonly available now.

Francisco Negrón: Right.

Lindsay Theodore: Sadly. But if you're a teacher or federal or state or city worker you could be eligible for a pension. So just make sure you understand the eligibility rules, the estimates, when you might be able to collect and how early retirement would affect your benefits, because oftentimes those benefits are based on years of service.

Francisco Negrón: And a good tool would allow you to input all of that so that you have a comprehensive picture. Would it not?

Lindsay Theodore: That's right. That's exactly right. A financial planner can build in some of those “what ifs” for if you collect it 55 or wait till 60, or what have you. But of course, your pension estimates, you'd probably have to get through the employer.

Francisco Negrón: Well, thank you for all of that. Can you also share some of the potential risk and considerations that individuals should be aware of when planning for this step, for early retirement?

Lindsay Theodore: Yes, of course, Francisco, because there are risks. So, the risks for early retirees are very similar to the ones that normal retirees face, okay? But for early retirees, they can just become exacerbated because you’re simply, you have less time to accumulate dollars and you have a lot longer time horizon where you're going to be needing your portfolio to sustain you.

So typical risks such as withdrawal risk, so spending down your portfolio too quickly. Inflation risk, the risk that your purchasing power is depleted over time. Longevity risk, you know, the risk of you living too long and just outliving your assets. Market risk and sequence of returns risk. That's just the risk that negative returns over periods of time cause you to deplete your portfolio too quickly. All of these are more acute when you're an early retiree because you need that money to last a lot longer. Right? And so, the more time there is, the more these risks can creep in and make you very vulnerable to potentially running out of money.

And that's why adaptability is key. So going into retirement, being prepared to pick up some part time work, to put less stress on your portfolio or take a lower withdrawal, maybe do a domestic trip instead of an international trip that year. You know, being prepared to adapt your spending and adapt your earning power based on the market environment is really a great thing you can do to kind of cushion yourself against that risk because you need the money to last a lot longer than a normal retiree who only needs it to last 30 years.

But another thing you can do is reduce the withdrawal rate, your initial withdrawal rate.

Francisco Negrón: Right, no, I wanted to ask you about that.

Lindsay Theodore: Yeah.

Francisco Negrón: I’m glad you brought it up.

Lindsay Theodore: Yeah, Yeah. So, 4% is definitely, at this point, pretty widely accepted as what's considered, quote unquote, a safe withdrawal rate. 4%, And then you adjust it upward for inflation each year. But again, that's based on a typical retiree who has 30 years’ time horizon. It's not based on someone with a 40 year or a 50-year time horizon.
So, it may make sense and it might be more prudent to start with a lower withdrawal rate when you're retiring early. So, the FIRE community does subscribe to the rule of 25, which is basically you take your spending, and you multiply it by 25 and that's how you get to the figure that you

need to have saved in order to retire comfortably and gain financial independence. So, like, if you want to spend $50,000 in retirement, you multiply that times 25, it's 1.25 million, 4%, essentially of 1.25 million is $50,000. Okay?

Francisco Negrón: Oh, I see.

Lindsay Theodore: Okay. And that's easy math and it's simple, but it does have some issues in that the 4% withdrawal rule is based on a 30-year retirement, not a 40 or 50 year. And it's a pretax figure. So, unless you have all your money in tax free Roth sources, which many people don't, in order to net $50,000, you would probably need to take out more. Does that make sense?

Francisco Negrón: Okay. It does.

Lindsay Theodore: So, if you're taking out more and you're suddenly taking four and a half, 5%, 6% in your first year of retirement at 55, that could be risky. So just plan on having more, having a side hustle, spending less, just be adaptable and be prepared to pare back spending if the market doesn't cooperate.

Francisco Negrón: This is excellent information. So, if I may, I wanted to switch gears a bit and ask you about health care.

Lindsay Theodore: Sure.

Francisco Negrón: Health care costs are a big consideration, correct?

Lindsay Theodore: Yeah.

Francisco Negrón: So, what are some alternative health care options for individuals retiring before they are eligible for Medicare?

Lindsay Theodore: This is definitely one of the things I think that intimidates a lot of people and makes them feel like I could never retire before 65 because I won't be eligible for Medicare. And they should rest assured that there are options that weren't available 15 years ago. This was another reason that in the past people who had a sizable pension could retire early because not only did they have a pension source, they had, you know, health care coverage through the school system or through the federal government. But those options are widening. So, your health care expenses are likely to increase once you reach early retirement.

Francisco Negrón: Right.

Lindsay Theodore: Okay. That's goes without saying. But the biggest share of your expenses likely and for most pre-retirees and retirees in America is housing. So, the more you can get your housing costs under control can help to make the room for increased health care. But with health care, when you separate from your employer, you do have the option to stay on your employer plan through COBRA. Depending on how they're set up, it could be 18 to 36 months that you're eligible. You'll be responsible for the full premium so it may be more expensive, but you'll get to keep your insurance.

Francisco Negrón: Okay.

Lindsay Theodore: But another option that I would encourage anyone who is pursuing FIRE to really explore is to look for options available on your state sponsored insurance exchange, the Affordable Care Act, or ACA exchange that's sponsored by your state. These plans have become much more affordable and widely adopted. So partly because of the increased competition, transparency, access, we're starting to see a lot bigger usage of those plans, which is really pushing the price down and making it so health care is not the barrier to entry for early retirement.

Francisco Negrón: So, we hoped would happen.

Lindsay Theodore: That was the goal. It took some time. And it's, and we're still working through it, working through the kinks. But keep in mind that the subsidies are all income, taxable income based. So, if, back to that optimization and diversification of account types, if you can have a diversified source of income to pull from and pull from Roth maybe, a little bit of Roth, a little bit of taxable accounts to keep your taxable reportable income low, not only could you still afford your lifestyle, but show lower income on paper, you could also qualify for a lot of help from the government for, with regard to your health care premiums.

Francisco Negrón: No, that's really helpful information. Thank you again. So, what are your thoughts on how someone can mentally and emotionally prepare for that transition.

Lindsay Theodore: Well, I think mental preparation is key.

Francisco Negrón: Yeah.

Lindsay Theodore: We've talked a lot about the financial preparation, about disciplined savings, elevated savings, spending less. But ultimately, if you're going to make all those choices and have all the discipline to set aside a bunch of money to retire and get financial independence early, you're going to want to make sure you've thought about how you're going to spend that time.

Francisco Negrón: Right.

Lindsay Theodore: And make sure it's going to be doing something that's fulfilling, that you couldn't do while you were working, but that's also going to be sustainable for a long period of time. So, make sure you give some thought to what you're going to be doing with that extra time. Even though you need to be prepared to adapt, have a vision for it.

Francisco Negrón: Yeah, here, we've talked about it. I know you've been a part of those discussions, that concept of practicing it.

Lindsay Theodore: Oh yeah.

Francisco Negrón: You know, don't wait until when you actually make the transition, but start easing into it...

Lindsay Theodore: Exactly.

Francisco Negrón: ...just to see how that feels, you may find that that is not what you want to do.

So, I recently had a chance to catch up with an old friend, Linda, who retired from T. Rowe Price at age 55. And here's what she had to say.

Linda! It's so good to see you. So last time we were in the same building. Actually, when we were working together, you were dealing with big, complex projects and you traded that for how many grandchildren?

Linda Caton: Right now I have four.

Francisco Negrón: Okay.

Linda Caton: Four under the age of 18 months.

Francisco Negrón: Wow.

Linda Caton: And then I have another one coming in July.

Francisco Negrón: So, it would be fair to say that your life is not stress free, but it's just a different kind of stress. Right?

Linda Caton: It is definitely a different type of stress, but a good type of stress.

Francisco Negrón: Well, great. Well, actually, I suspect that that's part of the reason I had a few questions for you. So, if you're okay with that, I wanted to go through them, but when did you decide that you wanted to retire early?

Linda Caton: Well, let's see. I have three daughters and when I was working, I had great in-laws and a great mother who watched my children while I worked, and I always thought to myself, you know, I want to pay that back.

Francisco Negrón: Yeah.

Linda Caton: When I get when my kids have children, I want to be able to watch their kids so they can go to work and not have to worry about daycare. So, I guess I really started thinking about it, it's kind of sad, when my younger brother passed away. So, he passed away when he was in his late forties. And that's when I really got to thinking like life is too short.

Francisco Negrón: Yeah.

Linda Caton: I need to start thinking about retirement. My kids are getting older, and I really do want to be able to watch their children. So that's when I kind of really started thinking about it when I was, like in my early fifties.

Francisco Negrón: Yeah, yeah. No, it puts everything in perspective. I remember that period. That was hard.

Linda Caton: It does. Because life is just too short, and I wanted to make sure I enjoyed life after work.

Francisco Negrón: Yeah. Yeah. And you guys were always, I remember that about you. You were always just a very close knit, not just your immediate nuclear family, but the extended family, the in-laws, the parents, the siblings. So that is awesome that now you're the one holding all that together for a different generation.

Linda Caton: Yes.

Francisco Negrón: So now on a practical side, I mean, that's a wonderful reason, but how did you determine that you were prepared to retire early?

Linda Caton: Okay, well, T. Rowe has this great service, the financial planner and I met with him, and we went over our finances. We talked about what I wanted to do in the future. Did I want to travel? Did I have any big life events coming up to make sure I had enough money?

So, the big things were weddings. I had one wedding under my belt, but I had two more that I knew I was going to have. So, I wanted to make sure I had funds put away for the wedding. And after I met with the financial planner, he came back and he said I was good to go based on all my savings. A lot of it was through T. Rowe, the retirement plan, the employee stock plan.

And then I had this great mentor at work. And she sat down with me every year to make sure I put money away. And if it wasn't for her, I probably wouldn't be sitting here today.

Francisco Negrón: So true.

Linda Caton: Because she really, really pushed me in the right direction.

Francisco Negrón: So, I guess I was going to ask you, how did you, what did you do to financially prepare to retire early but it sounds like with you, you were doing that all along…

Linda Caton: Mmhmm.

Francisco Negrón: …but was there from that conversation with the financial planner, with the person who was guiding you, anything out of that that you felt, "Oh I need to do this before I'm ready to actually...”

Linda Caton: Well, the one thing we really thought about was health insurance. Fortunately, I was able to go on my husband's plan. So, he has been carrying me on his health insurance is going to be retiring soon as well, so now we really do have to think, which I didn't think that he would retire before I was 65.

Francisco Negrón: Okay.

Linda Caton: So, we do have a little bit of work to do on that, of how we're going to handle the health insurance. So, I didn't think about him retiring early.

Francisco Negrón: Right. What you just described for me because I'm thinking about different episodes that we've had in different conversations on this podcast, how, you know, you have your plan, you do it, the importance of reviewing it, revising it as circumstances change. So, you were not thinking he was going to retire at this point. I'm sure that the five grandchildren had something to do about that.

Linda Caton: Well that definitely has a lot to do with it because I can’t really handle five grandchildren on my own.

Francisco Negrón: So, we've touched on what you had to do financially. This is, thank you for sharing all that. Mentally, emotionally. Because, I mean, you and I, you know, in here, this is one of the things we were blessed with that, you know, it was work, but we were all very close, very collaborative, almost like a second family and a community, and that that had to be hard.

Linda Caton: That was probably the hardest thing, was to leave the people that I worked with day in and day out. I made some great friends. I still keep in contact with them, but that was probably the hardest decision about leaving, was leaving my friends. I wasn't nervous about retiring. You know, people would say, “what are you going to do? What are you going to do?” You know? Because when I retired, I didn't have any grandchildren…

Francisco Negrón: Right.

Linda Caton: ...and none were on the way. But I got to tell you, there was plenty of things to do.

Francisco Negrón: Yes.

Linda Caton: I was I was never bored. I mean, first of all, I really don't know how I worked all those hours and still had time to do everything else. So, I'm very fortunate in that manner that I was able to retire early. And it’s been wonderful.

Francisco Negrón: So, any tips? I mean, I know it's very personal and everybody has their own story different, you know, priorities, but any tips that you would offer that you would give somebody who is thinking about or trying to retire early?

Linda Caton: Well, the biggest tip, I would say, which I wish we would have done was to pay off our house before I retired. So, we refinanced so many times throughout the years. And I really wish our house would have been paid off before we...

Francisco Negrón: Yeah.

Linda Caton: …before I retired. The other tip, I think I would say is in your retirement plan, I didn't do this because it was it was a new feature. is the Roth. To participate in the Roth feature because when you go to withdraw that money from your 401(k), taxes are a killer.

Francisco Negrón: Yeah, yeah, we've talked about that here too.

Linda Caton: So, it's just, you know,

Francisco Negrón: Yeah.

Linda Caton: It's crazy. So, and all mine was pretax, so I didn't do Roth.

Francisco Negrón: Right. Yeah.

Linda Caton: So, I would definitely recommend folks to do Roth and to do the auto increase to make sure that increase takes place every year. So, when you get your raise, you don't even miss the money because you don't see it in your account because it comes out of your paycheck and goes into your 401(k) plan. So, and to take advantage of all the benefits that your company gives you.

Francisco Negrón: For our listeners I mean you touched on just right there in that response on topics where we have dedicated episodes, you know, the tax considerations, the way that you turn your accumulated assets into a, an income stream in retirement, there's a lot to consider.

Linda Caton: There is.

Francisco Negrón: ...and the value of having somebody look at all of that with you to point out things that you may be missing.

Linda Caton: Yeah, actually we have a meeting in another month to go over our finances and talk about my husband retiring.

Francisco Negrón: Yeah yeah, well, this is great. Well, thanks for coming and meeting with me. It's good to see you. And this is a really good conversation. So, thank you.

Linda Caton: Oh, you're welcome. Thank you.

Francisco Negrón: That was such a great conversation. I mean, first of all, it was wonderful to see her again. It had been a while. But she pretty much outlined all the important considerations one has to factor when thinking about retiring early.

So back to you, Lindsay. What are some potential tax implications of retiring early and withdrawing from retirement accounts?

Lindsay Theodore: As you know, there are some. Early withdrawal penalties will apply to pretax and traditional IRA sources prior to 59 and a half, unless you're pulling from an employer sponsored plan that was recently when you separated from your employer after age 55. That is an IRS rule, the rule of 55. So, any withdrawals from IRAs or pretax sources or Roth earnings or after-tax earnings, could be taxed and penalized at 10% if you withdrawal them prior to 59 and a half, unless it's coming from an employer plan. So again, just reiterates the importance of diversifying into other sources. Roth. Taxable. Roth you can always pull, you know, any contributions that you made tax free, but it gets a little bit wonky when you're pulling it from 401(k) sources. But nevertheless, the more you diversify into Roth and taxable accounts, the more options you'll have down the road is the bottom line.

Francisco Negrón: No, absolutely. And reiterates the importance of not only diversifying, as you said, but also of understanding the vehicle and all the ramifications…

Lindsay Theodore: Right.

Francisco Negrón: …so that you can factor that into the plan.

Lindsay Theodore: Absolutely.

Francisco Negrón: Because the time to do that and understand that it's not when you need it.

Lindsay Theodore: No, exactly.

Francisco Negrón: Not to state, the obvious, but.

Lindsay Theodore: Exactly and the earlier you can set up that plan, not only increase your savings rate to pursue FIRE, but also have a detailed strategy for how much goes into Roth 401(k) How much are you putting in a regular Roth IRA If you qualify? How much goes in the pretax 401(k) and how much am I putting into my taxable investments? If you have a plan for that early on, you can really build up those balances so that when you get to retirement, it's all about just keeping your taxable income within a reasonable amount but still living the same lifestyle you plan for.

Francisco Negrón: So true. So true.

Lindsay Theodore: Yeah. Yeah.

Francisco Negrón: So, what about strategies for generating income during early retirement, such as part time work or entrepreneurship? Can you talk about those?

Lindsay Theodore: Sure, so we discussed this a little bit, but planning to assume part time or full-time work in retirement at a less stressful, more personally fulfilling job, or setting up a side hustle if you love to do crafts and sell them or what have you, it can provide benefits both personal and financial. In some cases, it can come with health care benefits and a savings plan, or the opportunity to put money away as a self-employed person. It can also just provide additional cash flow so that you can limit withdrawals from your investments in those critical or early years of retirement. Right?

Alternative income streams like having a rental property, not saying that you should buy a rental property for rental income because there are lots of costs associated, but if you already have a property that you potentially could rent out for passive income, that could be a great compliment and help to reduce pressure on your investments.

And if anything, having some part time work that keeps you busy and helps you feel fulfilled can also just help you build up your cash cushion so that when you eventually transition from early financial independence/partial working to full blown retirement, you have a good cash cushion to pull from and you don't have to maybe sell your investments when they're lower. So, there are lots of mental and financial benefits to that.

Francisco Negrón: Yeah, I was thinking about that too. It's a good transition.

Lindsay Theodore: Yeah, you went to work every day, you know, whether you worked from home or went to the office, you were logged in every day at a set time and now you're not. So, if you have something to do part time to feel that way, it can help to make it a lot easier and more enjoyable.

Francisco Negrón: Absolutely, definitely helps. So obviously we've talked a lot about all the considerations. There's a lot to know, a lot to absorb. Are there any resources, books, or communities available for individuals that are considering pursuing early retirement?

Lindsay Theodore: Yep. So, we recently, Roger and I recently published a detailed piece that discusses many of these key points and more, on financial independence and achieving early retirement. It's called Six Steps to Fire. But the FIRE community is passionate and enthusiastic…

Francisco Negrón: Very much.

Lindsay Theodore: ...as you can probably guess. And so, their online presence is prominent. So, there are multiple independent podcasts, books and blogs on the topic, and I encourage you to check them out. They can be very valuable resources. And then talking with a financial professional, once you've done your research and have an idea…

Francisco Negrón: Always

Lindsay Theodore: ...of some of the levers to pull, might be really worth your time.

Francisco Negrón: Yeah, even if it is just to validate.

Lindsay Theodore: Educational. Validation.

Francisco Negrón: ...validate your conclusions.

Lindsay Theodore: Exactly.

Francisco Negrón: Well, this has been a wonderful conversation, Lindsay, but we do need to wrap up the discussion, so let's leave our listeners with a parting thought or a next step that they can take when it comes to retiring early, what would you share as a brief take away?

Lindsay Theodore: Thanks so much, Francisco. I've enjoyed it. So I would say that anyone can attain early financial independence as long as you're willing to save aggressively and adapt your plan, your spending, your savings rate, add in some part time work, as needed, to make sure that you're living your lifestyle to the best of your ability, but also managing the risks that come with needing your assets to last an extended period of time.

So J.L. Collins is a famous author for personal finance and financial independence and wealth building. And I heard him on another podcast recently and he gave the best advice. He said, if you want to gain financial independence and be wealthy and successful in life, there are three keys. Avoid debt. Live below your means. And invest the difference. And I think that that is just very basic but great advice.

Francisco Negrón: Wonderful advice.

Lindsay Theodore: Yeah, and invest difference and invest it in a disciplined way. And you know, have a plan.

Francisco Negrón: Absolutely, no, great advice. Great way to wrap up the discussion. Thank you again for joining me today. It was great.

Lindsay Theodore: Thank you, Francisco. I appreciate it.

Francisco Negrón: As we wrap up today's episode, remember that early retirement is within reach if you approach it with intention, with discipline and a long-term perspective by prioritizing financial independence, building a solid financial foundation and designing a purpose driven retirement, you can unlock the freedom to live life on your own terms. Remember, early retirement is not just a dream, it can be your reality with the right mindset and financial planning.

Again, I'm Francisco Negrón. Thank you for listening. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember, it's not how you start, but how you finish. So be confident! Your tomorrow begins today.

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