Regions Wealth Podcast

Episode 27: The Secret to Early Retirement? Creating a Plan

While many dream of retiring at a young age, very few people are able to do so. According to the U.S. Census Bureau, the average American man will retire at age 65, while the average woman will retire at 63. So how achievable *is* early retirement? In this episode of Regions Wealth Podcast, Private Wealth Planner Wyeth Greene shares planning tips and considerations for those hoping to retire before the age of 60.

Episode Transcript

Sarah Fister Gale:
Welcome to Regions Wealth Podcast — the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister-Gale.

Early retirement. It's something many of us dream about, but very few are actually able to achieve. According to the U.S. Census Bureau, the average American man will retire at age 65, while the average woman will retire at 63. So how achievable *is* early retirement? And for those who dream of retiring before the age of 60, what sort of financial planning needs to occur? Joining me remotely is Wyeth Greene. He's a Private Wealth Planner for Regions Bank. Wyeth, thanks for joining us today.

Wyeth Greene:

Happy to be with you today, Sarah.

Sarah:
In this episode of Regions Wealth Podcast, we're discussing early retirement. We've taken frequently-asked questions and have developed a character who needs your help. Let's listen.

Katie:
"Hey there! My name is Katie, and I'd love to pick your brain about retirement planning. Basically, I want to retire early, and I think I'm on the right track. For a bit of background, I'm 36, currently single, and I've been saving for retirement since I was 21. I work for a major consulting firm and because I spend most of my time on the road, I've never really even had the chance to spend my money. So, I decided to really take advantage of this situation and save aggressively for retirement. Pretty much everything I earn, I save. For example, my apartment back home is bare bones and incredibly cheap — rent only accounts for something like 10% of my salary."

Sarah:
So let's start by talking about early retirement. Obviously, we'd *all* love to retire young, but few of us are actually in a position to do so. In your experience, what are some things to think about when planning for an early retirement?

Wyeth:

To retire early, a couple of things need to happen. First, there needs to be a willingness to be a bit counter-cultural in a sense. So that means things like taking the time to create a very intentional and often strict budget for expenses. And that might mean significant sacrifices relative to peers, family, and friends. It means having an above average savings goal as well. Maybe 30 to 40% of income or more. More importantly, I think it takes a very detailed plan that takes into consideration all the intricacies and nuances of a time horizon that could span 40, 50, or even 60 years.

Sarah:
So based on everything you've just said, does it sound like Katie on the right track based on what we've learned so far?

Wyeth:
Well, first I'll say it sounds like Katie has made some very smart decisions for her age. So excellent job. She's living very frugally and simply. She's saving aggressively. Most importantly though, she's thinking ahead, she's thinking about the right questions to ask. She's begun to develop a concrete plan and that is the absolute critical part of reaching her goal.

Sarah:

Alright. Let's listen to a bit more of her story.

Katie:
"In addition to my aggressive approach to savings, I've also set up a source of passive income. Several years ago, I purchased an investment property. All of the units are currently occupied, and rent brings in just over $40,000 annually. Of course, I still have to pay for things like property taxes and upkeep. But if things go as planned, I'll have paid off my mortgage on that property by the time I turn 40. My goal is to retire at 45. At this point, I've saved around $450,000. I've plugged the numbers and based on my current spending habits, what I have now will last me around 15 years or so without revenue from my investment property. With that $40,000 taken into account, I think I'll be set."

Sarah:

So again, it sounds like Katie is doing really well for herself, particularly compared to the average thirtysomething: She's living below her means, saving aggressively and has made an investment that she hopes will provide her with passive income for years to come. But how much can she rely on that $40,000 per year as a definite source of income?

Wyeth:

She's doing a lot right and her goal of having no debt and a passive income source by the age of 40 is a tremendous goal. All she's accomplished with the investment property is extremely impressive. She might want to consider adding diversity to her investments simply because of the nature of rental real estate. If a tenant were to leave or to not pay rent or there was a major repair needed, that $40,000 could easily be less than what she would need to cover her expenses. So in her case, I would recommend not just relying on the investment property to generate income, but also accumulating other investment assets that could help her generate that annual income.

Sarah:
So when Katie is thinking about her retirement income, what factors should she be taking into account?

Wyeth:

One thing she would want to consider are the different sources of income she has to draw from in retirement and how to be strategic about accessing this money. So for instance, if she has a qualified account from her consulting firms, such as an IRA or a 401k, based on current laws, she can't access this money until age 59 ½ without significant penalties. So she would need to consider all of the other assets that she could pull from until that time. Another major consideration is that upon leaving her job, she's no longer contributing to Social Security. So that benefit if she gets anything, could be significantly reduced. So she'd want to be sure that she has saved enough on her own to cover expenses and not rely on that source of income.

Sarah:

So based on everything you've just said, is there a way that Katie can more accurately project what her income will be come retirement?

Wyeth:

So working with a wealth advisor who has access to detailed planning software, she can run projections for what she might expect for income. These projections could incorporate her current income and savings and they can build in assumptions around future investment growth, inflation expenses, and so forth, to give her an idea of what she might be able to earn each year.

Sarah:

So, it sounds like Katie is working off the assumption that her spending in *retirement* will closely resemble her current spending habits. Is this a safe assumption?

Wyeth:

Well, a lot can change over the years, especially considering she's only 36 years old. So that's potentially a 40 or 50 or 60 year time horizon. It's a long time. No one knows exactly what inflation's going to do over time or how tax laws and tax rates might change. Another, is the cost of health insurance. She's not going to have coverage if she retires from work. So she would want to factor in costs and options to ensure that she does have medical coverage until she reaches the age of eligibility for Medicare, which currently is 65. So I think that rather than assume the current spending level will remain the same, I think it is a safer bet that they're going to vary as her circumstances change. So all that to say her plan should be to review and update periodically as life changes occur.

Sarah:

Ok, so it sounds like she might need to do a bit more planning. Is there a way that she can actually project what her income needs might be in retirement?

Wyeth:

Sure. So if Katie is retired, then she's relying solely on her accumulated assets to generate income to cover her living expenses. So that means she'll need to get enough of a return on her investments each year to generate that income. So for example, if Katie hopes to spend $40,000 in a given year and she expects to earn 4% return on her investment, she would need a million dollars in order to earn the $40,000. Now, that's a very simplistic example because she's going to have to consider factors like taxes on investment returns, account management fees, the impact of inflation on her expenses and so forth. So ultimately she's going to want to sit down and work with her wealth advisor to tailor her investment approach to support her lifestyle.

Sarah:

So Wyeth, in episode 25 of the podcast, we discussed how maternity leave can impact retirement savings. Now, Katie mentioned she's currently single. I'm curious: how might marriage or kids potentially impact her current retirement plan?

Wyeth:

Well, being married and having three children of my own, I can confidently say that this will impact her retirement goal a lot from a larger grocery bill each month, all the way to the increasing cost of education. And if she gets married, there will likely be differing opinions on how to budget. So a family would be one of those changes that would definitely take adjusting the plan.

Sarah:

OK, so all-in-all, it sounds like Katie is on the right track, but would benefit from a bit more planning. Let's take a listen to the final portion of her story.

Katie:

“So, I haven’t worked with an advisor or anything like that, but I’ve been an avid follower of some really great bloggers and I’ve been following their methods to a T: aggressive saving, investing, passive income, that sort of thing. All in all, I think I’m on the right track to retire in the next 10 years or so, but I’d love to gut check this. Is there anything I should start doing now to set myself up for success?”

Sarah:
OK, so Katie has been following the guidance of bloggers instead of working with a wealth advisor, and it sounds like she’s picked up a few decent tips. But can you explain why it’s important for her to seek guidance from a certified professional?

Wyeth:
Certainly. So there's a seemingly endless number of blogs out there related to early retirement. Some of those have legitimate advice and tips and others, not so much. But when trying to make a decision that carries so much weight and where it will define the trajectory of the rest of her life, she certainly wants to sit down and work with a wealth advisor. They will have the knowledge and the experience to help her prepare and consider all of the many, many aspects of this decision and to create and implement a feasible plan.

Sarah:

So Wyeth, based on everything we’ve discussed so far, what should Katie should start doing *now* to put herself in a better position to achieve her goal of retiring in the next 10 years?

Wyeth:

Well, first I would advise that she begin considering working with a wealth advisor, as we just mentioned, that way she can begin developing the plan, thinking through her options in terms of income and expenses. Other practical steps are to make sure that she's maximizing her income and maximizing her savings each year. If she's eligible for an employer match into a qualified plan, such as a 401k, she certainly wants to take advantage of this free money. Another thing she can do is to set up automatic savings plans, where a portion of her income goes directly to savings without her having to think about it.

Sarah:
So I know we’ve been focused on early retirement. But how much of this advice applies to the average person hoping to retire in their 60s?

Wyeth:

Well, a lot of these practices and concepts are no different from what most of us should be doing. The more that we save now, the more likely we'll be able to enjoy our retirement years in the way that we choose, regardless of when that is. I think it's a good idea for everyone to take the time to work with their wealth advisor to develop a detailed plan to help them meet their goals.

Sarah:

So as you know, at the end of each episode, we like to ask for some key takeaways. What are some key takeaways you'd like to share with our listeners?

Wyeth:

So again, Katie has done an excellent job up to this point in making her goal a reality. For those who do want to retire early, like Katie, I think it's very important to maintain your skills in your field. If you have licensing or credentials, consider continuing to renew these and stay up to date in your field, even if you're not working. In the event that you do have children or family or your circumstances change, and you decide you want to, or need to jump back into the traditional workforce, that you're just prepared to be able to do that. A five or ten year gap in your work history might be a red flag to an employer. So you just want to make sure that you keep yourself marketable.

Another takeaway is to consider not just the financial aspects of this decision, but also some of the intangibles. How will you spend your newly acquired free time? How will this endeavor provide a sense of purpose and meaning to you and to those around you? Another is just to reemphasize the idea of being very detailed in creating a blueprint for making this a reality. No one knows what the market's going to do. No one knows what direction life will take you. So to just be overly prepared for the unexpected and for the expected, with the long time horizon that's ahead of you. And last, once you've reached your goal to enjoy the lifestyle that you've planned and worked so hard to achieve.

Sarah:

That’s excellent advice. Thank you so much, Wyeth Green, Private Wealth Planner at Regions Bank. As always, you’ve given us a lot to consider.

Wyeth:

Absolutely. Great to be here. Thanks for having me.

Sarah:

And thank *you* for joining us today. Each episode of Regions Wealth Podcast covers a different financial challenge, so be sure to check back, and don’t forget to visit regions.com/wealthpodcast to explore past episodes.

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