You Could Retire...But Should You?

It might be better to wait a bit longer.

Some people retire at first opportunity, only to wish they had waited longer. Thanks to Wall Street's long bull run, many pre-retirees have seen their savings fully recover from the shock of the 2007-09 bear market to the point where they appear to have reached the "magic number." You may be one of them – but just because you can retire does not necessarily mean that you should.

Retiring earlier may increase longevity risk. In shorthand, this is the chance of "outliving your money." Bear markets, sudden medical expenses, savings shortfalls, and immoderate withdrawals from retirement accounts can all contribute to it. The downside of retiring at 55 or 60 is that you have that many more years of retirement to fund.

Staying employed longer means fewer years of depending on your assets *and* greater monthly Social Security income. A retiree who claims Social Security benefits at age 70 will receive monthly payments 76% greater than a retiree who claims them at age 62.[1]

There are also insurance issues to consider. If you trade the office for the golf course at age 60 or 62, do you really want to pay for a few years of private health insurance? Can you easily find such a policy? Medicare will not cover you until you turn 65; in the event of an illness, how would your finances hold up without its availability? While your employer may give you a year-and-a-half of COBRA coverage upon your exit, that could cost your household more than $1,000 a month.[1,2]

How is your cash position? If your early retirement happens to coincide with a severe market downturn or a business or health crisis, you will need an emergency fund – or at the very least enough liquidity to quickly address such issues.

Does your spouse want to retire later? If so, your desire to retire early might cause some conflicts and impact any shared retirement dreams you hold. If you have older children or other relatives living with you, how would your decision affect them?

Working a little longer might be good for your mind & body. Some retirees end up missing the intellectual demands of the workplace and the socialization with friends and co-workers. They find no ready equivalent once they end their careers.

Staying employed longer might also help baby boomers ward off some significant health risks. Worldwide, suicide rates are highest for those 70 and older according to the World Health Organization. Additionally, INSERM (France's national health agency) tracked 429,000 retirees and pre-retirees for several years and concluded that those who left the workforce at age 60 were at 15% greater risk of developing dementia than those who stopped working at 65.[3]

It seems that the more affluent you are, the more likely you are to keep working. Last year, Bank of America's Merrill Lynch and Age Wave surveyed wealthy retirees and found that 29% of respondents with more than $5 million in invested assets were still working. That held true for 33% of respondents with invested assets in the $1-5 million range. Most of these millionaires said they were working by choice, and about half were working in new careers.[1]

Ideally, you retire with adequate savings and a plan to stay physically and mentally active and socially engaged. Waiting a bit longer to retire might be good for your wealth and health.

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Citations.

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