# COPING WITH AN UNEXPECTED RETIREMENT?

Many of us dream of retirement — finally taking time to travel the world, spending more time doing the things we love or just stopping to smell the roses. But what would happen if retirement came before you had planned? Would you be ready?

According to the Employee Benefit Research Institute's 2019 Retirement Confidence Survey, 40% of workers have to retire earlier than planned due to either a change at their company or a health issue. An unexpected retirement can leave you in a tailspin and cause you to make drastic financial decisions with adverse repercussions. Use the tips in this article to avoid unintended tax implications and early withdrawal penalties.

## Minimize tax implications

Your first step should be to review all your possible sources of income. The order in which you tap into those sources of income will have a major effect on how far your assets will go.

**Draw money from your taxable accounts first.**

**Next, if you are age 59½ or older, withdraw from tax-deferred retirement accounts, such as a 401(k) or a traditional IRA.**

**If possible, save a Roth IRA for last so that those investments can continue to grow tax-free as long as possible.**

## Avoid early withdrawal penalties

If you withdraw money from a 401(k) or traditional IRA before you are age 59½, you could be subject to a 10% early withdrawal penalty (on top of the withdrawal being subject to ordinary income tax). There are some exceptions to the 10% early withdrawal penalty with regard to covering certain expenses. Please consult with a tax professional for more details on specific qualifications for this exemption.

You may be able to withdraw contributions (but not earnings) from a Roth IRA without incurring the early withdrawal penalty, as long as the Roth IRA has been owned for at least five years before contributions are withdrawn. You won't pay income tax or a penalty until your total withdrawals exceed your total contributions. (Certain exceptions may apply if you rolled over amounts from a traditional retirement plan to your Roth IRA.)

You may be able to withdraw money from your 401(k) if you leave your job in the year you turn age 55 or older, provided that you have left the assets in your employer's 401(k) plan. If you roll your 401(k) over into an IRA, you cannot withdraw before age 59½ without incurring a penalty.

## Think twice before filing for Social Security

The panic of a sudden retirement may have you rushing to claim Social Security benefits. When you elect to start receiving Social Security will have a big impact on your overall benefits. The earliest you can start receiving benefits is age 62. But you will receive a smaller monthly benefit than you would if you waited until full retirement age or even later. Of course, delaying Social Security benefits may not be an option for you.

| Age | Potential benefit received | Benefit result |
|---|---|---|
| **62**<br>until full retirement age | **70%** | **Reduced monthly benefit** |
| **66 or 67**<br>depending on year you were born | **100%** | **Full monthly benefit** |
| **70** | **124%** | **Increased benefit** |

Source: Social Security Administration

## Talk to your financial advisor

**Planning for income in retirement is a primary investment goal for many and a major source of stress for most. Working with a financial advisor can help you mitigate that stress by setting a course for your retirement goals and developing a plan in case your circumstances unexpectedly change.**

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