Early Retirement Checklist

By Leif Dahleen, MD. Physicianonfire.com

❒ Can I Afford to Retire?

First things first. Can you afford to retire? **This topic has been covered thoroughly here** and elsewhere.

In general, a minimum of 25 times your anticipated annual expenses, **passive income** that meets or exceeds your expenses, or a combination thereof is what you'll want to have.

Hopefully, you won't get tripped up here in step one. If you're checking off the boxes, this is the biggest and most important box you need to check.

❒ Set up Withdrawals from Deferred Compensation or Defined Benefit Plans.

If you've got a pension or any deferred compensation plan, determine how and when you can gain access to that money.

Personally, I've got a non-governmental 457(b) with between two and three years worth of **our anticipated retirement expenses** in it.

I'm planning to take that money over about four or five years to have the account drained before the current tax rates sunset at the end of 2025. The tax code could change before then, but it would not be advantageous to take a lump sum and pay the taxes on all that income at once.

My plan states that I must elect a distribution plan by March 1st of the year after I separate from service. If I do not, a lump sum of the full balance will be issued, potentially creating a tax headache. I sent in the paperwork while writing this post.

The money in a non-governmental 457(b) belongs to my employer and could be subject to creditors if the hospital falls on hard times — another reason to drain the account in relatively short order.

A governmental 457(b) is less risky and can be rolled over into an IRA, a feature that the non-governmental 457(b) lacks.

If you've got another form of deferred compensation like an **NQDC** or a defined benefit (a.k.a.) pension plan, you'll want to determine how and when you'll access those funds, as well.

❒Have a Plan for Your 401(k)

If you've got **a 401(k)** (or a 403(b) or 401(a)), as most employees and many self-employed individuals do, you'll want to decide what do with it.

If you're younger than 55, your options are to leave your money where it is or roll it over to an IRA or another 401(k). I'll be rolling my 401(k) balance over to my individual 401(k) to save some money on quarterly fees.

If you're turning 55 or older in the year that you separate from your employer, you have the option of taking withdrawals from the account as you wish without penalty.

Note that if you roll the balance over to an IRA, you'll have to wait until you're 59 1/2 to access it penalty-free.

If you're retiring mid-year, you may want to make the maximum contribution to the account while you have the opportunity. Doing so may require a different biweekly contribution amount than you've used in past years, so be sure to double-check your automated contribution schedule.

If you have a 403(b), the rules are nearly identical. You should be able to do all of the same things with this account as the 401(k), but you should doublecheck with your plan rep or accountant.

❒ Other Work-Related Items

Does your workplace pay out unused PTO (paid time off)? Be sure you get that.

Do you have a computer, phone, or cell phone plan provided by your employer? If so, you'll need to replace those.

Look at all of your workplace perks, and decide which are worth paying for yourself and which you are comfortable letting go. These may include a gym membership, meal services, child care services, and all kinds of other goodies that most of us physicians have never had (but have heard of from other industries).

Has your workplace offered severance packages to those taking voluntary retirement in the past? If so, try to negotiate a similar package to one that's previously been offered.

If you're going to lose the contact information of people you want to be in touch with after you leave, be sure to find a way to maintain contact after you stop clocking in.

If your employer offers free basic legal services, you may want to take advantage of them before you leave. For example, a past employer partnered with a legal service that helped me create a will at no cost to me. The same is true for counseling if you want someone talk to through the transition.

Finally, be sure to clean out your locker / desk / cubicle / office. No one wants to clean up after you once you're gone.

❐Craft a Drawdown Plan

It's one thing to know you have enough, but you also have to have a plan to access that money. There are **a number of ways to access retirement money before age 59.5**.

I already mentioned the 457(b), which is accessible at any age and the fact that a 401(k) can be easily accessed if you retire during or after the year in which you turn 55.

Substantially Equal Periodic Payments via IRS rule 72(t) are another option. There's also the Roth conversion ladder, Roth contributions, and a **plain old taxable brokerage account**.

Your plan will be highly individualized, and the source of funds will change as you progress through the different **epochs of early retirement**. Eventually, you will have full access to your retirement assets, and by age 70.5, you'll be forced to take **Required Minimum Distributions** if you still have tax-deferred dollars to your name.

Related: Our Drawdown Plan in Early Retirement

❐Basic Tax Planning

After years of paying substantial income tax, your income is likely to drop dramatically, and your income tax should plummet right along with it.

Since you need to include taxes as a part of your anticipated annual expenses, you should have a rough idea of what you'll be paying in future years. It's easily possible to **pay nothing in federal income tax when retired** if your portfolio consists of **a variety of pre-tax and after-tax money**.

However, if you have a healthy **fatFIRE budget** or most of your retirement money is in tax-deferred dollars, you can expect to pay some income taxes. **Taxcaster** is a great tool for estimating your future tax burden. There will also be property taxes for homeowners, sales taxes, vehicle registration, etc…

Depending on what you come up with after outlining your drawdown plan and tax expectations, you may want to consider a couple of smart tax moves that you can benefit from now that your income is much lower.

Tax gain harvesting (not to be confused with **tax loss harvesting**) is an easy way to increase your cost basis in a taxable account if you're anticipating taxable income of less than $78,400 in 2019, the top end of the 0% capital gains tax bracket.

Another option is to make Roth conversions. I think the ability to move tax-deferred dollars to Roth dollars makes sense in the 24% federal income tax bracket.

You'll increase your taxable income with every dollar converted, but with the top of the 24% bracket at $321,450, you'll likely have lots of room in which to do so.

Roth conversions are a no-brainer if you have room in the 12% tax bracket, which is very similar to the 0% capital gains bracket, and have no plans to tax gain harvest.

❒ A Giving Plan

If you've been donating to charitable causes while working, I would assume you'll continue to do so in retirement. If neither are true, skip to the next section.

One way is to keep giving is to simply include charitable giving as a line item in your post-retirement budget, much like you will with the taxes you expect to be paying.

The downside is that you may not get much of a tax break for those donated dollars after you retire. In other words, for every dollar you part with, the charity will receive less than if you had donated in a tax-advantaged manner.

If you've **paid off your mortgage**, you will probably be taking the standard deduction ($24,400 if married filing jointly in 2019) rather than itemizing deductions. In this case, you get no deduction for charitable giving.

If you do have itemized deductions exceeding the standard deduction, you will be taking that deduction at your now-low marginal income tax rate.

Another option, which I believe is a better option, is to build up your giving fund while still working. A **donor advised fund** allows you to set aside **a large pool of money from which you can donate** over the rest of your lifetime if you wish.

If you grow this balance while working, you'll be taking a tax deduction at a higher marginal tax bracket, the result of which is more money for your chosen causes for every dollar that you give away.

❒Consider Social Security

You may be years or decades away from taking Social Security, but it's best to take a look at your potential future benefit before you take the leap.

With **a calculator that I update annually**, you can determine what your check might look like (using today's dollars) when you actually begin to collect.

If you haven't yet reached **the second bend point**, you'll see your benefit increase a decent amount with each "**one more year**" you work. Beyond the second bend point (based on contributions to date), the increased benefit is greatly reduced for every additional dollar contributed,

You should also give some thought as to whether or not you'll delay collecting to the latest age possible, which is currently age 70. The White Coat Investor and Dr. Cory S. Fawcett had a healthy debate on whether or not that's a good idea.

If I delay to age 70 and my wife begins collecting at age 67, we'd receive about $43,000 in 2019 dollars. That's over 50% of our anticipated initial budget.

Yes, the program can and will change between now and then, as will our budget, but it would be foolish to disregard this significant fixed income stream entirely.

❒Health Insurance in Early Retirement

I know many people — far too many people — who continue to work solely for their employer-provided health insurance.

It's a big deal.

And it's often the first question that comes up when people contemplate the difficulties of FIRE. "But what will you do for health insurance?"

The answer: **pay for it**.

Buy some healthcare coverage. It's not one simple trick, it's not sexy, and it's not what anyone wants to hear. But it's what you've got to do.

For roughly the first half of my 13-year career in anesthesia, that's what I did. I was an independent contractor paid via 1099 and I purchased an over-the-counter Blue Cross Blue Shield health insurance plan.

For the latter half of my career, I was an employee, and my employers subsidized the premiums for my health insurance coverage.

Now that I'm reverting back to a self-employed individual, I had to go shopping.

Healthcare Sharing Ministries

I considered healthcare sharing ministries. These are not true health insurance, but are cost sharing programs that mimic insurance in many ways.

There are notable differences, however. Most require you to attest to religious beliefs, typically Christian. With those leanings, they typically will not cover costs related to “unholy” activities such as premarital sex, drug abuse, or excessive drinking.

Depending on the plan, there may be a cap on how much of your healthcare costs will be shared with other members.

On the positive side, these plans cost quite a bit less than standard health insurance and there are more than a million satisfied members of these plans, some of which have been around for decades.

Also, you’re not tied to a particular group of physicians or any geographic location. There’s such thing as a facility or doctor who is “out of network.”

While I took a close look at this option, I opted not to join.

I’ve got kids who will soon be teenagers and I’ve been known to enjoy a beer or two. I sincerely hope we’ll never have to deal with any medical issues related the unsavory issues mentioned above, but I can’t guarantee it’ll never happen, either.

Insurance is meant to be a safety net, and this type of net had too many gaping holes for this fisherman.

Traditional Health Insurance

In early 2018, I published an article on the upcoming availability of **short-term and catastrophic health insurance plans** without penalty starting in 2019.

I briefly looked into short-term plans, but they have some serious shortcomings, like lifetime and annual caps that can be quite low and major gaps in what they actually cover.

A catastrophic plan is more appealing to me. That's what true insurance is meant to be — protection from financial ruin from a rare but potentially catastrophic event.

I can afford to pay for routine care costing hundreds of dollars or surgeries costing thousands, but a multiple-six-figure or seven-figure tally from cancer treatment or a lengthy ICU stay could definitely be disruptive to our financial future.

Essentially, catastrophic coverage is what you get with a bronze plan via the healthcare exchange. You also get the benefits that every ACA-eligible plan must provide, including an annual preventive care visit and no denials based on pre-existing conditions.

Some of these plans also offer the ability to make Health Savings Account (HSA) contributions. I've been maxing out an HSA for a number of years, and the ability to continue doing so is appealing. Healthcare sharing ministry plans cannot offer this benefit.

Finally, most retirees will qualify for subsidized insurance. If your income is under four times the poverty level based on your family size, you can expect a subsidy to help pay the cost of an ACA plan.

This is where tax planning (see above) comes into play. If your modified adjusted gross income (MAGI) is one dollar over a cliff, you may end up losing a healthy subsidy.

Since I'm not a typical retiree — I expect to continue earning a decent income, I don't anticipate qualifying for a subsidy. But I did choose an ACA plan — a bronze plan with HSA — it will initially cost us $909 per month for a family of four, or about $11,000 a year, unsubsidized.

❐Life Insurance

The most popular form of life insurance for readers of this blog will be term life insurance. It's cheap (**compare rates here**) and serves a singular purpose. If you die, your heirs will be financially independent after collecting the proceeds. If you're retiring early, you should already be financially independent even with you alive and kicking, making this insurance redundant.

If you're still paying those premiums, I would consider stopping. Your policy will lapse and that's maybe another $50 in your pocket every month.

If you have the other kind of life insurance, which would be some form of **cash value life insurance** that can go by any of a bunch of different names, re-evaluate whether or not it makes sense to continue owning this policy (or if it ever did in the first place).

The answer in both cases is likely "no," but if you're looking at an estate tax "problem," or it's part of an asset protection strategy, there may be a good reason to keep it.

If you're ready to move on from your policy, The White Coat Investor has some thought on how to dump it.

❐Disability Insurance

Much like term life insurance, I see little reason to continue paying to insure your income after reaching financial independence. If you don't need the income to enjoy the life you're leading, you don't need the costly insurance on it, either.

An argument can be made that a severe injury could leave you handicapped and make your life more expensive than it was before. If you feel the odds of that happening are high enough and you don't have enough of a cushion in your portfolio to absorb any extra costs, you can do as you wish.

Also note that after retiring, your **own-occupation policy** becomes a total disability policy. That is, it will only pay benefits if you can't do any job since you voluntarily left your own occupation on your own free will.

❒Umbrella Insurance

You're wealthy. **That makes you a target**. Don't put your millions at risk when you can get umbrella insurance to **protect those millions for a couple of hundred dollars** per year.

Insurance Costs

It can be difficult to model your annual insurance budget in early retirement. The only constant you can expect is change.

Dropping term life insurance can save you a little. Dismissing disability can save you a lot.

It's best to plan on health insurance costs rising faster than inflation, and the costs increase as you age, also. If a new national healthcare policy is adopted, this could change drastically.

Otherwise, be prepared to budget up to $20,000 to $30,000 a year or more for so-so healthcare coverage depending on where you live and the size of your family.

If, like me, you've got kids cruising the neighborhood on their bikes, understand that when they transition to cruising Main Street in your hand-me-down cars, your auto insurance premium will skyrocket, as will the cost of that umbrella policy.

❒ Where There's a Will…

Many employers offer free legal services, including the creation of a will. Before you walk out the door for the last time, be sure to take advantage of any such benefit you may have. This is also a good time to revisit estate planning in general, updating your will and/or **trust** if need be.

Social and Family Considerations

Much like the **money issues we discussed previously**, these are boxes that you begin to check years before you actually pull the trigger and give notice that you're leaving your job.

❒ Retire On Something

The common quotable is that you should retire "to something." I've also stated **you should retire on, with, from, under, before, in and for something**. The gist is that retirement should be as much or more about what you plan to do next than being done with what you were doing before.

Your days and weeks don't have to be fully scheduled, but developing hobbies and interests that warrant further exploration is something you should do before dropping from 40+ hours a week at work to none.

❒Have Non-Work Friends

If your primary social outlet revolves around your work family, be prepared to be lonely when you divorce them all at once. Even if you plan to "stay in touch" at the occasional happy hour or softball game, without the same trials and tribulations you once shared on the job, you may realize you have less in common and not a whole lot to talk about.

Long before you retire, and throughout your life, it's a good idea to have friends from a variety of backgrounds that share interests that have nothing to do with work.

I've found them in places like homebrewing clubs and a curling club. For you, it may be a gardening class, a book club, a gathering wine enthusiasts, or some combination thereof. Running, biking, bowling, praying… whatever you're into, other people are, too. Find them.

❒ "Honey, I Quit my Job."

If your spouse wakes you up frantically on Monday morning, worried sick that you'll be late for work, and you say, Oh, yeah, about that…" you can expect to be in trouble. And you deserve to be.

I don't actually think people make these big life decisions on a whim or forget to mention them to their partners, but these are important conversations to have.

How will the family dynamic change after retiring? What household tasks can or should be reassigned? How can I continue to get out of doing dishes for the next fifteen years? These questions need to be answered!

If your partner is also working, what's his or her timeframe to retirement? If you work longer, will that facilitate him or her retiring sooner? Will being around each other maybe dozens of more hours per week be good for your relationship? Or too much?

Are your finances combined, separate, or partially comingled? Should that change after retiring?

This section has more questions than answers, and the Q&A is going to look different for every couple. If these discussions don't take place, resentment can build up in surprising ways, as I learned in **Work Optional**. Communication, as always, is key.

❒Huge Little Kids

If you've got little ones at home, the impact of retiring early can be huge for both you and them.

First, you have to recognize that you'll need more money to retire early when you've got to cover the expenses of more than one or two people.

Children need your time and attention, and they also need spendy stuff like shelter, food, clothing, entertainment, and education. I did my best to estimate **how much time they'll add to your working years** based on income and spending habits. It's years, not months. **Funding 529 plans** alone can add years to your career.

In some cases, though, retiring early to be with your children can save you money. Leaving a low-paying career to avoid paying for childcare for three is likely to be a net-positive in the early years. Homeschooling versus paying for private school is another monetary win.

The non-monetary aspects of retiring early with or for your kids can also be tremendously impactful. Just to see their smiling or scowling faces every morning and evening can be delightful when it's something you're not used to being around for.

The lack of regular employment gives you opportunities to do all sorts of things as a family that might not have been possible otherwise. In my first six months of "funemployment," we traveled as a family to Washington, D.C. before spending two months each in Mexico and Spain.

Having two boys increased my financial independence number, but I was also given two excellent reasons to reach it more quickly and to take decisive action once we were comfortably FI.

❐Don't Forget the Retirement Party!

Listening to Jim lament his lack of a retirement party on the ChooseFI podcast, I really felt for the guy. Anyone who had left a positions like his was thrown a proper soiree.

Since he was at least twenty years younger than the average retiree, he was essentially disrespected by his boss and punished for being a diligent saver who could afford to retire at a young age.

I say if no one throws you a party, I say plan your own. When I lost my first "permanent" job due to an imminent bankruptcy, the hospital couldn't afford to send me off with a retirement cupcake let alone a sheet cake or a proper party.

I felt I deserved something, though, so I organized a sendoff of my own at the local brewery. Since I owned a small part of the place, I got a sweet discount on the beers, but I did foot the bill and had a great time.

When I left my final anesthesia job, my department threw a retirement party for me at a local brewery. It was a great way to go out. Don't forget to celebrate your newfound freedom! 🍻

Best wishes for a happy, healthy, and prosperous retirement!

- Leif / Physician on FIRE