11 Smart Tips on Retiring Early, from People Who Figured Out How

Imagine retiring by the time you're 45—or within the next five years. We talked to people who did, and here's what we've learned.

BY LAUREN CAHN

First you gotta ask yourself: is this what you *really* want?

Depending on how old you are, work could really be getting you down, and early retirement might sound awesome. It is for some: Andrew Van Fossen retired at age 37 from his management consulting job and is now, primarily, a stay-at-home dad, although he does spend some leisure time blogging about investment and finance. Of course, Van Fossen is a multimillionaire. He was making close to $200,000 per year when he realized that he not only wished to exit the rat race, but also that he *could* because he'd planned ahead. From the moment he graduated from college and began working at a healthcare technology company, he was making smart choices about his money—smart choices like these. Within five years, he'd saved enough to get his MBA from the University of Chicago, which he parlayed into a six-figure salary. He started by maxing out his retirement fund contributions, which he invested carefully and profitably in a combination of conservative mutual finds and higher-risk equities. Van Fossen has never looked back. He was fully prepared for the more-relaxing rhythm of life that awaited him. But here's the rub: NOT everyone is suited to retiring early. "Too many people rush off to a life of leisure, only to find out that they're bored," notes Minneapolis-based financial planner, Derek Hagen, CFP, CFA. "Retiring too early can cause regret, both financial and personally," agrees Roger Cowen, a Connecticut-based retirement specialist. Retirees are sometimes surprised to find themselves missing the social connections, explains Cowen, as well as the sense of purpose that comes from having work-related goals.

What to keep in mind

Even if you're certain that retiring early is the right personal decision, other factors come into play that can make retiring early a tricky move. For example:

- **Health insurance, the cost of which can be significant when you're no longer part of a group plan**. Half of all wannabe retirees say that keeping health insurance or other benefits is a major reason they continue to work, according to Cowen.
- **Financial risk, and your tolerance for it, both emotionally and financially**. "Can you stomach a few recessions?" asks Craig G. Bolanos, Jr., CMFC, AIF, a Founding Partner and Chief Executive Officer of Wealth Management Group, LLC. The longer you're retired, the greater chance there is that you'll end up cycling through at least one market downturn. "Be honest with yourself as to whether or not you (and your portfolio) can stomach a few recessions throughout a longer retirement," Bolanos suggests.
- **The high cost of inflation**. "If you retire in your 40s, you could have another 40 years ahead of you to live off your savings," says Matt Hylland, Financial Adviser with Hylland Capital Management. "Even with modest inflation, you have to expect your purchasing power to erode over time." even with modest inflation, your original purchasing power erodes." So, before you make your plans to retire early, you really need to consider how much it will really cost to live several more decades. "Those who are honest with themselves have a much better chance at having a successful retirement lifestyle," agrees Warren A Ward, CFP, of WWA Planning & Investments.

It's always a challenge to get someone in their 20s to think about what their 60-something self might need and want," points out Terry Kennedy, President and CEO of Appreciation Financial, who also notes that he's never seen anyone retire early who didn't begin planning for it at the beginning of their career. The key is taking an honest look at what you're doing and continuing to do so every single step of the way. How can you make it happen? According to self-declared "millionaire-next-door," Rocky Lalvani, who is happily retired at the age of 51 (although he does provide some financial coaching at RicherSoul.com), the answer is simple: Save, save, save, and then save some more. Save it any way you can, through a frugal lifestyle, through savings accounts, tax deferred accounts (like 401ks and IRAs), and tax-free accounts (like Roth IRAs, and HSAs). "I was able to save millions as a W-2 employee thanks to *automated savings,* since the day I began to work," Lalvani says. "Having the money automatically placed in one of these accounts allowed my wealth to accumulate every year." "Put those pre-determined amounts aside, and don't touch a penny until you retire," agrees Brendan Mulloolly, CFP, Investment Advisor, who believes you can build to retiring early even *without* a high income, as long as you have a high savings rate. "Focus on what you can control, automate it, and let your good habits compound on themselves. Over time, you'll be shocked at how great the outcome will be." "Consider your savings as the first bill you have to pay each month," suggests Mary Ellen Garrett, Senior Vice President and Wealth Management Advisor at Merrill Lynch in Atlanta. And don't make exceptions when you get a Christmas bonus or a tax refund advises Jacob Dayan, CEO and co-founder of Community Tax. Instead of spending it, put that windfall into an IRA or another retirement fund, Dayan suggests. If you get a raise, simply pretend you didn't, suggests Andrew M. Aran, CFA and partner with

Regency Wealth Management in New Jersey. If you finish paying down a loan, start putting the amount you've been paying all along into savings too. Instead of allowing *lifestyle creep* to set in as our fortunes increase, let your savings reap the benefits. "Think of it as *savings creep,"* jokes Lalvani. Here are some other tips for saving money, from people who happen to be great at it!

Don't just save: invest

First you need to learn about investing—check out what you need to know before you enter the stock market. And then readjust the way you think about your money: "Don't think of it as *saving*, but as *investing*," clarifies Robert Johnson, PhD, CFA, president and CEO of the American College of Financial Services, a non-profit, accredited, degree-granting institution in Bryn Mawr, Pennsylvania. Dr. Johnson could have retired years ago, but continues to do what he's doing because it's a "noble mission."

"When you think in terms of saving," Dr. Johnson says, "you think about not taking chances. But the way to build wealth is to embrace risk in the equity markets." That's because the reward over time has long been documented: since 1926, the stock market has returned 10 percent compounded annually (compared with long-term government bonds and corporate bonds, which have returned in the neighborhood of 6 percent annually). Although there's more risk when you invest in the stock market, if keep your portfolio diversified, you'll reap the returns, Dr. Johnson advises.

If "diversification" is a foreign concept, you can still enjoy the benefits of the stock market's long-term success rate by investing in mutual funds that invest in the stock market. "Invest in broad market index funds," advises Alexis Hongamen, founder of Federal Retirement Advice. An index fund is a type of mutual fund that is designed to match or track the components of a market index such as the S&P 500. You'll also want to engage in *dollar cost averaging*, according to Karen Lee, CFP, who could have comfortably retired by the time she was 50 but has continued to work because she loves what she does. Dollar cost averaging means that you're investing roughly the same amount in the same investments, repeatedly over time, the result being that when the market is up, you'll be buying fewer shares, and when the markets are down, you'll be buying more. "Over time, this systematic approach gives your portfolio a boost," Lee says. "Just set it and forget it." If Lee's advice about investing sounds a bit like

Lalvani's advice about saving, it's not surprising, according to Peter J. D'Arruda, MRFC, President of the International Association of Registered Financial Consultants, as well as an Investment Advisor, fiduciary, and founder of Capital Financial. "You don't have to choose between saving and investing," he says. "You should be doing both." In the stock market, D'Arruda points out, "you're not up until you're out." He's not advising you to take your money off the table, but to realize some of your gains and sock them away in what he calls a "core" account. A "core" account should *insure* you a lifetime income for the rest of your life when you retire," he explains. Over time, you'll want to strike a balance between "core" and "explore." Your "core" money shouldn't depend on the market. The "explore" money can then fluctuate without you losing sleep.

Put your money to work, literally

Investing in the stock market is one way to get your money to make money for you. Another is to invest in your own business, whether it's one that will serve as a long-term income stream or one that you plan to sell for a profit down the road. That's how Sophia Bland has found herself on the path to retiring early. She co-founded a professional services firm that provides interview coaching and conducts mock interview.

"I invested a lot of capital into the company," Bland says, "and I'm also entitled to a healthy portion of the profits." As time goes on, the business is increasingly streamlined, which means that Bland needs to spend increasingly *less* time pushing things along. Brad Kingsley retired in his mid-40s after selling the business he started in his 20s for a seven-figure profit. And Dennis Bethel, MD has socked away a nest egg by investing in real estate properties that he rents. "The stable streams of passive income can create a perpetual retirement income," Dr. Bethel notes.

Live on less

Whether you make big bucks or a modest salary, if you want to retire early, you should learn to live on less, starting as soon as you make your first paycheck (if not before!). That's how Ilene Davis, CFP, rolls, and it's served her well. Although she's not yet retired, it's only because she loves what she does; she's had the resources to retire for years now. And just because she has the resources, doesn't mean she spends them wildly. "I make most of my own meals," she says, although she could easily eat out every night. And she prefers having friends to her house, rather than going out. She sews her own clothes and uses coupons for shopping. Davis doesn't have to be so frugal, but she's conscious of the fact that once she does retire, she'll have an extra 40-something hours per week in which to spend her money! If you're figuring out how to save for retirement, but being frugal isn't exactly a strength of yours, you might want to read up on how to spend less money.

Get out of debt

Brad Kingsley, who retired in his mid-40s after selling his business, has another piece of advice for those who want to retire early: Pay off your debt. "During our highest earning years, my wife and I paid as much extra toward our mortgage as we could," he says. "This of course came from cash flow after retirement contributions. Between a small gain in the value of our house, and the large equity we built up, we had significant value in our home. As part of our early retirement we decided to downsize and use the equity to purchase a much smaller house that we could cover with cash." Michael Cirelli, a financial advisor in Illinois couldn't agree more. "Avoid debt like the plague," he advises. "Large sums of debt squander any hope you may have of retiring early." And by debt, he's talking about credit cards, car loans, student loans, and anything else you might be using to buy now and pay later. Can't quite pull yourself out of debt? At least learn to reduce your debt-related stress.

Get a side hustle

If you're still looking for your dream job, maybe starting it on the side is the way to transition—here are some great ways to make your job dreams come true. And there's nothing wrong with a little side hustle to get a head start on your nest-egg. That's how Jon Dulin and his wife are doing it. At 38, they're on track to retire by age 55. "We both started small side businesses in addition to our main incomes. I blog about personal finance, and my wife does life coaching. At first, neither one made us a ton of money. But whatever we made, we saved." Whatever your side gig, make sure it's fun, Dulin adds. "Our side jobs never feel like work to us. We just do what we love."

Marry the right person

It might seem to go without saying, but most of our experts gave us this same bit of advice, and it doesn't mean marry and heir or an heiress. That means marry someone who's going to be a partner in your dream of retiring early. Here are the signs that your partner is a keeper. "You both need to be on the same page and on board with saving enough to make early retirement a reality," agrees Los Angeles certified financial planner, David Rae.

Location, location, location

One simple way of keeping your costs on the lower side is to find a place to live where the cost of living is lower, such as what Andrew Van Fossen did when he moved from Los Angeles to North Carolina. It's advice that fuels the Taxes by State page of Tommy Sullivan's retirement information website, Retirement Living. "It's a collection of information we condensed from sources such as the Federation of Tax Administrators, The Tax Foundation and National Conference of State Legislatures," Sullivan says. "It should help provide you with information on state income, sales, and fuel taxes, taxes on retirement income, property taxes, and inheritance and estate taxes, and it's intended to provide insight into which states may offer a lower cost of living for retirees." Some retirees even end up living abroad to save bucks, according to Brent Dickerson, a certified financial planner in Ohio. "Some of my clients choose to live abroad while retaining their American citizenship," says Dickerson says, whose advice is to choose locations where the dollar goes a long way. "Obviously there are risks involved with this, but clients I work with find that pairing down their life-style and living part-time in multiple locations around the world is a great way to stretch their retirement savings." Got the travel bug? This infographic is your ultimate guide to where to travel when if you want to get the biggest bang for your buck.

Be advised

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Planning an early retirement is no small feat, and one favor you can do for yourself is to hire a financial advisor to help steer you in the right direction, suggests Lawrence Solomon, MBA, CFP, director of investments and financial planning with Virginia-based OptiFour Integrated Wealth Management. "Work with a financial adviser to test your portfolio under a range of expense and savings scenarios and risk and return assumptions to figure out if you can afford to retire early, how much more you will need to save, and how much they can spend in retirement." Got a financial advisor already? Well, here's some financial advice your financial advisor might not tell you.

Learn your loopholes

Another bit of professional advice for planning an early retirement is to learn the legal loopholes in existing IRS regulations that will allow an early retiree to access their retirement funds early, without penalty or restriction. "Our youngest clients retired at 47, and have been drawing retirement income from their IRA's penalty-free for the last 12 years using these methods," says financial planner Bill Stack, founder of Stack Financial Services in Salem, Missouri. CNBC financial reporter, Sue Herera, adds that it's important to get help early on with your tax structure. Your tax liability could surprise you, she notes. For example, if you'd like to leave the door open to consulting or giving speeches during your retirement, it could affect your tax bracket. And that could have an impact not just on your finances but on the sort of life you plan to lead as a retiree. After any big life change, your tax liability could change as well. Here are some tips on filing your taxes after big life changes.