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Liz Weston: Suddenly retired? Here's what to do next

By LIZ WESTON of NerdWallet October 9, 2020

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The pandemic seems to be driving a surge of early retirements as businesses close or downsize and older people weigh the health risks of continuing to work.

The share of unemployed people not looking for work who called themselves "retired" increased to 60% in April from 53% in January, according to a study by three economists. The study was done in the early days of the pandemic, well before tens of thousands of businesses

"It seems to be a persistent and quite widespread phenomenon," says study co-author Michael Weber, an economics professor at the University of Chicago.

Unfortunately, many people haven't saved nearly enough to avoid a steep drop in their standard of living when they retire early, financial planners say. Even those with substantial retirement accounts could make hasty decisions that cause them to run short of money.

CREATE YOUR RETIREMENT BUDGET

Tally your expenses and identify any you can trim. Include irregular expenses, such as home repairs or a car replacement, that you're likely to face in coming years.

Your "must-have" expenses should include health insurance, says Catherine Valega, a certified financial planner in Waltham, Massachusetts. People typically must be 65 to be eligible for Medicare. Until then, prepare to pay for coverage because going without is especially dangerous during a pandemic.

If you had health insurance through your employer, you usually can extend that for up to 18 months, thanks to COBRA, the Consolidated Omnibus Budget Reconciliation Act. But you'll have to pay the entire premium plus a 2% administrative fee. Last year, the average annual cost of health insurance was $7,188 for a single person and $20,576 for a family, according to the Kaiser Family Foundation, which tracks health insurance trends.

If your spouse has group health insurance and can add you as a dependent, that's often the most costsubsidies that reduce premium costs.

EVALUATE ALL INCOME SOURCES

You may face decisions about what to do with workplace retirement accounts, such as whether to roll a 401(k) account into an IRA or how to take a pension. You may have to evaluate a buyout offer or figure out what to do with stock options.

These are complex decisions with huge consequences, so consider talking to a fee-only financial planner. Many financial planning organizations, including the National Association of Personal Financial Advisors, the Association for Financial Counseling & Planning Education and the XY Planning Network offer free counseling sessions for those whose incomes have been affected by the pandemic.

Taking big withdrawals from your retirement funds early in retirement can dramatically increase the odds you'll run out of money. A 4% withdrawal rate — where you take 4% of your retirement account balance the first year and adjust that payout for inflation each year afterward — has historically allowed savings to last for a 30-year retirement. Some financial planners recommend a more conservative start of 3.5% or 3%, or starting at 4% and cutting back during bad markets.

Working at least part time can reduce the drain on your savings and may give you access to valuable benefits, including health insurance and retirement accounts. And staying connected to the workforce can increase your odds of finding a new full-time job if that's your goal.

source of income during retirement, and research shows most people would be better off delaying their applications to maximize their checks. That's not always possible, of course, but often financial planners recommend tapping other retirement funds first if that allows people to delay drawing on Social Security.

If you're married, it's important to consider how your decisions affect your spouse, says CFP Brian Ellenbecker of Milwaukee. The higher earner's check determines how much the survivor receives after the first spouse dies, for example. AARP has a free Social Security claiming calculator, and more sophisticated versions are available for a fee from Maximize My Social Security and Social Security Solutions.

CONSIDER DOWNSIZING — PERHAPS RADICALLY

If you can't cover expenses with your income, you may have other alternatives. If you own a home, have substantial equity (at least 50%) and are at least 62, a reverse mortgage can help you turn your home's value into a guaranteed monthly check. Or you may decide to sell your home and find somewhere cheaper to live.

Linda Rogers, a CFP from San Diego, says several of her clients discovered they can live well on less money by moving abroad for a few years. Portugal is a particularly popular destination, Rogers says.

Obviously, an overseas move isn't for everyone, particularly in a pandemic when many countries are restricting travel. But for some adventurous types, it could be at least a partial solution.

"They're loving it so far," Rogers says.

This column was provided to The Associated Press by the personal finance