ADVISOR PLANNING STRATEGIES | THE BIG Q

Here Are the Keys to Retiring Early, According to Money Pros

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By **Steve Garmhausen**

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Everybody wants to retire early, it seems. Americans who expect to work full time after age 62 fell in March to a record-low 45.8%, according to the Federal Reserve Bank of New York. And those in the Financial Independence, Retire Early (FIRE) movement are betting that if they live as frugally and save as much as possible they will never have to work after their 30s or 40s. It might be tempting to aim for an early retirement, but is it a good idea, and what can go wrong? We asked several financial advisors that question for this week's Barron's Advisor Big Q.


Courtesy of Craig James Financial Services

Craig Ferrantino, president, Craig James Financial Services: Our first comment is, "That sounds great." Then we ask a few questions. What income do you plan to live on for the future? How much do you need to live on per month?

There's a lot of wishful thinking out there. Some people think they'll be getting some money when their parents pass away, so they only have to sweat it out for a couple of years. That's not a good way to plan.

My biggest concern is the future cost of health insurance. That can wipe somebody out in a heartbeat. The other shoe that hasn't dropped yet is the expiration of the Tax Cuts and Jobs Act. We're at the lowest tax rates in our lifetime, and I don't know what's going to happen when it expires. That's the big sleeper issue right there.

So if you want to retire young, you'd better make sure you've done very careful financial planning, with an emphasis on things you can't control, such as market volatility, economic volatility, and tax volatility. Things may look really good on paper. But there are a lot of things that could throw you off. Someone who retired in 2005 in index funds did not know that in 2007 they would lose 43% of their money. And if you're taking an income from that, you pretty much have no way to recover that principal.

Adrianna Adams, head of financial planning, Domain Money: Retiring in your 30s or 40s is a super aggressive goal. But I do have a few pieces of advice. I tell people who want to


Courtesy of Domain Money

retire younger to avoid target-date funds. If you have aggressive goals, you need to take advantage of all the growth you can get. With target-date funds it's difficult to manage what's under the hood; you just see that one-line item. Most target-date funds are overweight bonds and international stocks, so that's also not super helpful if you need to be aggressive. You want to get more tactical and handpick low-cost funds that are going to fit your timeline.

I also advise leveraging debt more. Most people I talk to who want to retire early are double paying their mortgage to get rid of it as fast as possible. But they also have a mortgage rate that's like 2.5% or 3%. Depending on which part of the market you're in, you can conservatively average 5% to 8%. So the math will always shake out that you're going to be better off investing the money rather than paying off the mortgage as fast as possible. Another strategy is to invest the money and then use the investment proceeds to pay off the debt. But I would still argue that if your mortgage rate is super low, you should leave your money invested and keep making the monthly payments.


Courtesy of Hollow Brook Wealth Management

Alan Bazaar, co-chairman and CEO, Hollow Brook Wealth Management: I don't judge anyone for their choices. If somebody wants to retire early, great. It all starts with having a plan, and a portfolio that reflects your goals. The earlier you retire, the more portfolio longevity is a critical factor. You need to be wary of drags on portfolio assets, since you're potentially planning for a 60-year retirement. Those drags are inflation, taxes, investment fees, poor market performance, and the big one: lifestyle creep. A stable investing approach, focused on long-term compounders and wealth creators that can provide reliable capital appreciation and income, is important, versus something like a higher-risk, illiquid portfolio.

Markets don't go straight up, and you should have the flexibility to cut costs. For example, it's easier to cut travel expenses than it is to cut a high-cost mortgage. You could build a second home with a high-cost mortgage. But a flexible approach—with a primary home and then traveling a lot—builds flexibility into your cost structure. Having a variable cost structure is something to contemplate as you think about a long-term retirement.


Courtesy of Prime Capital Investment Advisors

Sean Clancy, wealth advisor, Prime Capital Investment Advisors: Whether you're 35 or 40 or even 55 years old, I would say early retirement preparedness breaks down into two distinct topics. One is financial, and the other—which might even be bigger—is emotional, because when you're no longer working, the biggest risk is lack of fulfillment.

A lot of people are diligent about saving, and it's an attractive thing to be able to say they have retired early. But where does purpose come from when you no longer have a role, an identity, a vocation? A lot of people believe they're just going to travel and do all the fun things that retirement is supposed to include. But that luster probably wears off sooner than people expect; it's true even for some of my older retired clients. I can't imagine that's any different if you're 35 or 40.

Belinda Herzig, national wealth strategist, BNY Wealth: There is this movement to retire at 40 or 50, or even younger. And the decision tree for doing that is more complicated. You have to consider the trade-offs of controlling your schedule and having autonomy versus the stress of giving up a stream of income.

We do have clients who have large liquidity events in their 30s or 40s. We support them by running models and making projections to anticipate how long their assets can provide for them. Many people today are living to age 100 or beyond, so you have to be realistic about lifestyle goals throughout that span. You also have to run scenarios to account for the unpredictable. Those might also include the worst performing years for investments and inflation that exceeds the historic averages. Increases in healthcare costs are unpredictable. The sunset of the Tax Cuts and Jobs Act at the end of 2025 could take the highest income-tax bracket from 37% back to 39.6%. So you need to realistically account for all those kinds of risks.

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