Early retirement age: Can you retire at 62?

By Chris Kissell • Bankrate.com

If you're in your late 40s or early 50s, you may be wondering whether you can attain an early retirement age.

Unfortunately, millions of Americans are remarkably underprepared for life without work.

A 2014 Vanguard analysis of more than 3 million workers' accounts found that Americans age 45 to 54 had $122,566 saved on average. Another survey in 2012 by LearnVest and Chase Blueprint found that about 20 percent of respondents in that age bracket had squirreled away somewhere between $100,000 and $249,000.

If you have managed to save a quarter of a million dollars and would like to retire in 10 years, you probably can do so if you plan well.

"With proper planning and discipline, the 10-year home stretch can be transformational," says Samuel Scott, a CFP professional and president at Sunrise Advisors in Leawood, Kansas.

Bankrate asked Scott and two other financial planners to make recommendations for a hypothetical worker with the following profile:

Age: 52.
Amount saved: $250,000 in a tax-deferred account.
Goal: Retire with a total of $500,000 in 10 years.

This individual would live off his or her savings for three years. Then at age 65, our retiree would start collecting Social Security and withdrawing 4 percent of the remaining nest egg annually thereafter.

Read on to learn what the experts advise about how to make this goal and achieve an early retirement age.

Strategy: Contribute to a retirement plan

Scott says an investor who expects 5 percent growth over a 10-year period would need to save $7,500 annually to grow $250,000 to $500,000.

"If their employer has any sort of matching component to their retirement plan, it makes sense to take advantage of the 'free money' to leverage their savings rate," Scott says.

Clarissa Hobson, a CFP professional with Carnick and Kubik in Colorado Springs, Colorado, urges our investor to save a greater amount -- about $10,000 per year -- and also assumes a slightly higher annual return of 6 percent.

Such a strategy would result in a nest egg of about $580,000, Hobson says.

Michael Kitces, a CFP professional and director of planning research at the Pinnacle Advisory Group in Columbia, Maryland, is the most optimistic of our trio.

He says it is reasonable to expect a 7 percent return on a well-balanced portfolio. Over a decade, that would double the value of the portfolio, transforming $250,000 into nearly $500,000.

"Which means this goal is actually quite within reach, even without any contributions," says Kitces, who also publishes

"The Kitces Report."

Because a 7 percent return is not guaranteed, however, Kitces recommends saving as much as you can as a fallback measure.

Prepare for health costs in retirement

Most people are not eligible for Medicare until age 65, so those who retire at age 62 probably will have to contend with the problem of covering health care costs.

"Health care is certainly a wild card in retirement planning," Scott says.

Scott expects uncertainty to surround future health costs because of health care reform changes and the fact that Medicare probably will need eligibility tweaks to keep the program solvent.

"The best way to prepare for uncertainty is to plan conservatively," he says. That means saving money outside of retirement accounts to cover health costs.

Kitces believes health care reform has made access to insurance much easier for people in early retirement.

In addition, those who have lower incomes in retirement than they had during their working years may qualify for tax credits that reduce the cost of health insurance -- "potentially quite significantly," Kitces says.

For this reason, it is important to manage taxable income carefully to make sure you qualify for the credit. A tax professional can help in this process.

Hobson says retirees should assume that health insurance costs will grow at a rate of 5 percent to 7 percent annually.

She also encourages retirees to estimate the total annual costs for Medicare -- Part B, D and supplements.

"I think around $4,500 per person annually in today's dollars is reasonable," she says. "These costs also need to be increased for inflation."

Diversify your portfolio tax-wise

Scott urges savers to remember they have less money saved in tax-deferred accounts than their monthly retirement statement indicates.

"For example, $500,000 in an IRA or 401(k) plan does not equal $500,000 in after-tax, spendable funds," he says.

Every time money is withdrawn from a tax-deferred account, taxes are owed, Scott says.

"It is quite shocking how quickly assets are spent down when a tax liability is incurred every time someone needs to replace an air-conditioning unit, buy a car or pay their mortgage," he says.

In his experience, clients in retirement are better able to manage tax planning when they have the option of drawing on tax-deferred and after-tax accounts, he says.

Hobson agrees.

"If the $250,000 is in a company retirement plan, he should also save in a taxable account to hedge his bets somewhat against future tax rates," she says.

Another solution: Invest within a Roth IRA or Roth 401(k) because money in these vehicles grows tax-free and is withdrawn tax-free.

Hobson says most investors should contribute at least enough to a 401(k) to earn the employer match. Any additional contributions should be based on the fees associated with the plan and the investment options it offers.

Avoid Social Security missteps

If you can attain an early retirement age without depending on Social Security , you'll avert the potential mistake of reducing your overall benefits. Hobson urges our hypothetical retiree to wait until the full retirement age -- 66 or 67, depending on year of birth-- before tapping benefits.

"And it may make sense to wait even longer than that," she says.

Social Security missteps also top Kitces' list of worries. He says retirees who work part time need to be aware of the earnings test for Social Security benefits. While retirees who work part time can gain valuable extra income, working too many hours can trigger the earnings test for Social Security benefits.

Benefits are withheld for retirees who earn too much money in any given year before their full retirement age. (You can find out more at the Social Security Administration website.)

"This isn't necessarily a bad thing," Kitces says. "Social Security benefits that are delayed due to the earnings test do lead to higher benefits later."

However, if your part-time income is too modest to fully support you, even if it is substantial enough to trigger the earnings test, you might need to tap your portfolio a little more -- and a little sooner -- than expected, he says.

Consider working part time

Working part time or doing some consulting work affords early retirees a way to earn some extra cash while building up their Social Security benefits.

"Retirement doesn't have to be an all-or-none situation," Kitces says.

Earning a little income on the side allows you to keep your portfolio growing without making withdrawals from it, Kitces says. (But if you opt to take Social Security early, just remember not to work too many part-time hours before full retirement age, or you could end up reducing your Social Security benefits, as we mentioned earlier.)

Hobson sounds the alarm about withdrawing 4 percent from your portfolio annually, saying it "may not be advisable, depending on market conditions."

The combination of market losses and withdrawals can decimate a portfolio. Retirees can protect themselves by positioning the portfolio conservatively or waiting until the market recovers before taking withdrawals. A financial planning professional can help design a portfolio for capital preservation with some room for growth.

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