Has the COVID-19 Pandemic Forced You to Consider Early Retirement?

The COVID-19 pandemic has turned the world upside down, changing the way we think about work, health, and financial security. According to research from The New School[i], almost 3 million Americans between the ages of 55-70 are expected to retire early because of the COVID-19 pandemic.

Let's look at why this recession is leading to early retirement and how you can prepare for your future if you're looking forward to spending your days socially-distanced golfing sooner rather than later.

Why are older workers affected more this time?

Since the 1970s, older workers have had higher employment levels than mid-career employees, maintaining their employment throughout the various recessions. This trend changed with the economic downturn triggered by the COVID-19 pandemic.[ii] Historically, older workers benefited from seniority during recessions, but according to the American Society on Aging, this pandemic-related downturn is different for several reasons[iii].

- Older workers are more vulnerable to illness and the deadly and debilitating effects of COVID-19.
- Older workers are disproportionately represented in jobs that have high economic and health risks.
- Many older workers won't make it back into the labor market when it recovers.

Can I prepare to retire earlier than anticipated?

According to a 2018 Gallup survey[iv], the average American expects to retire at 66, although many dream of early retirement – it even has a buzzy acronym, FIRE (financial independence retire early). However, choosing (and preparing) to retire early is very different than facing retirement earlier than anticipated.

If you find yourself facing unexpectedly early retirement, you could consider some of the following steps to prepare and potentially protect your nest egg.

Keep investing

While you may have a significant amount set aside for your retirement, this might not be the time to start withdrawing. First, you might face penalties and extra taxes for withdrawing from a retirement account early. Additionally, even hardship withdrawals and 401(k) loans reduce your retirement pot, which in turn lowers the benefits of compounding interest and potential returns.

If possible, you could continue to contribute to retirement plans and other investment portfolios. The markets have been nothing if not volatile this year. While you might be tempted to pull your money out of investments, consider your options carefully to avoid withdrawing during a downturn.

Of course, you want to invest wisely. If you're approaching retirement more quickly or earlier than you had planned, take some time to evaluate your risk profile and asset allocation. It might be time to consider moving toward bonds and other investments that are traditionally perceived to have a lower risk.

Check your emergency fund

Having an emergency fund is essential at any age, but having a cushion is especially important as you prepare for retirement. Depending on who you ask, you should have three to six months' worth of expenses saved. While this can help you get through a period of temporary unemployment, it can also help you avoid withdrawing more than necessary from your retirement fund.

A robust emergency fund can also help you weather a stock market downturn. Instead of drawing on your investments while their value is low, relying on your emergency fund can give your investments time to recover.

Alternative employment opportunities

Okay, so maybe you decided it was time to retire from your full-time job. That doesn't mean that you have to give up work altogether. The pandemic has shifted more roles to remote and contract positions. According to a survey from Upwork[v], the percentage of Americans performing freelance work increased by eight points to 36% in 2020. Picking up a part-time job or a freelance gig might provide income to cover your bills and reduce your reliance on your savings.

Consider Social Security

The earlier you claim Social Security, the less your monthly benefit payments will be, which is why so many retirees put off drawing Social Security until as late as possible. While you can begin to claim Social Security at the age of 62, many consider this early. Collecting Social Security at 62 instead of delaying them until between the ages of 66-67 (depending on your birth year) can reduce your retirement benefit by 25% or more[vi].

However, using Social Security early might have benefits. If you find yourself unexpectedly retired in your early 60s, your Social Security can potentially bridge the gap between your savings and your bills.

While the COVID-19 pandemic may have pushed you toward early retirement, it doesn't have to create a personal finance disaster. You can prepare for your exit from the workforce and begin to create a plan. By considering your options, reviewing your risk profiles, and exploring alternative income sources, you can make the most of this new chapter in your life.

[i] https://www.economicpolicyresearch.org/jobs-report/over-half-of-older-workers-unemployed-at-risk-of-involuntary-retirement

[ii] https://www.economicpolicyresearch.org/jobs-report/a-first-in-nearly-50-years-older-workers-face-higher-unemployment-than-mid-career-workers

[iii] https://generations.asaging.org/covid-19-recession-older-workers-unemployment

[iv] https://news.gallup.com/poll/234302/snapshot-americans-project-average-retirement-age.aspx

[v] https://www.upwork.com/releases/new-upwork-study-finds-36-of-the-us-workforce-freelance-amid-the-covid-19-pandemic

[vi] https://www.ssa.gov/benefits/retirement/planner/agereduction.html#:~:text=You%20can%20start%20receiving%20your,your%20benefit%20amount%20will%20increase.