



8 Tips to Successfully Semi-Retire

Consider your health care plans, income sources and tax bracket before making the transition

By Geoff Williams | July 23, 2019

Learn how to navigate your second act with ease.

People often talk about semi-retiring, but that can mean a variety of things, depending on your financial situation, lifestyle and other factors. You might cut back on your current work hours. Or perhaps you decide to retire and then start another part-time job. Maybe you want to start a second act and launch a new business to stay busy. Regardless of how you envision semi-retirement, here are some tips from experts for navigating the transition with ease and ensuring you have enough income and savings to account for health care and other expenses.

Plan ahead.

Before semi-retiring, consider your finances and long-term savings plan. It's a smart idea to meet with a trusted financial advisor to consider how your taxes, income and savings will be impacted. Can you afford to cut back on work? How long do you plan on being semi-retired: indefinitely or for a fixed number of years? Once you do retire, how will that work? What will your budget look like now, and what will it look like when you retire? You'll want to carefully weigh all of those questions prior to leaving your full-time job.

Use your semi-retirement time wisely.

If you're planning to semi-retire soon, it's a smart time to begin making your financial footprint smaller. You could move from a spacious house into a condo, or evaluate recurring expenses such as streaming services that you don't really need and start whittling those down. "My advice for those wishing to be semi-retired is to plan for it while working by contributing to your company's retirement fund and by paying off as many things you can. For me, this was all our vehicles and several small bills," says Carol Gee, a freelance writer in Stone Mountain, Georgia, who is semi-retired.

Ensure you're confident in your decision.

If you want to cut back on your hours working, but you're not ready to fully retire, you'll want to thoughtfully consider the pros and cons of part-time work in retirement. "Semi-retirement can help keep you younger. Many people fail to fully appreciate the benefits of their career," says Patrick Ford, director of wealth management at Brown Wealth Management in San Diego. "Work can provide a

sense of structure, purpose and challenge, which keeps one's mind and body sharp. The key is to find the sweet spot with limited stress and the benefits of work."

Understand your health care costs.

"If you're thinking about semi-retirement, do your homework on your health care options. All too often Americans think that Medicare is free and covers 100% of medical expenses. This is not true," says Danielle Roberts, a Medicare expert and co-founder of the Fort Worth, Texas-based insurance agency Boomer Benefits. For instance, you'll likely need to pay out of pocket for your dental work, eye exams, hearing aids and long-term care. In fact, according to a 2018 Fidelity Investments analysis, a healthy 65-year-old couple retiring would need \$280,000 just to cover their health care and medical costs during their retirement.

Consider pursuing a "bridge job" from full-time work to retirement.

Paul Dillon, CEO of Dillon Consulting Services LLC, recommends taking on a transitional gig. Dillon is a management consultant and an adjunct instructor at Duke University in North Carolina. "For those who are considering retiring early and have an expertise, becoming a consultant is a tried-and-true retiree bridge career. Becoming a consultant on your own, a sole proprietorship, in your field of endeavor offers a chance to set your own hours and work at your own pace while making an income," Dillon says. But whatever you do, if you are going to make income, try to make it interesting. "I firmly believe that one of the ways to be content in retirement or semi-retirement is to stay active and engaged with the world," he says.

Factor in how semi-retirement impacts your Social Security check.

"If collecting Social Security before full retirement age, be careful if you make over \$17,640. There will be a penalty. You should anticipate this penalty in your monthly cash flow," says John Bodnar, founder and CEO of Bodnar Financial Advisors Inc., and a certified financial planner in Florham Park, New Jersey. How much is the penalty? Social Security will take \$1 from your benefits for each \$2 you earn over \$17,640. To weigh your options, you'll want to talk to someone about it, like a financial advisor. You may also consider seeking advice from somebody at your local Social Security office.

Remember: Your semi-retirement may mean you file taxes differently.

Since most semi-retirement professions require a 1099 form, it's important to "remember to set up a side hustle tax account and make estimated quarterly tax payments to the government," Bodnar says. You'll also want to think about how early withdrawals from accounts such as a traditional IRA, 401(k) or 403(b) might affect your income. If you start semi-retirement before 59 1/2, you could be socked with an early withdrawal penalty of 10%, which would go straight to the Internal Revenue Service. That said, there's another added benefit of keeping your money in your retirement accounts for a longer period of time: The interest, dividends and capital gains continue to grow tax-free.

Test out semi-retirement gradually.

Sam Ali, a financial advisor at Manske Wealth Management in Houston, suggests tracking your spending for six to 12 months before you retire, so you know that you can live off your retirement income. If you can do that *before* semi-retirement, that would be wise, he says. "To increase the likelihood of a successful retirement or semi-retirement, it's important to have a handle on your monthly expenditures to ensure they align with your expectations," Ali says. He adds that often people underestimate what they're going to spend, and of course, that can lead to issues down the road. "Spend the time to track your expenses closely so that you are confident in the monthly lifestyle figures you are planning around," Ali says.

Tips for a successful semi-retirement:

- Plan ahead.
- Use your semi-retirement time wisely.
- Ensure you're confident in your decision.
- Understand your health care costs.
- Consider pursuing a "bridge job" from full-time work to retirement.
- Factor in how semi-retirement impacts your Social Security check.
- Remember: Your semi-retirement may mean you file taxes differently.
- Test out semi-retirement gradually.