

RETIREMENT READINESS

Can the Stock Market Retire You Early?

It's been a volatile year for investors, but if you only looked at where the market stands today, you might not know it.

The year began with a sharp bout of anxiety. Remember all the questions around whether artificial intelligence would create as many winners as expected? Some worried AI would disrupt traditional software and enterprise technology companies faster than those businesses could adapt. At the same time, rising energy prices linked to conflict in the Middle East pushed inflation higher and reduced expectations for Federal Reserve rate cuts.

Markets stumbled. Headlines grew darker. Investors questioned whether the rally of recent years had finally run its course.

Then came the rebound.

As energy prices stabilized and fears around AI spending moderated, the bulls returned to the market. Large technology and infrastructure companies reported solid results, indicating that the AI build-out may remain a powerful long-term trend rather than a short-lived bubble.

More recently, strong corporate earnings pushed indexes to new all-time highs. Despite concerns about valuations, geopolitical uncertainty and inflation, businesses have continued to grow profits at a healthy pace.

To the extent that they participated in the market's rise, investor portfolios could be worth more than they were eight months ago.

And for some investors in their 50s and early 60s, that raises an interesting question: Can you retire sooner than you planned?

It's a tempting thought. But before you draft your resignation letter, it's worth remembering that a larger portfolio is only one piece of a much bigger retirement puzzle.

Retirement Is About Cash Flow, Not Just Net Worth

Many people think about retirement as reaching a number. Three million dollars. Five million dollars. Or maybe $10 million or more.

But retirement doesn't happen because you hit a specific account balance. Retirement begins when your assets can reliably support your lifestyle for decades.

A strong stock market can improve the odds. However, early retirement introduces challenges that don't exist when retiring at a more traditional age.

For example, retiring at 55 is dramatically different from retiring at 65. That's an extra decade of spending that your assets may need to support. It's also five to 10 or more years before several important retirement income sources like Social Security, IRAs and 401(k)s become available.

A better question might be: How will you generate income between now and age 65, 67 or even 70?

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Where Will the Money Come From?

Early retirees may discover they have plenty of assets on paper but fewer sources of accessible income than expected. This is frequently the case for individuals whose wealth is concentrated in retirement accounts.

Many investors hold a significant portion of their retirement savings inside IRAs, 401(k)s and other tax-deferred vehicles. While several strategies can provide access to those funds, early retirement requires careful planning around withdrawals, taxes and potential penalties. The real challenge is bridging the gap.

- Will taxable investment accounts provide enough flexibility?
- Do stock options, deferred compensation arrangements or business-sale proceeds create additional resources?
- What will supplement living expenses until Social Security begins?

For families considering early retirement, designing an income strategy often becomes more important than maximizing investment returns. Your portfolio no longer exists solely to grow wealth. It now needs to generate income.

That's how retirement changes the cash flow equation. During working years, income funds expenses and savings. In retirement, income plus portfolio withdrawals fund expenses. That transition can feel simple mathematically but far different emotionally.

Health Care May Be the Biggest Wild Card

For many prospective retirees, health care is the issue that turns a confident retirement projection into a more cautious conversation.

Most people become eligible for Medicare at age 65. If retirement begins at age 55, 58 or 60, you need to cover that gap.

Depending on your situation, options may include employer-sponsored retiree coverage, COBRA, private insurance or marketplace plans. Costs vary significantly and often increase as retirement lengthens.

And expenses don't stop once Medicare begins.

According to the Employee Benefit Research Institute, a healthy 65-year-old couple retiring in 2025 would need approximately $405,000 to have a 90% chance of covering health care costs throughout retirement. If prescription drug expenses rise significantly, estimates increase further.

Some people underestimate this expense because the costs accumulate gradually over time.

The Risk Nobody Sees Coming

One of the greatest risks of early retirement often appears right after a strong market rally.

Imagine how you might feel immediately after a period of significant returns. Your portfolio may be at an all-time high. Retirement suddenly seems attainable.

Then a bear market arrives.

That's where sequence of returns risk enters the picture. Poor market performance early in retirement can have a disproportionate impact on long-term outcomes because withdrawals

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continue while portfolio values decline. Selling investments during market downturns permanently reduces the pool of assets available for future recovery.

The timing of returns can matter just as much as the returns themselves.

A strong market may create the opportunity to retire early. But it shouldn't eliminate the need for stress testing, contingency planning and adequate reserves.

What About Social Security?

Many early retirees plan to claim Social Security as soon as they're eligible. Sometimes that makes sense. Often it deserves a more careful analysis.

For many households, Social Security represents one of the few sources of guaranteed lifetime income that adjusts for inflation. The decision to claim at 62, full retirement age or 70 can create meaningful differences in lifetime income, particularly for couples with survivor benefits in play.

Retiring early does not necessarily mean claiming early.

In fact, one of the most important planning opportunities many retirees have is coordinating portfolio withdrawals and Social Security timing to maximize long-term flexibility.

A Different Question for Current Retirees

For many readers of this newsletter, retirement is already well underway. The recent market rally may not change your retirement date, but it does give you an opportunity to revisit your plan.

- Have your spending habits changed?
- Has your appetite for risk changed?
- Does your current allocation still reflect your goals, your family circumstances and the stage of retirement you're in?

Retirement often unfolds in phases. The spending patterns, priorities and risks you encounter at age 65 can look very different from those you face at 75 or 85. Strong markets often create opportunities to rebalance, improve liquidity or revisit long-term plans. Think beyond yourself and potentially about your children and grandchildren as well.

The Real Question

A rising portfolio balance can make retirement possible sooner than expected. But retirement readiness is about far more than investment returns. It's about income sources, taxes, health care, withdrawal strategies, longevity and how all those pieces fit together over what may be a 25- or 30-year retirement. A healthy couple retiring in their early 60s has a meaningful chance of one spouse living into their 90s.

The market may have moved your retirement date forward. The real question is whether the rest of your plan moved forward with it.

If recent gains have you wondering whether work is still necessary, or whether your current retirement plan remains optimized for today's reality, your RWA advisory team would be happy to help you think it through. The answer may be yes. But before you make a decision, it's worth ensuring the numbers can support the life you want to build.

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