4 key decisions for early retirement

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Mark Lennihan/AP photo

This Oct. 24, 2016 file photo shows dollar bills in New York.

I was chatting with a friend the other day about his retirement — possibly an early one. At age 60, he has worked hard and invested well — and he's burned out.

He's received wonderful guidance from his financial advisor, with whom he'd discussed the viability of his investment portfolio. But as he and I talked, it was clear that the key inputs were more nuanced than his portfolio value and asset allocation. There were lifestyle decisions, too.

WILL YOU CONTINUE TO WORK IN SOME FASHION?

Working longer wasn't my friend's first choice. But continuing to earn an income would help him worry less about his portfolio's ability to last.

Even if he downshifted into a lower-paying or part-time position and couldn't save as much, he'd still be forestalling portfolio withdrawals. So, when he did fully retire, he could spend without worry.

It would also help him delay Social Security. If he continued to work in a position with healthcare benefits, he could avoid paying health insurance out of pocket until Medicare coverage kicks in. And as much as his job has been exhausting him, he's had a wonderful career and his professional life seems intertwined with his identity.

Ultimately, my friend decided to pursue a reduced schedule. At 30 hours a week, he could still maintain his healthcare coverage.

For someone else, a clean break could make sense, especially if continuing to work has implications for physical or mental health.

WHAT LIFESTYLE CHANGES WILL YOU MAKE?

We also talked through whether my friend's spending would change when he retired.

He owns a condo in an expensive part of the US and has considered moving back to the Midwest when he retires. This would free up funds that he could plow into his portfolio but would also take him away from his social network and the center of his industry.

Staying put seems like the right call for now, especially as continuing to work is in the mix.

HOW FLEXIBLE CAN YOU BE WITH YOUR SPENDING?

This is a major dimension in our retirement income research.

If a retiree can tighten spending when the portfolio takes on losses, that improves the portfolio's ability to last. The reason is simple: Lower portfolio spending during and after losses leaves more to recover with the market.

Our research also shows that flexible spending strategies increase total lifetime spending relative to strategies that maintain static inflation-adjusted spending, like the 4% guideline.

My friend is willing to adjust his spending as he goes. He's not a big spender, and years of work travel mean that he's not interested in expensive globe-trotting, unlike many new retirees.

When Social Security comes online for him at age 70, he'll be able to adjust spending. It's also worth noting that retiree spending tends to trend down over time, though some retirees have high healthcare-related costs toward the ends of their lives.

HOW DO YOU FEEL ABOUT LIFETIME SPENDING VERSUS LEAVING A BEQUEST?

Do you want to maximize spending (and/or giving) during your lifetime, or do you aim to leave a bequest?

That was the idea behind the " spending/ending ratio " in our retirement spending research. We wanted to help retirees see whether retirement spending strategies helped front-load lifetime spending or facilitated portfolio leftovers for bequests. Strategies like the guardrails strategy tend to encourage lifetime spending, whereas more rigid ones tend to leave more leftovers.

My friend is single and doesn't have children, so a bequest isn't a priority. That underscores the value of taking steps to enlarge lifetime income rather than using a more rigid strategy that could cause him to underspend.

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