

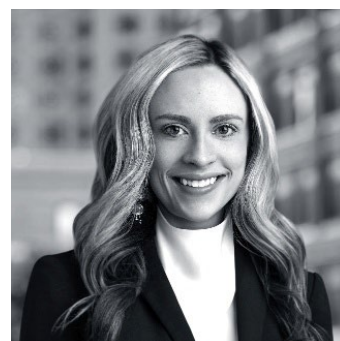
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The Wealth Bridge Planning for Retirement Before 59 ½

Retiring in your 50s looks different from retiring at 65. It's not just about whether you've saved enough, but whether your investments are accessible when you need them, and whether accessing them too soon triggers unnecessary taxes or penalties.

Your wealth may be held across 401(k)/qualified accounts, taxable investments, Roth accounts, equity compensation, and deferred compensation, each with its own rules and restrictions. The challenge is coordinating these resources to support your lifestyle today while preserving the long-term value of your portfolio.

"Retiring in your 50s requires more than a nest egg. It requires a bridge between leaving work and accessing the rest of your wealth."



Amanda Stark
Vice President

Creating Liquidity Before 59½

Retiring before the age of 59 ½ is generally considered early retirement, as IRS rules impose a 10% penalty on retirement account distributions taken before this magic age. Therefore, the first question an early-retirement plan has to answer is where the money comes from prior to reaching 59½.

The answer is frequently a taxable brokerage account. Unlike an IRA or 401(k), there are no age restrictions on withdrawals, so taxable assets end up carrying most of the weight for funding your lifestyle during the years between leaving work and reaching 59½.

Two households can have identical net worth and completely different retirement options. One household with most of its wealth locked in retirement accounts might be well off on paper but face challenges of accessing funds in early retirement. Another, with a deliberate mix of taxable and retirement money, has more flexibility.

Retirement accounts including IRAs and 401(k)/403(b)'s still belong in the plan. The tax deferral and any employer match are worth too much to not contribute to, but getting money out of them early comes with constraints.

For investors who have not built a deliberate balance between taxable and retirement assets, what options are available to create liquidity in early retirement?

Rule of 55 Distributions

The Rule of 55 allows someone who leaves an employer during or after the year they turn 55 to take distributions from that employer's plan without the usual 10% penalty. The problem is that it only applies to the plan of the employer you just left. The Rule of 55 does not apply to IRAs or an old 401(k) you left behind at a former employer. Consider rolling over previous 401(k) balances into your current employer's plan prior to retiring, if the plan accepts rollovers, to potentially make those funds accessible under the Rule of 55.

72(t) Withdrawals

For anyone retiring before 59½, another option to utilize is Section 72(t). It allows substantially equal periodic payments from a specified retirement account without the penalty, provided the payments follow IRS-approved calculation methods and continue for at least five years, or until age 59½, whichever comes later. If the payment amount changes, the penalty is applied retroactively, with interest.

Equity Compensation

Restricted stock units, various stock options, employee stock purchase plans, and deferred compensation can represent a significant portion of wealth, but each comes with rules that make disbursement timing important. Unvested equity may be forfeited when employment ends; options can have limited exercise windows, and concentrated employer stock can create diversification challenges. Deferred compensation elections also need to be considered well before retirement.

For someone retiring early, these assets can be an important part of the wealth bridge, but only if their use is timed carefully around the decision to leave work.

The Role of Roth Assets

Roth accounts add another layer of flexibility, and they are also one of the more misunderstood pieces of the plan. Withdrawals follow an order: regular contributions come out first, then converted or rolled-over amounts, then earnings.

Someone who contributed \$200,000 into Roth IRAs over their career can pull that full \$200,000 back out, tax and penalty-free, at any age and regardless of how long the account has existed.

Earnings work differently. To come out tax-free, a distribution needs two things to occur: the five-year holding period must be satisfied, and there must be a qualifying event, most commonly turning 59½.

Conversions have their own clock for the 10% early withdrawal penalty, separate from the main Roth IRA clock. Every conversion starts its own five-year period to determine if a penalty applies to the principal. Someone who converts \$100,000 at age 57 and needs it back at age 59 (before turning 59½) is going to owe a 10% penalty on the converted principal and ordinary income tax on the earnings. If someone converts \$100,000 at age 57 and wants to pull out the full amount and earnings at age 60, they will only owe tax on the earnings because reaching age 59½ waives the 10% penalty.

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Finally, if someone converts \$100,000 at age 57 and waits until age 62 to pull out everything, no tax or penalty is due because both the 5-year clock and the age requirements have been fully satisfied.

Healthcare in Early Retirement

Anyone retiring before 65 needs to consider their healthcare plan. Once employer coverage ends, the choices are usually COBRA for a limited time, private insurance, or the Affordable Care Act (ACA) marketplace. Healthcare also happens to be one of the places where tax and income planning collide as household income determines ACA subsidy eligibility, which means a Roth conversion or a large capital gain in a given year can end up costing more than just the tax on it.

A Health Savings Account (HSA), for anyone who has access to one, is one of the few accounts that works on both sides of that problem: tax-advantaged growth while you're still contributing, and a dedicated pool for medical costs once you're not.

Building the Wealth Bridge

There's rarely a single account or strategy that solves the early retirement tax puzzle by itself. There are usually several pieces, staged across different years of the plan that bridge the gap.

For someone who wants the option to retire in their 50s, the planning should start a decade or more out. It shapes how savings are split between taxable and retirement accounts, how equity compensation is handled, and how the Roth balance gets built.

None of this is about predicting exactly what retirement looks like ten years from now, because nobody can. It's about making sure there are options on the table when the time comes.

A wealth bridge, built well, doesn't just get someone to retirement early. It gives them a say in how the next chapter actually goes.

Sources: Internal Revenue Service (IRS), Publications 974, 590-A and 590-B; Form 8606; Substantially Equal Periodic Payments; Significant Ages for Retirement Plan Participants; and 401(k) Resource Guide - General Distribution Rules.

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