(AGES 60-64)

Retirement Penalties & Risks to Be Aware of

Are you planning on retiring between ages 60 and 64?
If so, there are several important considerations... Below is a table of penalties and risks you should be aware of if you decide to retire within this age range.
We list what you should be aware of, why it's important, with pertinent topical notes for 2026.

#1) Tax & Retirement Account Penalties

What It Is	Why It's Important	2026 Notes
No Early Withdrawal Penalty	At 59½+, the 10% IRS penalty on IRA/401(k) withdrawals no longer applies	Still owe ordinary income tax. This is the key milestone separating this bracket from 50-59½
Ordinary Income Tax	All traditional IRA/401(k) withdrawals taxed as regular income	Prime Roth conversion years before RMDs begin at 73. Can push into higher brackets
Super Catch-Up (60-63)	SECURE 2.0 allows higher 401(k) & Simple IRA catch-up for ages 60-63 only	2026: 401(k)—$24,500 + $11,250 = $35,750 max. Simple—$3,500 + $1,750 = $5,250
Mandatory Roth Catch-Up	High earners must make catch-ups as Roth *(after-tax)* starting 2026	Applies if 2025 wages exceeded $150,000. No pre-tax catch-up option
Federal Withholding	Automatic withholding on distributions reduces cash received	401(k): 20% required. IRA: 10% default *(can opt out)*. Plan for cash flow

#2) Social Security Rules & Reductions

What It Is	Why It's Important	2026 Notes
Not Yet Eligible (59½-61)	Cannot claim Social Security until age 62	Must fund retirement entirely from savings. No SS bridge available
Claiming at 62	Earliest eligibility; maximum permanent reduction	30% reduction from FRA. For those born 1960+, FRA is 67
Claiming at 63	Still significantly reduced from FRA	25% permanent reduction. Each month delayed adds ~0.5-0.6%
Claiming at 64	Reduced but closer to full benefit	20% permanent reduction. Affects spousal/survivor benefits too
Earnings Test	Working while claiming before FRA reduces benefits	2026: Lose $1 per $2 over $23,400. No limit once you reach FRA
Lost Delayed Credits	Each year past FRA to 70 adds ~8%; claiming early forfeits this	Claiming 62 vs 70 = ~76% less per month for life. Run break-even analysis
Spousal Benefit	If both spouses are retired, the lower income earner may receive ½ of the higher earner's benefits	Determined by FRA benefits

#3) Healthcare & Medicare Costs

What It Is	Why It's Important	2026 Notes
Medicare Eligibility Gap	Medicare starts at 65; must bridge 1-5½ years without employer coverage	Options: COBRA *(~18 months)*, ACA marketplace, spouse's plan, retiree benefits
High Individual Premiums	Individual market rates 2-3x more than group plans	ACA bronze: ~$400-600/mo; silver: ~$500-800/mo; gold: ~$650-1,000+/mo. Varies by state/age
ACA Subsidy Cliffs	Small income changes can eliminate thousands in subsidies	Enhanced subsidies through 2025 *(may not extend to 2026)*. Income 100-400% FPL typically needed
Medicare IRMAA	High income years trigger surcharges 2 years later based on MAGI from 2024 for 2026 premiums	2026: Single >$109k / Joint >$218k = surcharges. Part B Premium: $202.90 standard. IRMAA adds $81.20–$487.00 for higher incomes
HSA Loss at Medicare	Cannot contribute to HSA once enrolled in any part of Medicare	2026: $4,300 individual / $8,550 family + $1,000 catch-up. Maximize before 65

#4) Portfolio & Longevity Risks

What It Is	Why It's Important	2026 Notes
Sequence of Returns Risk	Poor early returns + withdrawals = permanent portfolio damage	Most dangerous in first 10 years. Bear market + withdrawals can be unrecoverable
30-35 Year Time Horizon	Portfolio must last longer than traditional 25-30 year retirement	Higher depletion risk. Must plan for decades of inflation, healthcare, unexpected costs
Lower Safe Withdrawal Rate	4% rule assumes 30 years; longer retirement needs 3-3.5%	Consider dynamic withdrawal strategies vs. fixed percentage
Forced Sales in Downturns	Must sell assets for expenses during bear markets	Without income flexibility, forced to sell at lows. Devastating to long-term survival

#5) Employment & Income Loss

What It Is	Why It's Important	2026 Notes
Lost Employer Contributions	No more 401(k) match, profit-sharing, pension accruals	3-6% match over remaining years = tens of thousands lost + compounding
Social Security Benefit Impact	Benefits based on highest 35 years; early retirement adds lower/zero years	Each low-earning year reduces lifetime benefits. Affects spousal/survivor too
Re-Employment Difficulty	Age discrimination + skills gaps make returning very hard	At 59½+, return is difficult. Don't assume you can go back. Plan as if permanent

#6) Inflation & Purchasing Power

What It Is	Why It's Important	2026 Notes
Inflation Exposure	30-35 years at 3% inflation cuts purchasing power in half	Healthcare inflation 5-7%. $50k today = $130k+ in 30 years
Fixed Income Erosion	Most income sources lose value without inflation protection	Social Security has COLA *(2.8% for 2026)*. Most pensions/annuities do not
Healthcare Inflation	Healthcare costs rising faster than general inflation	Individual premiums increasing 5-10% annually until Medicare at 65

#7) Insurance & Protection Loss

What It Is	Why It's Important	2026 Notes
Disability Insurance Gap	Individual disability expensive/ unavailable after leaving group plan	Most carriers won't issue to non-working or 59½+. Coverage gap when risk is highest
Long-Term Care Costs	Individual policies costlier; strict underwriting may deny coverage	Premiums $3,000-6,000+/year. Denials common at 60+. Best purchased in 50s
Life & Other Coverage Loss	Group life, umbrella, legal benefits terminate	Individual policies cost more with age. Must replace at higher cost if needed

#8) Estate & Legacy Impact

What It Is	Why It's Important	2026 Notes
Asset Depletion	Spending portfolio for 30-35 years may leave nothing for heirs	Shifts to "spend principal." May conflict with legacy goals. Need explicit plan
Heir Tax Burden	Large tax-deferred accounts create higher taxes for heirs	SECURE Act: non-spouse must empty inherited IRAs in 10 years. Consider Roth conversions
Spousal Protection	Early claiming decisions affect survivor benefits permanently	Higher earner claiming early = reduced survivor benefit for life

#9) Behavioral & Psychological Risks

What It Is	Why It's Important	2026 Notes
Longevity Risk	Planning for 85 but living to 95	~50% chance to reach 90+. Plan longer
Market Stress	Declines while withdrawing hurt	No paycheck safety net. Panic leads to poor decisions
Overspending	"Go-go years" deplete portfolio fast	Easy to overspend first decade. Healthcare rises later
Identity Loss	Career provides structure	Plan for meaningful activities and social engagement

If you have any questions about retiring,
feel free to reach out to our team.
Set up a 15-Minute Discovery Call at:
www.assetstrategy.com/contact

www.assetstrategy.com
781-235-4426
info@assetstrategy.com