



(AGES 50-59½) Retirement Penalties & Risks to Be Aware of

Are you planning on retiring between ages 50 and 59½?

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
10% Early Withdrawal Penalty	IRS adds 10% penalty to distributions from traditional IRAs/employer plans before 59½	Stacks on top of income tax. Key exceptions: Rule of 55 (<i>current employer 401(k) only if you leave at/after 55; public safety at 50</i>), 72(t) SEPP, disability, medical expenses >7.5% AGI
Ordinary Income Tax	All traditional IRA/401(k) withdrawals taxed as regular income	Can push into higher brackets. Consider Roth conversions in low-income years before withdrawals begin
Tax-Deferred Growth Loss	Withdrawn money stops compounding tax-deferred	Opportunity cost is huge: \$100k withdrawn at 50 = ~\$430k lost by 70 (<i>7% growth</i>)
Rule of 55 Limitations	Can only access current employer 401(k) penalty-free when leaving at/after year you turn 55	Does NOT apply to IRAs or old 401(k)s. Must leave job in/after age 55 year. Public safety: age 50
Mandatory Federal Withholding	Automatic tax withholding on distributions reduces cash	401(k): 20% required. IRA: 10% default (<i>can opt out</i>). Plan for this in cash flow
State Tax Variation	State taxes on retirement income vary dramatically	9 states tax no income (<i>FL, TX, etc.</i>). Others tax fully (<i>CA, NY</i>). Research the state you live in

#2) Social Security Rules & Reductions

What It Is	Why It's Important	2026 Notes
Permanent Benefit Reduction	Claiming before Full Retirement Age (<i>67 for those born 1960+</i>) permanently cuts monthly benefits ~30% at 62	Each month early reduces benefit by ~0.5-0.6%. This reduction is permanent and affects spousal/survivor benefits
Earnings Test	If claiming before FRA while working, benefits reduced if earnings exceed limits	Under FRA all year: lose \$1 per \$2 over \$24,480. Year you reach FRA: lose \$1 per \$3 over \$65,160. No limit at FRA+. Withheld benefits recalculated later
Lost Delayed Credits	Each year past FRA to 70 adds ~8% to benefits; claiming early forfeits this	Claiming at 62 vs 70 means ~76% less per month for life. Run the break-even analysis for your situation
Taxation of Benefits	Up to 85% of Social Security taxable based on "provisional income" (<i>AGI + ½ SS + tax-exempt interest</i>)	Single: >\$34k = 85% taxable. Joint: >\$44k = 85% taxable. Large retirement account withdrawals trigger higher taxation

#3) Healthcare & Medicare Costs

What It Is	Why It's Important	2026 Notes
Medicare Eligibility Gap	Medicare starts at 65; must bridge 10-15 years without employer coverage	Most expensive early retirement cost. Options: COBRA (~18 months), ACA marketplace, spouse's plan, retiree benefits
High Individual Premiums	Individual market rates 2-3x more than group plans; higher deductibles/out-of-pocket costs	ACA bronze: ~\$400-600/mo; silver: ~\$500-800/mo; gold: ~\$650-1,000+/mo per person. Varies by state/age
ACA Subsidy Cliffs	Premium Tax Credits phase out; small income changes can eliminate thousands in subsidies	Currently enhanced subsidies through 2025 (<i>may not extend to 2026</i>). Carefully manage income to qualify. Income between 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 limits: \$4,400 individual / \$8,750 family + \$1,000 catch-up (55+). Maximize contributions before 65 for triple tax advantage

#4) Portfolio & Longevity Risks

What It Is	Why It's Important	2026 Notes
Sequence of Returns Risk	Poor returns early in retirement + withdrawals = permanent portfolio damage	Most dangerous in first 10 years when portfolio is largest. A bear market combined with withdrawals can create unrecoverable deficit
40-50 Year Time Horizon	At age 50-59½, your portfolio must last 40-50 years vs. traditional 25-30	Exponentially higher depletion risk. Must plan for decades of inflation, healthcare costs, unexpected expenses
Lower Safe Withdrawal Rate	4% rule assumes 30 years; early retirement needs 2.5-3.5% for 50-year horizon	More conservative spending required. Consider dynamic withdrawal strategies vs. fixed percentage
Forced Sales in Downturns	Must sell assets for living expenses during bear markets, locking in losses	Without income flexibility, forced to sell at lows. This reverse dollar-cost averaging devastates 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	Typical 3-6% match over 10-15 years = hundreds of thousands in lost savings + compounding
Social Security Benefit Impact	Benefits based on highest 35 years; early retirement may include lower/zero-earning years	Each \$0 or low-earning year reduces lifetime benefits by thousands. Affects spousal/survivor benefits too
Re-Employment Difficulty	Age discrimination + skills gaps make returning extremely hard after career break	Longer gap = harder return. Don't assume you can go back if finances change. Plan as if permanent

#6) Inflation & Purchasing Power

What It Is	Why It's Important	2026 Notes
Extended Inflation Exposure	40-50 years at 3% inflation cuts purchasing power in half twice	Healthcare inflation runs 5-7% (<i>above general rate</i>). \$50k expenses today = \$150k+ in 30 years. Portfolio must keep pace
Fixed Income Erosion	Most income sources lose value over time without inflation protection	Social Security has COLA (2.8% for 2026). Most annuities, bonds, pensions lack inflation adjustments. Real spending power declines

#7) Insurance & Protection Loss

What It Is	Why It's Important	2026 Notes
Disability Insurance Gap	Individual disability insurance expensive/unavailable after leaving group plan	Most carriers won't issue to non-working individuals or 60+. Loss of income protection when disability would be catastrophic
Long-Term Care Costs	Individual policies much costlier than group; strict underwriting may deny coverage	Best purchased in 50s before health issues. Individual premiums \$3,000-6,000+/year per person. Denials/exclusions common
Life & Other Coverage Loss	Group life, umbrella liability, legal benefits terminate	Group term life often 1-2x salary cheaply. Individual policies cost more with age. Must replace at higher cost

#8) Estate & Legacy Impact

What It Is	Why It's Important	2026 Notes
Asset Depletion	Spending portfolio for 40-50 years may leave nothing for heirs	Shifts from "spend growth" to "spend principal." May conflict with legacy goals. Need explicit plan
Heir Tax Burden	Large tax-deferred accounts create compressed distribution timelines and higher taxes for heirs	SECURE Act: non-spouse beneficiaries must empty inherited IRAs in 10 years, potentially at peak earning/tax years. Consider Roth conversions

#9) Behavioral & Psychological Risks

What It Is	Why It's Important	2026 Notes
Longevity Risk	Most people underestimate life expectancy; planning for 85 when living to 95 creates shortfall	50-year-old has ~50% chance to reach 90+, ~25% to reach 95. Must plan longer than expected. Consider annuities
Market Stress	Watching portfolio decline while withdrawing (<i>vs. accumulating</i>) causes severe emotional toll	No paycheck safety net. Bear markets create panic that leads to poor decisions (<i>selling low</i>). Requires strong discipline
Early Retirement Overspending	"Go-go years" see highest spending; front-loading expenses depletes portfolio faster	Travel/activities peak early despite healthcare costs rising later. Easy to overspend first decade. Increases sequence risk



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