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MAKING SENSE OF INVESTING[™]

Liberty City resident Steven Best is the Financial Advisor at the Edward Jones office in Gladewater. He has over 40 years of experience in banking and finance. Please feel free to contact Steven at 903-845-6680 or email him at steven.best@edwardjones.com. His office is located at 305 East Upshur, Gladewater, Texas 75647. Member SIPC

Can You Afford to Retire Early?

Provided by Steven Best

Some people dream of retiring early. Are you one of them? If so, you'll need to plan ahead – because a successful early retirement can't be achieved through last-minute moves.

So, if you're determined to retire early, consider taking the following steps:

Pick a date. Early retirement means different things to different people. But it's important to pick an exact age, whether it is 60, 62, 64, or whatever, so you can build an appropriate retirement income strategy.

Think about your retirement lifestyle. You may know that you want to retire early – but have you thought about what you want to do with your newfound time? Will you simply stay close to home and pursue your hobbies? Do you dream of spending two months each winter on a tropical island? Or are you thinking of opening your own small business or doing some consulting? Different retirement lifestyles can have vastly different price tags. Once you've envisioned your future, you can develop a saving and investment plan to help you get there.

Boost contributions to your retirement plans. If you want to retire early, you may well need to accelerate your contributions to your retirement accounts, such as your IRA and your 401(k) or other employer-sponsored plan. You may need to cut back in other areas of your life to maximize the amounts you put into your retirement plans, but this sacrifice may be worth it to you.

Invest for growth. Your investment strategy essentially should be based on three key factors: your goals, risk tolerance and time horizon. When you change any one of these variables, it will affect the others. So, if you shorten your time horizon by retiring early, you may well need to reconsider your risk tolerance. Specifically, you may need to accept a somewhat higher level of investment risk so you can invest for greater growth potential.

Keep a lid on your debt load. It's easier said than done, but try to manage your debt load as tightly as possible. The lower your monthly debt payments, the more you can contribute to your retirement plans.

Life is unpredictable. Even if you take all the steps described above, you may still fall short of your goal of retiring early. While this may be somewhat disappointing, you might find that adding just a few more years of work can be beneficial to building resources for your chosen retirement lifestyle. For one thing, you can continue contributing to your IRA and your 401(k) or similar employer-sponsored plan.

Plus, if you're still working, you may be able to afford delaying your Social Security payments until you're closer to your "normal" retirement age, which, as defined by the Social Security Administration, likely will be 66 or 67. The longer you put off taking these benefits, the bigger your monthly checks, although they will max out once you reach 70.

And even if you are not able to retire early, some of the moves you took to reach that goal – such as contributing as much as you could afford to your IRA and 401(k), controlling your debts, and so on – may pay off for you during your retirement – whenever it begins.

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Mike Clements

1702 Willow Lake Drive
White Oak, Texas 75693
ewf@swbell.net

(903) 297-2500
Fax (903) 297-2501
www.energyweldfab.com

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