

SETTING FIRE TO RETIREMENT PLANNING

The Financial Independence,
Retire Early (FIRE) movement
is gaining steam



How much money do you need to retire in your 40s or 50s? That’s a question more people are asking, thanks to a growing movement: Financial Independence, Retire Early (FIRE). FIRE is based on the idea that saving more and spending less will help younger workers retire well before they reach 65. Some of them even want to retire when they’re in their 30s or 40s.

FIRE has gained steam with millennials. The book *Your Money or Your Life* by Vicki Robin and Joe Dominguez is credited as the inspiration for the movement. Published in 1992, the book popularized many of the ideas that fuel FIRE—especially the idea that people should evaluate every purchase or expense and consider how many hours of work it cost them.¹

Not all FIRE strategies are the same

Most FIRE followers strive to save and invest 50%-75% of their income. That’s a surprising goal, considering the average percentage of income Americans typically set aside in savings is 3.4%.² But the main focus of FIRE is establishing enough financial independence to retire early and have the freedom to choose your next steps.

FIRE strategies vary, depending on current finances and retirement goals, but basically boils down to living below your means and aggressively saving money. A FIRE retirement may range from a minimalist lifestyle called “Lean FIRE” to a “Fat FIRE” filled with traveling, shopping, and more. There is also a “Barista FIRE” model which involves a flexible side hustle or part-time work to supplement their savings.

Whatever the strategy, the main focus of FIRE followers is to retire early from full-time work and enjoy their free time—whether that means spending more time with loved ones, traveling, enjoying their hobbies, starting their own business, or something else.

1. Investopedia: Financial Independence, Retire Early (FIRE) Explained: How It Works, updated March 27, 2023

2. MoneyGeek, updated 6/14/2023: [Average Personal Savings of Americans](#)

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The math behind FIRE

The amount of money FIRE followers need to reach financial independence is their FIRE number, and many followers use the 4% rule to determine what that is. The rule is a popular retirement strategy that suggests you need to invest 25 times your annual expenses in order to maintain your current lifestyle for 30 years by withdrawing 4% from your investments each year. Someone whose average yearly expenses are \$50,000, for example, needs a portfolio of \$1.25 million to withdraw 4% of their portfolio (\$50,000) to meet their annual expenses.

This is just an estimate of their needs, however, and FIRE followers should consider how market conditions or collecting Social Security might impact their strategy.

Tips for FIRE success³

FIRE may not be a good fit for most people, but everyone wants to achieve financial independence sooner, rather than later. To help you on your path to financial independence, consider these tips:

- Speak with a financial professional specialist for help creating a budget and financial plan to achieve your goals.
- Save more money. The more you save, the faster you can achieve your goals.
- Make more money.
- Eliminate debt—especially high interest debt.

But don't forget—there are risks and expenses to early retirement

While FIRE followers are optimistic about their retirement landscape, AARP points out that early retirement can be tricky for the following reasons:⁴

- Health care is expensive, and Medicare doesn't start until age 65.
- If you withdraw money too early from most tax-deferred accounts, you probably will have to pay a 10% early-withdrawal penalty. You will also owe income taxes on withdrawals from traditional accounts funded with pretax contributions.
- You may outlive your investment savings—and health expenses may add up, along with housing expenses.
- You lose the benefits of compounding interest.
- Extra income may be difficult to come by.
- Inflation may spoil your spending plans.

For some people, early retirement can also lead to boredom, as their friends may still be working all day and worn out at night. So, if you're thinking about taking this path, you may need to make new friends, start volunteering, pick up a hobby, join a club—or even consider getting a job to fill the time and put more money in your pocket.

3. Time, Personal Finance, May 29, 2023: What is FIRE Movement: Financial Independence, Retire Early?

4. AARP: [10 Things No One Tells You About Early Retirement, updated April 13, 2023](#)

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