

# IS THE F.I.R.E. MOVEMENT RIGHT FOR YOU?

Aggressively saving with a goal of retiring early is becoming increasingly popular.



**THERE'S AN EARLY RETIREMENT MOVEMENT GOING ON: FINANCIAL INDEPENDENCE, RETIRE EARLY (FIRE), AN EFFORT AMONG MILLENNIALS IN PARTICULAR TO SAVE AGGRESSIVELY IN ORDER TO RETIRE EARLY OR PURSUE OTHER CAREER OR HOBBY INTERESTS.**

The FIRE movement is a recent phenomenon, starting less than a decade ago among millennials and spreading through social media channels. It traces its roots to the book *Early Retirement Extreme*, by Jacob Lund Fisker, and to a 1992 book, *Your Money or Your Life*, by Vicki Robin and Joe Dominguez.

While the prospect of retiring early may be appealing to most, FIRE is not simple to execute, with many aspects of the movement requiring extreme savings and minimal discretionary spending.

Let's take a look at FIRE and see if it could align with your savings and spending habits.

## **Financial freedom**

FIRE is all about financial freedom, empowering individuals to gain control of their finances without relying on job income.

For most, the goal of FIRE is to be able to use investment income and savings to fund their living expenses while taking an early retirement.

Some FIRE advocates are able to save half of their income and retire in their 30s, though this is just one of many ways to participate in the FIRE movement.

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A penny saved...

Saving is a key part of FIRE, and some followers achieve that by drastically curbing their spending, finding alternate methods to pursue everyday activities. For instance, while many individuals require their own transportation for personal and business pursuits, the FIRE advocate may opt for a motorcycle or economical car rather than a luxury vehicle or truck.

The 4% rule

A popular guideline among FIRE followers is to save and invest at least 25 times their annual living expenses, withdrawing at most 4% each year during retirement to fund their lifestyle. Once the goal is achieved, work becomes optional, and the person can retire from a traditional job.

Rate of savings

In order to achieve their savings goal, FIRE followers pursue an aggressive savings strategy, typically putting away far more than the 10-15% that many follow in non-FIRE financial plans. Indeed, many of those pursuing FIRE save 50% or more of their income each year, with some saving up to 75%.

A skilled approach

Because a fundamental strategy for pursuing FIRE involves reducing expenses, FIRE advocates can benefit from a variety of skills, such as auto repair, carpentry, basic health care, cooking, investing, sowing, and home maintenance, to name a few. With the ability to perform these skills independently, the individual can thus save on common expenses.

Fat vs. lean FIRE

If you pursue FIRE and are able to retire early, the amount of savings that you are able to accumulate will determine your comfort level options. For instance, those with smaller savings will be restricted to a more economical lifestyle during retirement (Lean FIRE), while those with more substantial assets may be able to fund a more lavish retirement (Fat FIRE). Of course, even the most carefully pursued FIRE strategy can fall short of expectations. For instance, if you save 25 times your annual living expenses and decide to retire early, you may encounter unexpected events that deplete your savings, especially during a longer retirement period. As a result, some FIRE advocates recommend withdrawing a more modest 3.5% or less of your savings each year, which means saving 30-40 times your annual spending in order to retire. To learn more about whether the FIRE movement is right for you, consult a financial professional, who can help you work through the tactics and build an overall strategy.

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