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Financial Independence, Retire Early: Should You Consider FIRE Retirement?

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Written By

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Nobody wants to spend their golden years working under McDonald's golden arches. However, some savers aren't content to wait for their golden years to put their feet up and stop working.

In recent years, a cohort of millennials and younger savers have adopted an approach to retirement savings called FIRE, an acronym that stands for financial independence, retire early. The FIRE retirement movement challenges its followers to view every financial decision they make through the lens of the question "does this bring me closer to or further from retirement?"

"One of the things that motivated me to become financially independent was watching one of my coworkers collapse and almost die at his desk," said Kristy Shen, a FIRE blogger at the website Millenium Revolution. "I now realize that your health is not worth trading for money."

By advocating a laser focus on retirement goals and building a nest egg early, FIRE asserts that workers can reclaim decades otherwise lost to status meetings and sad desk lunches by retiring for sooner than their 60s.

In this guide, we'll cover:

What is FIRE retirement and how does it let you retire in your 30s?

The goal of FIRE retirement is to make you financially independent — no paycheck, no boss — with sufficient assets saved to retire decades earlier than most Americans. While many of the FIRE movement's practitioners talk about their lifestyle with the zeal of converts, there's no official list of rules or tips you have to follow.

Read through the FIRE Reddit page or one of the many blogs detailing methods people have adopted to achieve FIRE and you'll see that it's easy to get lost in the minutiae of advice and warnings. But at the end of the day, FIRE retirement boils down to having the initiative to plan out how much money you need to retire at a target age of your choosing, and the discipline to build a nest egg by cutting costs and boosting income.

How much money do you need to retire early with FIRE?

Calculating how much money you need to save before you can leave the office forever can be difficult with a traditional retirement. It's even tougher to plan for a FIRE retirement, given that retiring in your 30s would mean anticipating around 50 or more years of expenses. Add to that the fact that you can't start collecting Social Security until 62, or withdraw money from an IRA account without a penalty before age 59 ½, and you begin to understand the daunting challenge facing anyone hoping to retire before middle age.

However, the basic questions you need to ask yourself for FIRE retirement and traditional retirement remain the same. Determine how much annual income you require to maintain your anticipated lifestyle in retirement by figuring out (https://personal.vanguard.com/us/insights/retirement/tool/retirement-expense-worksheet?lang=en) how much you'll spend on everything from groceries to medical costs.

If you were aiming for a traditional retirement in your 60s, you would add up your estimated annual expenses and multiply this figure by 25, which would give you a good goal for the amount you need saved in a portfolio of stocks and bonds.

Why 25? In 1999, three economics professors from Trinity University in San Antonio conducted a study (https://afcpe.org/assets/pdf/vol1014.pdf) of the stock market and determined retirees should have a portfolio that large to allow them to withdrawal 4% the first year of retirement, and increase this amount each year to match inflation. Based on the historical returns offered by markets, retirees could live comfortably for at least 30 years with this strategy.

But if you retire at age 30, you won't want to start looking for a job as a 60-year-old because your portfolio ran out of funds. FIRE practitioners set a goal of amassing far more than the 25 times their annual retirement expenses to help increase the odds they'll remain financially independent for the long haul. "The 4% rule is still a valid foundation, but that doesn't mean we're just going to blindly follow it regardless of what happens," said Steve Adcock, a FIRE blogger who runs the website ThinkSaveRetire (https://thinksaveretire.com/).

Ultimately, the particulars of each person's FIRE retirement plan will reflect both their means and saving priorities.

"Not everyone is going to be able to retire at 35," said Adcock "But I do believe that early retirement is more achievable by more people than they [might] realize. The average retirement age is something like 62 or 65, so if you retire at 58, guess what? That's early retirement."

A few FIRE scenarios

To give an example showing how demanding attaining FIRE retirement can be, a person who estimates their annual retirement expense at $45,000 and who wants to save 30 times that amount would need to accumulate $1.35 million. Assuming this person started earning an income at age 21 (to be generous), they'd need to save approximately $71,000 every year to reach her target by age 40.

There are different methods used among FIRE practitioners. Some members of the FIRE community, such as blogger Mr. Money Mustache, stick to what's known as "lean FIRE," where annual expenses are kept below $40,000 a year. Others, such as the writer behind the blog Physician on Fire, practice "fat FIRE," where frequent travel, meals out and other expenses total around $80,000 or more a year.

Type of retirement	How much you'll spend a year	How much you need saved
Lean FIRE	Less than $40,000	$1 million or less
Fat FIRE	$80,000 or more	At least $2 million
Traditional	$50,000*	$1.25 million

**Number based on the latest data from the U.S. Bureau Statistics showing the average annual expense of households headed by those 65 years and older*

A recent Harris Poll survey of FIRE advocates conducted at the behest of TD Ameritrade found 33% of respondents were targeting savings between $1 million to $2 million, reaching a middle ground between the amounts listed for the lean and fat versions of FIRE retirement. On the extremes, more people (37%) aimed for more than $2 million than those (31%) with more modest goals of below $1 million.

How is it possible to save so much money so quickly?

Given the ambitious goals of FIRE practitioners, unless you're already pulling down a big paycheck, saving 15% of your income each year isn't going to cut it. According to the FIRE blog FinancialSamurai, the ideal savings target is 50% of your annual income, although with the concession that anything more than 20% is acceptable.

Given that the median household income (https://www.census.gov/library/stories/2018/09/highest-median-household-income-on-record.html) in America is $61,372, according to the latest government data, one may be able to understand why FIRE retirement has been criticized as an option only available to people who are already quite privileged.

But regardless of what income FIRE retirement hopefuls start with, saving the money they'd need to drop out of the workforce in their 30s or 40s means living well below their means. The ways in which they accomplish this may sound familiar to anyone who's read a personal finance article about cutting costs.

These include:

- Minimizing housing needs and expectations — housing is most people's single largest expense, so securing a lower mortgage or rent can provide dramatic savings.
- Biking instead of driving (when feasible) to save on fuel costs
- Avoiding unnecessary fees of all kinds, such as monthly maintenance fees on checking accounts
- Limiting or eliminating all spending on meals out
- Unsubscribing from gym memberships, online services or other recurring entertainment costs you won't absolutely need

Let's take a closer look at housing, which accounts for more than 30% of all annual expenses for most Americans. People aggressively pursuing FIRE retirement will seek out low-cost housing in high cost-of-living areas. By sacrificing comfort, they reap the benefits of the higher salaries available in such areas. Once they've saved enough money to pull the trigger on early retirement, they move somewhere with a more affordable housing market in order to stretch their savings.

With FIRE retirement, the money you save isn't just sitting in a bank account. Even the highest-yielding savings accounts (https://www.magnifymoney.com/blog/earning-interest/best-online-savings-accounts275921001/) won't earn enough money to keep you solvent during your decades of retirement. Instead, most FIRE adherents funnel their cash into the stock market, particularly low-fee index funds (https://www.magnifymoney.com/blog/investing/how-to-invest-in-index-funds/). The idea is to place your money somewhere it can reliably grow without the cost of brokerage fees that cut into your retirement income.

Money from stocks and bonds usually make up the largest share of a FIRE adherent's passive income — that is, any income they can collect without having to exert much effort or time. Since early retirement is funded by passive income, FIRE forums and blogs are filled with debates over the wisdom of investing in real estate, what specific funds in the stock market to target and other ways to earn passive income.

Don't get burned by FIRE

Pursuing early retirement with FIRE requires a specific mindset: you must be willing to sacrifice significant amounts of discretionary spending in the short-term in order to help you save enough to become financially independent at an early age. Beyond possessing the fortitude to pass up on those kinds of opportunities, a FIRE lifestyle comes with nontrivial risks you need to think through.

Because you're dropping out of the workforce during some or all of your prime earning years and trusting a huge part of your financial security to the stock market, you stand to lose a lot if the economy tanks or markets melt down. For example, what if a financial crisis causes rampant inflation, which would devour the value of your portfolio at a much higher rate than you accounted for? Can your portfolio survive a stock market crash? What if you develop a chronic illness or suffer some other health catastrophe during your 50-odd years of retirement that completely depletes your savings?

FIRE practitioners would respond that pursuing early retirement means embracing flexibility, and that any damage done to a nest egg can be countered with adjustments in lifestyle.

There's also the risk of obsessing over your FIRE retirement goal so much that you lose sight of why you want so much free time in the first place.

According to Adcock, "people spend years and years trying to get to [financial independence], and the struggle is part of the appeal." However, he added, "if there's nothing else in your life that you're going to continue to strive for," he added, "then [achieving FIRE] is very underwhelming."

The bottom line on FIRE retirement

The dream of retiring early remains a fantasy for millions of workers for a reason — it's extremely difficult to achieve. However, difficult does not mean impossible. FIRE retirement works because the idea underpinning it — you can retire at any age you want, so long as you have the money — remains a solid one.

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