



## **FIRE: Four Things You Need to Know About This Hot Retirement Movement**

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it? A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

### **1. FIRE means implementing an aggressive retirement plan**

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- Calculating estimated retirement expenses. A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- Cutting expenses. This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits,

such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.

- Saving and investing wisely. FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- Boosting income. Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

## 2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

## 3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

## 4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

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