

F.I.R.E.

(FINANCIAL INDEPENDENCE; RETIRE EARLY)

There is a movement among many younger workers to achieve F.I.R.E. Those trying to achieve F.I.R.E. attempt to retire early by saving significant amounts for a short number of years until they have enough of a nest egg to live off of the earnings from their investments (think dividends).

I recently saw a chart on the subject (see next page) highlighting the number of years until retirement based on your savings rate. I found it quite interesting.

Consider This Example:

Your grandchild, Beth, graduates from college at 22. Beth decides she would like to retire in about 20 years. The chart says Beth needs to save 45% of her pay and accumulate 13.75 times her annual gross income.

How Does This Work?

Beth saves 45% of her pay. Pay assumed to be \$50,000 (\$22,500 saved).

That means Beth lives on 55% of her pay (\$27,500).

Assuming Beth can generate 4% dividends from her portfolio, she will need \$50,000 (annual gross pay) x 13.75 = \$687,500 to retire.

$\$687,500 \times 4\% = \$27,500$ (the amount Beth is living on)

Saving \$22,500 @ 5% assumed rate of return accumulates to \$687,500 in 19 years.

Most Individuals Do Not Save Enough

The U.S. savings rate is under 5%. Can you see why many Americans will have to rely on Social Security and working during retirement?

*The less you save, the more you spend.
The more you spend, the bigger the amount you need to accumulate.*

HOW LONG UNTIL YOU CAN RETIRE?

Annual Savings Rate (Percent)	Working Years Until Retirement	Nest Egg Required (Annual Gross Pay x This Factor)
5	66	23.75
10	51	22.50
15	43	21.25
20	37	20.00
25	32	18.75
30	28	17.50
35	25	16.25
40	22	15.00
45	19	13.75
50	17	12.50
55	14.5	11.25
60	12.5	10.00
65	10.5	8.75
70	8.5	7.50
75	7	6.25
80	5.5	5.00
85	4	3.75
90	Under 3	2.50
95	Under 2	1.25

ASSUMPTIONS --- *5% after inflation return*
 --- *Retire when investments equal 25 times savings rate*
 --- *Social Security not considered*

Share this with your children and grandchildren who are just starting out in their careers. We suggest a savings rate of at least 10% of pay (51 years of work needed to retire). But for those who want to F.I.R.E., a much higher rate will be needed.