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 x 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.