

These Savers Are Playing With FIRE

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Hey Trader,

Retirement.

Even if you love your job (like I do) there's always an allure to the idea of life being unstructured and unplanned ...

Waking up to live each day exactly as you want to, with no bosses, schedules, or clients to answer to ...

Of course, it takes quite a bit of planning to set yourself up for the kind of comfortable retirement most of us dream of.

But with more and more of the workforce getting fed up with their daily grind, alternative financial philosophies have been growing increasingly popular.

And there's lots of people looking to cut their corporate ties as soon as possible.

They're ready to jump out of the office chair and into the FIRE ...

Set Your Bank Account On FIRE

No, not literal fire ...

FIRE is an acronym that stands for **Financial Independence, Retire Early**.

In essence, FIRE devotees follow stricter, more intense savings and investing rules with the ultimate goal of being able to retire earlier than they would have otherwise been able to, while surviving off their investment returns.

The emphasis on "financial independence" means that once your savings reach a certain level, you're able to live off the passive income they generate, and no longer are obligated to work to survive.

Of course, to what measures FIRE participants take their financial discipline runs from moderate to extreme. Some people pursuing an early retirement save only a moderate amount more than usual, with the hopes of knocking a couple of extra years off of their working career ...

While others save 50%, 70%, or more of their income in hopes of retiring decades early.

I'm sure all of us – even those of us who love what we do – can see the appeal of FIRE.

After all, without a job to fill up your days, you're free to pursue whatever personal, leisure, or even professional activities that strike your fancy ... and fit within your FIRE budget!

But what does it actually take to FIRE?

Just as wants, needs, and lifestyles vary between individuals, so too do FIRE goals.

For traditional FIRE, the rule of thumb is that individuals should aim to save about 25 times their expected retirement expenditures, which allows you to withdraw 4% of your investments per year without detrimentally depleting the principal.

However, there's plenty of FIRE savers who tweak the rules to give them a little more wiggle room, such as aiming for a 3% withdrawal rate.

Given market volatility, inflation, and the long time horizon many FIRE participants are looking at, it is hotly debated whether or not the 4% rule can reliably sustain retirements longer than 30 years (which is often the assumed length of a traditional retirement).

But how big of a difference can that 1% really make?

Say you determine you need \$50,000 in income each year to meet your basic needs, your wants, and whatever other extra expenses may pop up.

Going by the "4% Rule," you would need investments totaling $50,000 \times 25 = \$1,250,000$. (You can also find this by taking your total spend and dividing by your withdrawal rate, so $50,000/0.04$). This makes \$1,250,000 your "FIRE number," or the number you need to save to FIRE.

However, if you go by the “3% Rule,” you’ll want to save up a total of \$1,667,000 ($50,000/0.03$) – that’s an additional \$417,000 you need to save before you hit your FIRE number!

Just a 1% per year difference actually makes quite a difference when looking at how much you need to save to FIRE, which is why it is important that you’re realistic about how much you will really need to spend once you’re no longer bringing in income, and take time to really consider how inflation, unreliable market returns, and a retirement horizon that can sometimes be decades longer than normal will affect your spending and savings.

The FIRE savings philosophy has actually been around for about two decades, but it has really gained popularity and public awareness in recent years, thanks to online forums like Reddit, and a growing number of popular blogs such as Mr. Money Mustache.

As a result, several creative variations of the traditional FIRE mindset have gained popularity ...

Fat FIRE

For those who like nice things, Fat FIRE may be where you find yourself.

There is no hard and fast definition of Fat FIRE, but in essence, those who aspire to Fat FIRE anticipate they will have a higher-than-usual spend during their retirement years.

Of course, how “fat” Fat FIRE needs to be can vary widely based on location, so it is generally considered to be for those who want to live a lifestyle similar to the top percentile of earners in the area where they want to live.

So to determine if you are Fat FIRE or just regular FIRE (or another type of FIRE, which we’ll get to in a minute), you would look at the median income in the area you plan to live in, and see where your anticipated budget falls. If your planned spending is at or slightly below or above the median, you would likely be “regular FIRE.”

If you determine you need, say, 125% or more of the median income for your area, you’d probably lump yourself in the “Fat FIRE” group.

Of course, if you find yourself well below the average, you may be looking at this instead ...

Lean FIRE

Lean FIRE is for those who are willing to forego quite a few “extra” expenses in order to gain their financial freedom earlier.

Typically, Lean FIRE has been associated with more extreme frugality, and extreme savings rates, but the *true* hallmark of Lean FIRE is a lower-than-average cost of living budget – for example, budgeting 75% or less of the average median income in your area.

Of course, this approach to FIRE definitely has its drawbacks, and is typically significantly riskier, because you have a much lower savings principal to work with.

But it can also mean extra years of financial independence because the savings requirement is significantly lower!

For example, in our example above, if you anticipate your annual spend to only be \$25,000 per year instead of \$50,000 per year, that means at a 3% withdrawal rate you will only need to save \$834,000, or \$625,000 if you follow the 4% Rule.

If you like the idea of lower savings to achieve your financial independence, there is a compromise that doesn’t involve living like a pauper during your (extended) golden years ...

Barista FIRE

Barista FIRE may be a funny name, but it is a solid concept.

In essence, those who Barista FIRE “retire” early, but plan to work part-time to supplement their savings.

This might be someone who is looking to leave the slog of a high-stress (and presumably higher-paying) job in favor of only needing to work part-time at, say, a coffee shop.

If you have saved enough to cover your basic needs, but want some extra cash to splash around for the fun stuff, and don’t mind putting in a couple of hours of work each week, Barista FIRE might be the path you’re looking for.

Alternatively, perhaps you don’t mind the daily trip to the office (or to your work-from-home workspace) but you’d like to get the pesky task of retirement savings out of the way ...

In that case, you’d be looking to ...

Coast FIRE



Coast FIRE involves front-loading your savings efforts early so you're able to lower (or eliminate) the amount you sock away each month, while allowing your initial nest egg to grow and reach your FIRE number on its own.

So if you know you're flush with cash now, but plan on having expenses later (for example, someone who is single and childless who plans to eventually have a family), you might make an extra effort to put as much possible towards your retirement savings now, so that when your expenses increase later, you won't need to worry about budgeting for retirement.

To figure out where your savings need to be, you need to determine your traditional FIRE number, and then use a compound interest calculator to see how much you will need to have saved by your desired Coast FIRE age in order for it to grow to your ultimate retirement goal.

So what do you think? Are any of these FIRE philosophies right for you?

Now What?

how do you start?

Well, if you're reading this blog, I assume you're probably farther along than you think.

FIRE wisdom doesn't differ much from conventional, responsible money management, such as paying off high interest debt, and contributing as much as possible to tax advantaged retirement accounts like an IRA and 401(k) (speaking of, **make sure you are not spending too much on your 401(k)** (<https://optionpit.com/your-401k-could-be-costing-you-more-than-you-think/>!)) Every extra penny counts when it comes to compound interest!).

Obviously, how you invest your savings can also make a huge difference in the success of your early retirement.

We're coming off of a decade-long bull market, and many people who have recently gotten into FIRE haven't truly experienced the curveballs a bear market can throw at us.

Many FIRE proponents emphasize the importance of not only investing wisely, but diversifying into assets like real estate and bonds to protect against market turbulence and downturns.

Depending on how early you plan to retire, you may also want to consider the extra costs that come with your newfound life of leisure, and all of the spare time you have to fill.

You'll need to make sure you have a budget set aside for healthcare costs, which will no longer be covered by your employer.

Less working years also means less social security in your later years (although for younger generations, it might be wiser to not plan on receiving social security at all).

And while I advocate for trading to be an excellent way to pad your retirement account, I would never advise you to use trading as your sole means of savings.

Whether you're all aboard the FIRE train, or you're content to pursue more traditional savings methods, practicing healthy money management is paramount to ensuring financial wellness into your future.

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