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RETIREMENT

Want to Retire at Age 50? Do Some Hard Thinking First.

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Shanna Due, a financial planner with District Capital Management in Washington D.C., says that about 10% of her clients ask about the “Financial Independence, Retire Early”, or FIRE, movement. Most want to retire by 50, she says, or they want financial independence so they’re not tied to any one career.

“They want to have the financial flexibility to follow a new path if they want,” she says.

FIRE strategies typically require a lot of discipline, and they’re not for everyone. Followers save aggressively and live well below their means in hopes of acquiring financial flexibility and retiring years before is typical.

Individuals aiming to retire by 50 might need to accumulate 75% of their current annual income for every year they expect to be retired, Due says. So if a worker has current income of \$100,000 a year, and is planning on a 35-year retirement, he or she would need more than \$2.6 million by age 50.

The only way you amass so much money is saving heavily from the get-go. A 30-year-old with \$50,000 in savings would likely be saving 50% or more of his or her salary over the next 20 years to approach this goal.

Before committing to an aggressive strategy like this, Due warns her clients to consider three factors carefully.

Understand your motivations

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A FIRE strategy works best when you have a clearly defined reason for why you want to retire early and achieve financial independence. It's different for different people. For some, their goal is to travel full time, while others want to leave a job they don't like while maintaining their current lifestyle. Without clear direction, it may be hard to follow through with the discipline needed to save aggressively and live frugally.

"If you get on a FIRE plan, you have to make sacrifices along the way," Due says. "Say you're 25 years old and all your friends want to spend summer backpacking through Europe, if you've already set up your reasoning as to why you want to have \$1.4 million in the bank by 40, it's simple to say 'no' because you have a clearly defined purpose."

Know what retirement means to you

Many individuals don't have a clear idea of what their retirement will look like, and that can make planning difficult. "If your goal is to retire early, then what?" Due asks. "Will you just sit at home all day, or does it mean instead of working at your current engineering firm, you work for Habitat for Humanity building houses?"

Deep reflection on what you want to accomplish can help you determine how aggressively to pursue a FIRE strategy. "For example, I find that most people really just want financial flexibility," Due says, allowing them to work at jobs they are more passionate about. That doesn't necessarily require the strict savings and frugality needed to retire decades early. Nailing down your plans can help you understand which FIRE strategies are needed. Once you identify those, you can decide whether they are feasible.

Consider future life changes

When considering a long-term FIRE strategy, it's important to consider future planned and unplanned, Due says.

An emergency fund covering a year or more's worth of expenses can help with catastrophic unexpected events like illness or layoff.

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But what about other life events? For example, if you have children, or want them in the future, will the expense of childcare or saving for a college education allow you to meet FIRE goals? Similarly, if you plan to care for aging parents, will the cost of care mean postponing early retirement?

"It's important to remember that without the proper planning you could spend your entire 20s and 30s sacrificing and not actually reap the benefits of it." Due says. "You have to be strong in your reasoning and make sure you're clear on what happiness means to you."

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