Planning on Early Retirement? (June 13, 2019)

Part autobiography and part economics, Scott Rieckens's *Playing with FIRE* captures a trend that appeals to some millennials. FIRE stands for Financial Independence Retire Early, and its adherents practice an austere life of limited spending and intensive saving that is supposed to enable early retirement. But not all of the proponents of FIRE are young people dissatisfied with their jobs. Many believers of various ages hope to fit other possibilities into a life that is cramped by a long and demanding work week. Articles about the strategy have crept into the business press in recent months.

"If you'd driven by me on a freeway in San Diego on this particular Monday morning in February 2017," Rieckens's book opens, "you probably wouldn't have looked twice: a guy in his mid-thirties sitting in traffic in a relatively new but unremarkable car, drinking a cold brew from Starbucks." Married for seven years and by then the father of a little girl, Rieckens worked for a video production company and was ready for change.

A number of things had become evident to him. The most salient was that he and his wife were spending far more money than they should, on products that no longer appealed to them. They were, in the author's words, "poor custodians of our future." The couple, for the wife also worked, had a combined pretax income of $186,000, and had all of the accoutrements of a comfortable life—a home near the beach, a flat-screen TV, costly furniture, up-to-date kitchen appliances, expensive wine. What they felt was missing was time for adventure, which apparently to them means interesting but inexpensive travel, time together, and simple relaxation. They had the commodities but not the fulfillment. "Our true dream," he writes, "was to be free of the burden of paying for all of this."

So on that tedious drive to work through suburban San Diego in the winter of 2017, Rieckens was prepared for the message he received from a podcast of the Tim Ferriss show. The interviewee was Peter Adeney, who maintains a website explaining the principles of FIRE. The idea reached Rieckens at the right time.

He and his wife Tracy developed a new life plan. This would require less spending, more saving, and a year of travel to find a new place to live in a less expensive part of the country. Their plan included the obvious elements—eat out as little as possible, eliminate spending on superfluous merchandise, share a nanny for their daughter, sell things they didn't need, review the cost of monthly internet services. They spent the year of June 2017 to July 2018 traveling as cheaply as possible and selecting a new town to live in. Rieckens's ultimate goal was to live the life of an entrepreneur without the stress of making the new initiative cover all of his family's expenses. The family ultimately settled in Bend, Oregon.

"Fire is not," he writes, "about saving every last penny and trying to reach retirement as soon as humanly possible. It's about building a lifestyle that aligns with your larger life purposes, even while still working." By the end of the book, he and his wife are employed but moving toward their goal.

I support the central idea of the FIRE movement. Consumer debt has been a problem in the U.S. for decades and played an important role in causing the Great Recession. Unless you're safely rich, people should spend less rather than more and derive pleasure from simple activities. My gym membership at L.A. Fitness in Evanston, Illinois costs me a mere $35 a month. My group dance classes are also pretty cheap—two four-week classes lasting an hour each amount to $100 a month. (Private sessions with an instructor, of course, are more costly.) I eat out more often than I should, but many of these meals are at inexpensive sandwich shops or at a nearby Whole Foods food court. I can buy a nutritious lunch there for about $10. But it's also true that I'm a single man without any dependents.

I cannot say, however, that I find the movement's retirement plan persuasive. Rieckens posits that you need to save twenty-five times your annual expenses. But even if you live on a modest $40,000 annually, the formula requires saving about $1 million, which is an exceedingly difficult target to meet. The essential idea is that your savings can be placed in indexed mutual funds. These can be expected to appreciate by 5 percent a year. The anticipated appreciation will allow the beneficiary to withdraw 4 percent a year without affecting the principle.

But those intent on early retirement had best keep a close eye on their income targets. I'll set aside the obvious problem of children's education and the possibility of unexpected medical expenses. In the fifth edition of *Stocks for the Long*, Jeremy Siegel notes that "The compound annual return on stocks is approximately 6.6 percent per year after inflation." But this is averaging out figures over a very long period of time, over a century. Long intervals of better and worse returns have been recorded in the last hundred years. Sharp disjunctures have become the norm.

The period of 1982 through 1999, for example, was a marvelous and prolonged bull market, one of the greatest in history. But this was followed by a two-year-long bear market that saw the averages drop by about 50 percent. The period of 1966 through 1981 was an extended bear market, when the averages did rather poorly. The stock market did extremely well during the aughts, and then went into free fall in 2008-09. But the decade since the lows were recorded in the spring of 2009 has been effervescent. Moreover, as Siegel points out, U.S. companies have been rewarding investors with capital appreciation—a runup in share prices—and to a lesser extent in dividends.

My advice: Save money, but keep your day job. On the day I wrote this note, *The New York Times* ran a fresh story on serious trouble at Social Security. In 2020, according to the article, Social Security will begin drawing down its assets in order to pay retirees all of their benefits. This would be the first time this has happened since 1982. The move would erode the base of funds the program draws on and lead to a reduction in retiree benefits. And Rieckens concedes in his book that the less participants in FIRE work and contribute to Social Security, the smaller their ultimate payout already. Political and financial dangers for Medicare, Medicaid, and Social Security weaken the argument for the program he is suggesting.