

# Retire Early? Retire Late? Or Retire Right on Time? – Lessons from the Early Retirement Movement

By Steven Smith / September 10, 2020

The FIRE movement captured my interest only recently. Financial Independence, Retire Early (FIRE) is an aspiration of motivated young people today to stop working and retire in their 30's and 40's. As a retirement advisor, seeing the obvious challenges of saving enough money and otherwise getting one's act together at such an age, I rather viewed these folks as a fringe group. But after listening to a Morningstar podcast, I think there is a great deal to be learned from the FIRE movement, even for those with ordinary ambitions.

Tanja Hester is one of the leaders of the FIRE movement. Her motivation to retire early is largely due to the looming prospect of a genetic disease, making retirement at a normal age difficult or even impossible. (I can't think of a better reason). Listening to the Morningstar podcast [interview with Tanja Hester](#), her inflection and tone really enhanced the poignancy and passion of her message.

Hester is the author of the book *Work Optional: Retire Early the Non-Penny-Pinching-Way* and the [Our Next Life Blog](#). She (at 38) and her husband (at 41) left employment after working hard and saving enough (they say) to make work optional for the rest of their lives.

Morningstar journalists Christine Benz and Jeff Ptak have been interviewing noted financial planning practitioners, researchers and

academics in its weekly [The Long View](#) podcast for over a year now. They give Hester's plan a thorough going over.

To succeed in a 50-year plus "retirement" – without a windfall, such as an inheritance – may be overly optimistic. And will take sound planning, lots of discipline and good luck, in spades.

Perhaps the most extraordinary aspect of the FIRE movement is the fact that there are people in their 30's and 40's who are thinking about things – goal prioritization, time management, sequence of return risk – that I sometimes have a difficult time getting clients in their 50's and 60's to focus on.

*Yet, the thought process is useful for people at a more conventional retirement inflection point; say around age 60, who would put the emphasis on the financial independence part and not necessarily on the retire early part.*

## **Work Optional**

The Coronavirus pandemic is going to make it both more desirable and more difficult to make work optional. But those of us who do the deep values prioritization will be more motivated than ever to not be dependent on the vicissitudes of the economy. The flip side, of course, is that the pandemic recession is imperiling thousands of small business owners and causing millions of people to be [forced into retirement](#) earlier than they had planned and are in need of retirement planning triage.

We each need to come up with our own reasons and vision for the [8,000 days](#) during which we will live after we stop working.

Regular retirees do have a couple of advantages over FIREs. 1) We get health insurance (Medicare kicks in at 65). 2) We work long enough to receive full Social Security benefits (your highest 35 years of earnings are used to figure your benefit.)

## The Nuts and Bolts

Even at such an early age, these folks have a rare common sense understanding of what's required to succeed at retirement:

- Spend mindfully. Try creating a [Values Based Budget](#).
- Start saving early and as much as possible during your high earning years. One way to be a “super saver” is to live in a [modest home](#).
- Invest in low cost, globally diversified portfolios.
- Have a sizable cash cushion and enough in bonds to get you through a prolonged bear market.
- Pay off your mortgage.
- Have a cash flow strategy. Hester utilizes the CAPE (Cyclically Adjusted Price Earnings) ratio rule for when to sell stocks and rebalance. Taking profits in asset classes that have recently outperformed and may be overvalued. Of course, understanding the CAPE and putting it to good use is [another whole story](#).

## Doomed by Randomness

Among the most demanding portfolio management issues to deal with in retirement are the twin challenges of establishing a sustainable withdrawal rate amidst the possibility of a devastating sequence of returns. One of the wonders of modern financial planning is the

research (assisted by Monte Carlo analysis) leading to an understanding that the order and pattern of returns – despite having an acceptable average return – can make a big difference in whether you succeed or not.

This [chart](#) from RetireOne shows the same average return of 4%, on a \$100,000 starting balance, with 5% withdrawals over 15 years; but in reverse order. When the poor returns are early in the sequence the ending balance is starkly lower.

Hester is a keen student of the so-called [4% “rule”](#) and its many variations – which shows that a starting withdrawal rate of 4% (with a moderately aggressive portfolio), adjusted for inflation, will probably last through a retirement of 30 years. But stretching that period out to [longer periods](#) demonstrates the value of having a lower initial withdrawal rate (3.5%) and a much more flexible spending regime to endure the inevitable bear markets of a long period of retirement.

## What if You Flunk?

Some people actually flunk retirement. Typically, this refers to people who get bored with golf (say it ain't so) and decide they need to do something more meaningful with their life. Or, as described by noted scholar Arthur Brooks, failing to accept the end of the [hero's journey](#).

But sometimes this applies to people who planned poorly or suffer a financial emergency and are forced to precipitously dip into their nest egg. FIREs, of course, may be young and trainable enough to rejoin the work force. Older retirees may not. And [working longer](#), for some, provides enormous emotional, social and financial benefits.

It is [difficult enough](#) to plan for and fund a “normal” 25 to 40-year retirement. So, I have a fair degree of skepticism around the success

rate for those planning for a 60-year retirement, without at some point, or at least periodically, needing to resume a period of earned income.

But the care with which these younger folks are thinking about the most critical elements is very instructive for those of us who plan not to retire early, but merely right on time – and need to achieve at least a passing grade:

- Know what's really important in your life, so you can align those goals and values with your time and money.
- Save a lot.
- Be conservative in your assumptions.
- Invest for total return (both growth and income) in a low-cost, broadly diversified portfolio with an appropriate amount of risk. And have a “cash flow” not just an income – based mindset.
- Maintain sufficient reserves in both cash and bonds to get you through difficult markets, which are certain to emerge.
- Be flexible in your spending needs.
- Maybe even write it all down in a Retirement Policy Statement.

## **From the Mouth of Babes**

In this era of remote schooling, it seems we can learn a lot from the kids.