Set your retirement on FIRE

FINANCIAL
INDEPENDENCE
RETIRE
EARLY

If retiring in your 50s, 40s or even 30s was a possibility, what would you be willing to sacrifice today to make that happen?

Early retirement is a luxury few can afford, but an increasingly popular financial philosophy is changing that for some savvy income earners of all levels.

FIRE, or Financial Independence Retire Early, was first championed by Colorado finance blogger Pete Adeney in a post on his Mr Money Mustache blog in 2012. He practises what he preaches; he managed to retire at age 30 by building his life around the FIRE principles.

FIRE is based on saving most of your income, living off the bare minimum and making smart investments. Adeney argues that financial independence is feasible by following this formula on whatever income you are making, whether that is $40,000 or $200,000. According to the FIRE philosophy, the key to financial independence is spending less than you earn and focussing on having the highest savings rate possible.

FIRE devotees scoff at traditional financial planning goals that aim for people to retire in their 60s. They would rather put in the hard yards earlier by sacrificing what they regard as frivolous extras so they can enjoy the freedom of retirement while they are still in their physical prime.

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Here in New Zealand there's a growing community of money-minded advocates of the FIRE principles.

One is Central Otago-based Ruth Henderson who blogs at thehappysaver.com. Henderson, 44, and her husband Jonny Simpson, 45, became interested in financial independence 11 years ago, when they were living in Christchurch and she was pregnant with their daughter. Their desire for financial freedom was further stoked by the Christchurch earthquake.

Henderson says they had poured thousands of dollars into renovations at their Dallington home, only to see it red-zoned and eventually demolished. They were already debt free by age 32, but the earthquake experience taught them that they had been frittering away their extra income on unnecessary items that didn't contribute to their long-term goals or happiness.

"The earthquakes made me realise the benefit of having no debt and money set aside for emergencies. Our finances are in our control, even when everything else isn't."

Henderson started writing The Happy Saver blog in 2016 after finding herself frustrated with the lack of finance blogs available offering advice specific to New Zealanders.

She says her money philosophy is very simple. "It's about enjoying what I have and not feeling the almighty pressure to have more. Money makes money and I've learned that the more I tuck away, the more it grows and the less I have to work, giving me more time to enjoy this life," she says.

She sums herself up financially as someone who "lives frugally but spends where necessary, saves consistently and tries lots of different investment strategies just to see what happens."

Henderson is quick to point out that life is not only about frugality for her family. They like overseas holidays – next up is Vietnam

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FIRE Top Tips

01 / Be aware of where your money goes.

02 / Create a strategy to become debt free – it isn't going to happen by itself.

03 / Contribute a significant portion of any extra income to paying off debt.

04 / Change your mindset and stop kidding yourself – you can't have it all.

05 / Live within your means and buy only what you can afford.

06 / Choose long-term delayed gratification over short-lived instant gratification.

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Ruth Henderson, The Happy Saver

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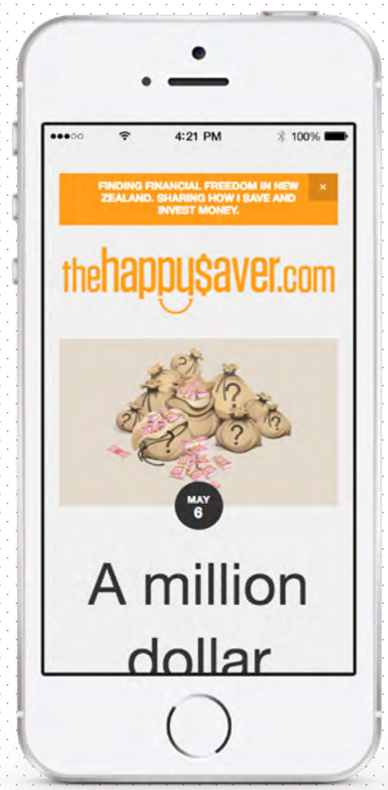

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01 / Ruth Henderson
02 / Ruth and husband Jonny
03 / The Happy Saver blog

later this year – and they regularly upgrade their vehicle.

"I can do anything I want, but I simply want for less. It doesn't appeal to me to spend $25 on one lunch anymore – that can feed my family for two days," she says

Henderson has chosen to keep working on some projects, and says the flexibility of working if and when she wants to, is what makes this lifestyle appealing to her.

She doesn't claim to be a financial adviser, investment banker or economist but rather someone who has done her research and is financially literate. She has grown a healthy and varied investment portfolio covering KiwiSaver, shares, a NZ Top 50 Fund, a US 500 Fund, as well as gold. The dividends she earns off these investments, combined with her and her partner's part-time incomes, (approximately $50,000 per year) more than covers their living costs.

MAS senior financial adviser Andrew Curgenven has been practising FIRE for over 10 years without even realising it; he refers to his lifestyle as "common sense".

When Curgenven and his partner purchased their house 12 years ago, they were offered a massive mortgage for a huge house. But they were firm in their goal of buying a house that they could pay off within 15 years and then start putting aside that extra income for their retirement.

Now at 42, Curgenven and his partner are well on their way to their goal of retiring in their mid-50s. Curgenven says the key to their success has been remaining focussed on their goals. As their incomes increased over the years, they increased their mortgage repayments and left themselves a small amount to play with.

"We always think twice if what we are about to spend money on is something we need or just something we want. Just getting into the habit of asking yourself that question, 'is this a need or a want?', you notice how many times you walk away from something and it saves you thousands," he says.

Like Henderson, Curgenven says they don't go without, but instead make sensible choices and compromise where necessary.

The FIRE road to financial independence looks different to different people. For Henderson, it means living sensibly off her intermittent income and investment dividends. For Curgenven, it means making mortgage reduction the number one focus. For someone new to the workforce, it might mean paying off extra each week on their student loan and setting themselves a weekly budget.

The thing all FIRE roads share is a conscious understanding of every place your money goes and an honest appraisal of whether your spending habits are helping or harming your future.