

Our Insights



Is the cost of saving for financial independence and early retirement worth it?



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A client once recounted a story about an acquaintance who was well-off, but extremely frugal. This acquaintance would insist that they couldn't buy a bottle of wine for a dinner party because they were trying to save money. Instead of regarding a small gift as a gesture of gratitude, they saw it as an expense, a cost they could cut.

The financial philosophy that pushes extreme savings as part of the financial independence, retire early movement (FIRE) has garnered attention in recent years.

Specifically, proponents of FIRE adopt extreme savings habits and attempt to live off as little money as possible. While the average person may allocate 10 to 20 per cent of their income toward retirement savings, the FIRE movement encourages a far more drastic savings rate of anywhere from 50 to 70 per cent.

The extreme sacrifice in lifestyle that comes with such a savings rate supposedly pays the eventual dividend of a very early retirement. While the average age of retirees is 64, FIRE followers aim to retire as young as 40 through this form of extreme saving.

FIRE adherers or not, clients with specific financial goals may wish to adopt drastic saving measures of their own. While living within one's means and being prudent with finances is critical to meeting financial goals, it's worth asking what sacrifices come with this extreme approach, and whether it's realistic or necessary.

Is it as simple as it sounds?

For the right client in the right set of circumstances, FIRE may be a good way to create a set of motivational goalposts and allow them to take control of their pursuit of financial freedom.

The movement reinforces solid fundamentals that everyone would do well to apply to their budget, no matter their goal. For most other clients, though, things may be more complicated.

Initially, making monetary sacrifices may seem manageable, but they can be more challenging than clients tend to anticipate. For example, retiring that early may require sacrificing expenses that benefit one's well-being, including investments in self-care such as a gym membership, nutritious food, holidays, or massages.

Extreme saving also has the potential to create rifts in personal relationships. If a client has a conservative approach to spending while their partner prefers to spend money on experiences such as dining out or concerts, it may cause tension over time. For clients with children, extreme savings may also come at the cost of developmental opportunities such as summer camps or extracurriculars.

Understanding the reason is key

With these challenges in mind, a wealth advisor should ask clients why they feel the need to retire so early.

Some are drawn to the FIRE movement because they dislike their work or want more freedom to travel or spend time with family. A good advisor should encourage clients to consider if they really need to retire early to make those priorities happen.

In some cases, a more effective allocation of energy could be investing time in finding a more fulfilling career, one that allows some of the freedoms of FIRE, but now instead of later. In addition, it can be easy to underestimate how much your life changes once you retire. Some clients even opt to keep working, whether out of boredom, financial anxiety or because it is all they know.

Alternatively, is it more realistic to retire at 55 or 60? Setting a more modest goal for retirement may allow for more balance. Saving even 50 per cent of one's income is less daunting than 70 per cent and still allows for an earlier retirement than most.

The most important factor is the client's mindset. Prioritizing healthy food, memorable experiences, and a happy lifestyle can be regarded as either investments or expenses. Guiding clients' views on certain expenses as investments in a happy and fulfilling life is key to building a more sustainable retirement plan.

Benefiting from FIRE principles

It all comes down to a simple question: Is the promise of financial freedom tomorrow worth your financial freedom today? For most people, there will be too many sacrifices required to make early retirement worth the extreme saving.

That's not to say the FIRE movement is without merit; its core principles are sound. Just about anyone would benefit from saving more, and a debt-free life is a status worth striving for. The philosophies behind FIRE can be leveraged effectively for shorter-term financial targets and lifestyle goals.

Ultimately, people don't need to sell their youth to earn financial freedom. By adopting a balanced, realistic and sustainable retirement plan, and investing meaningfully in one's own happiness, clients can retire comfortably without compromising their lifestyles today.

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