



Millennials: Can You FIRE on Just \$1 Million?

Description

It appears that there are thousands of folks under 40 who have decided a traditional career is not the path they want to take.

These people — who brand themselves FIRE devotees, which stands for financial independence retire early — are saving as aggressively as possible so they can throw off the shackles of a 9-5 job and really embrace life.

They plan to spend their extra-long retirements enjoying hobbies like traveling, volunteering, or working on passion projects.

Some of these millennials are so aggressive they save up [a mere \\$500,000](#), convinced its enough for a retirement that can easily span five decades. Most financial pundits disagree, saying you'll need at least \$1 million to retire early — and even then, it's a stretch.

Let's take a closer look at this issue and see if you can actually pull off an early retirement with just \$1 million.

The risks

The FIRE crowd take a lot of comfort in safe withdrawal rate studies that say you have virtually a 100% chance of outliving your money if you just withdraw 4% of the value each year, adjusted for inflation.

However, there are some major caveats to this. These studies look at long-term numbers and stock market performance going backwards. There's no guarantee the 4% rule will work going forward.

Low interest rates could also impact withdrawal rates in the future. After all, very few bonds that still yield more than 4%.

There's also the risk of an unforeseen event throwing your whole retirement for a loop. Perhaps you or a loved one need expensive long-term care. Maybe you need experimental medical treatment for a

rare disease that isn't covered by your provincial health insurer. There are a million things that could potentially go wrong, although I'm the first to admit many of these risks are low.

Say you do save up \$1 million and take out an inflation-adjusted \$40,000 each year. Will that really be enough to live in markets like [Toronto](#) or Vancouver, places with sky-high real estate prices that seem to keep on marching higher every year?

The good news

Although there are numerous risks, I believe that most millennials under 40 with \$1 million in the bank will be able to enjoy a long and prosperous retirement without much financial stress.

One easy way to make your money stretch even farther is to work just a little. I understand the whole point of an early retirement is to avoid employment, so be incredibly selective. One easy way to do this is to make a profit from your passion project, constantly making sure you don't overtax yourself.

Even an extra \$10,000 per year can really make a difference.

Another easy way to stretch your money is to move to a cheaper location. There are many small-to-medium sized cities across Canada where you can buy a place for under \$200,000 or rent something for \$1,000 (or less!) per month. Compare that to Toronto or Vancouver, where rents in the \$2,000 to \$3,000 range are common.

Stock markets should also co-operate over time. As I type this, the **TSX Composite Index** has returned approximately 18% this year. As long as you keep those excess returns working for you, this really should mitigate a lot of withdrawal risk going forward.

The bottom line

With just a few sacrifices, I believe anyone who is conscientious enough to amass \$1 million in assets by their 35th or 40th birthday is also capable of making that nest egg last for a long time.

Embracing simple tips like earning a little money or minimizing expenses will help keep that doubtful voice that worries about running out of cash at bay, too.

The only thing left to do is start saving. Will you be aggressive enough to become financially free sooner than you ever thought possible?

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