



2 Reasons Early Retirement Scares Me (and 1 Reason It Doesn't)

Description

With more Canadians returning to in-office work, the idea of retiring early has perhaps never been more popular.

As someone who grew up with a kind of “oh-the-places-you-can-go” optimism, it certainly crosses my mind more than once ... err a week. Amass a tonne of savings, invest in the right stocks and funds, and live off the interest that my investments generate. What could possibly go wrong?

Well, as it turns, a *lot* could go wrong. Over the last decade or so, the F.I.R.E. movement (Financial Independence Retire Early) has provided us with a close look at what early retirement success looks like, as well as how it could crash and burn. And, as I look at the ways it could go wrong, two definitely concern me (and one I feel *meh* about).

At the mercy of market volatility

This one worries me the most.

One of the key tactics of retiring early is to invest your money in stocks and funds, which then pay a sizeable amount in interest. The idea is that if you can supplement your savings with investment gains, you can live independently of a full-time job.

The problem, of course, is that no one knows what the market will do next. Even the most highly diversified portfolio could take a heavy hit in a market downturn, not to mention a recession. If your income depends entirely on what your investments are generating this year, you could find yourself in a tough situation when you're earning far less than you planned.

For many F.I.R.E. proponents, the recent pandemic-induced market downturn showed just how fragile our investment portfolios can be. Many were horrified when their investments dropped by six figures in a single week. Though what goes down will ultimately come back up (as we're starting to see today), it can certainly make you think twice about depending on volatile income in retirement.

Boredom

If market volatility doesn't force you to start working, boredom might.

It's not hard to imagine why. After all, unless you have a line of exciting hobbies waiting for you, you could easily lapse into idleness (video games, scrolling through social media, just "hanging out"). You may go on exciting vacations, manage a cool blog, or finish that novel you've always wanted to write. But, after a while, it can become nauseating how much free time you have, especially if you decided to retire early during a pandemic.

If we're talking about challenges to staying retired, then, yes, boredom is certainly up there. I'm willing to bet we'll see a trend of early retirees reentering the workforce in their 40s and 50s, simply because they were too bored to stay retired.

Smaller pension

I'm somewhat concerned about this, but it wouldn't stop me from retiring early.

For one, you'll still get a pension. It may not be as high as it could be had you worked until you were 65. But you'll still have some pension payouts coming your way.

Second, pensions weren't designed to be a major source of income in retirement. They exist to supplement retirement savings, sure, but not replace it. If you keep your money invested in stocks and funds for the long term, not to mention have some alternative investments such as real estate, you won't have to depend on pension payouts later in life.

Even if something went terribly wrong with your retirement plans, a high pension wouldn't save you. You may have to take on a part-time job, reenter the workforce, or find a cheaper place to live. But I doubt having a smaller pension will end up derailing early retirement.

Early retirement: Is it right for you?

It's certainly not for everyone. But if you can amass enough savings, as well as pick the right investments, you could find yourself in a position to retire early.

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