5 Major Early Retirement Mistakes (and How to Avoid Them)

Description

The F.I.R.E movement has been the most exciting, fun-to-watch development in personal finances in recent years. Instead of advising workers to endure a 9 to 5 existence for 35 years or more, F.I.R.E. movement adherents save tremendous amounts of money, invest it immediately, and aim to be financially independent before their golden days.

While F.I.R.E. movement supporters are typically savvy and well-educated, they can still make some fatal mistakes. If you'd like to retire early (or reach financial independence), here are just five common early retirement mistakes you should try to avoid.

1. Assuming all will go as planned

Trust me on this — it won't *ever* go as planned.

When you sit down to make your retirement plan, whether its for a traditional retirement or an early one, always add some cushion. That could mean planning to save more than you expect to spend (more on that below). Or it could mean planning for a higher rate of inflation, or perhaps a lower rate of return on your investments.

When you assume your plan will work out exactly as its written, you'll suffer from your own rigidity. Add some flexibility, however, and you can more readily wiggle your way out of a sticky situation.

2. Not saving enough

Saving money for retirement is hard work. Saving money for *early* retirement, however, is a feat of its own caliber.

Many F.I.R.E. followers recommend you follow the 4% rule: withdraw only 4% of your retirement savings each year in retirement. Traditionally, that means savings around 25 times your annual expenses, which would equal around 25 years of retirement. If your annual expenses are $50,000, for instance, then you would need to save $1,250,000 to be financially secure.

But here's the rub — 25 times your annual expenses may not be enough for a traditional retirement, but it's probably not enough for an early one.

If you're going to retire early, you're going to have save more than 25 times your annual expenses. In fact, just to be safe, I would add another five years to your estimate. If you expect to live fifty years, for instance, you'll want to save enough to last you 55 years. The last thing you want is to outlive your retirement savings, especially when you're no longer able to work.

3. Failing to decide what retirement looks like

Early retirement sounds great when you're stressed out at your job. It feels totally different, however, when you're actually retired and have a tonne of spare time on your hands.

So here's a challenge: before you embark on an early retirement mission, sit down and ask yourself what you want to do when you retire. If your answers reveal around leisure, then trust me — you're going to get bored. Fast.

For perspective, if you retired at age 40, and you lived until you were 80, you would have 350,400 spare hours to play with. Factoring in sleep (around 116,800 hours, assuming an 8 hour night), you still have 233,600 hours. The average Netflix series is only eight to nine hours long and movies are much shorter.

If you believe the whole "10,000 hours" rule (that it takes approximately 10,000 hours to master anything), you could master 23 different skills. So again, ask yourself: what do you want to *do* in retirement? Your answer could mean the difference between enjoying a high-quality retirement and begging yourself to find a job.

4. Eliminating work as an option

Speaking of jobs, here's a common mistake: not having one.

While, yes, early retirement may mean "not working," again (apropos the point made above), without a job, you run the risk of growing bored. You don't have to work a nine-to-five gig. Shoot, you don't even have to get paid. But without a passion, without something that makes you want to wake up, what's the point of having so much time? Short answer: there really isn't one (unless family is your "job"), and you'll easily grow disinterested with your own time.

5. Not seeking professional help

Finally, don’t forget that Canada has a slew of experts who could help you accomplish your retirement dreams. I understand that most F.I.R.E. supporters are DIY investors and savers. And, for the most part, they do a pretty good job educating themselves and planning for their retirement. But financial experts, such as tax advisors and investment pros, have a tonne of experience behind them. They could help you see things you couldn’t see yourself, especially when it comes to capital gains taxes.

Add some professional help in your planning, and you could avoid the myriad other F.I.R.E. mistakes not discussed here.

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Date
2025/06/28
Date Created
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