

# Mastering the FIRE movement and achieving early retirement with an annuity



Many people's top goal is to create a retirement income plan that provides financial security and flexibility in their later years while potentially allowing the option to head into retirement early. To help achieve this greater financial freedom, there's a concept known as the Financial Independence, Retire Early (FIRE) movement, which encourages certain saving and planning strategies to help make early retirement a reality.

## What is the FIRE movement?

Originating from the 1992 book *Your Money or Your Life* and gaining popularity in 2010, FIRE is a lifestyle movement that emphasizes frugality, saving, and investing with the goal of achieving financial independence and retiring early. The core idea is to save and invest a significant portion of one's income, typically 50% or more, in order to accumulate enough wealth to support oneself and enjoy one's desired retirement lifestyle. The FIRE movement is built on several fundamental principles:

- **Financial independence:** This is achieved when investments, savings, and retirement income generate enough money to cover living expenses. Once this point is reached, relying on a traditional job for income may no longer be necessary.
- **Retire early:** "Early retirement" doesn't necessarily mean never working again. Instead, it can mean having the freedom to choose how you spend your time, whether it's pursuing hobbies, traveling, volunteering, or working on passion projects.
- **Frugality:** Keeping expenses low and avoiding overspending are fundamental aspects of the FIRE movement. This involves cutting unnecessary costs, minimizing debt, and prioritizing spending on what truly adds value to your life.
- **Saving and investing:** Making saving and investing a top priority is crucial in achieving FIRE. The movement typically advocates investing in low-cost index funds and retirement savings accounts and creating a diversified financial plan that offers growth potential and guaranteed retirement income.
- **Side hustles:** Many FIRE adherents pursue additional sources of income through side hustles or entrepreneurial ventures to accelerate their journey toward greater financial freedom.

## How to plan for early retirement with a FIRE financial plan

Following certain steps and staying disciplined with saving, investing, and spending habits that are part of a FIRE financial plan can support your financial well-being so you can retire at a time that works best for you. To retire early, it can be helpful to:

### Assess your current financial situation

Take stock of your current income, expenses, assets, and liabilities. Then, calculate your net worth and understand your current savings rate. This helps provide a baseline to work from and can help reveal any areas for improvement.

### Know your number

Set a specific goal for how much money you should save to retire. It can also be helpful to set smaller goals that support achieving the larger goal in the desired timeframe.

### Make saving and investing a priority

The FIRE strategy encourages people to save and invest a significant portion of their income, typically 50% or more. This can include maximizing contributions to tax-advantaged retirement accounts such as 401(k)s and IRAs, purchasing an annuity, and depositing a certain amount into monthly savings.

### Diversify investments

Diversifying investments and creating an overall financial plan can help a person take advantage of different investment and growth opportunities, protect a portion of their assets from market volatility, and provide multiple sources of income.

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**Manage debt wisely**

A key part of reaching an early retirement is to keep debt to a minimum, especially debt with high-interest rates that could be going toward retirement savings instead.

**Stay flexible**

Life is unpredictable, so it's good to be ready to revise a plan as circumstances change. It's helpful to maintain flexibility in a FIRE plan and be willing to adjust goals, timelines, and strategies as needed to accommodate changes in your life situation or financial markets.

**Generate multiple sources of income**

Having various income sources can ensure there is enough money to last as long as you do, aiding in early retirement and FIRE goals. These funds may include Social Security, pensions, investments, personal savings, cash value life insurance, and annuities.

## Can annuities support early retirement?

Annuities are designed to provide income in retirement and, depending on the type of annuity, can offer additional benefits as well. An annuity is often used to round out a diversified retirement income plan and can provide a mix of growth potential and protection for retirement assets, along with a guaranteed source of income. With regular payments you can count on, relying less on savings leading up to or during retirement may be possible.

In exchange for a lump sum payment, single premium immediate annuities (SPIA) can provide a guaranteed stream of income that will last for a retiree's lifetime. Certain fixed index annuities (FIA) can also offer growth potential and the option for guaranteed income for the rest of a retiree's life. Annuities can help generate income during an early retirement without a retiree needing to withdraw from savings or retirement accounts (which could charge penalties) and ensure a sustainable source of income. At the same time, a person can wait to collect Social Security so they can maximize their benefits.

## Reaching financial independence and retiring early

To turn a dream of early retirement into reality, meeting with a financial professional can help you build a plan around this goal and provide personalized advice tailored to your unique financial situation, retirement timeline, and risk tolerance. For those eager to enter the next chapter, adding an annuity to a retirement income plan can assist in creating lasting savings and help you transition from work life to retirement with greater confidence and financial stability.

# Helping you retire confidently

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Ratings are subject to change.

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