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# HOW TO ADD FUEL TO YOUR JOURNEY TOWARDS FINANCIAL INDEPENDENCE

FIRE movement is a lifestyle approach rather than being a get-rich-quick scheme, writes **John Cradden**

**U**NLESS we are lucky enough to win millions on the lotto or receive a generous bequest from a rich relative, the only point in our lives where most of us will achieve a reasonable standard of living without having to be employed (or dependent on others) is when we retire. Some people will manage to retire a bit earlier than at age 65 or so, typically in their mid-to-late 50s or early 60s. But what if you could feasibly retire in your 40s?

That's the aim of a movement called FIRE (Financial Independence, Retire Early), which advocates a lifestyle approach that enables you to build up enough savings and assets to cover your living expenses (often called 'passive income'), or at least achieve a greater degree of financial freedom, and all while you are young enough to enjoy it.

The movement began in the 1990s in the US, but has slowly gained traction internationally in more recent years, including in Ireland. It started off by espousing two basic rules of thumb: to build a fund worth at least 25 times your estimated annual living expenses, and to draw it down at a rate of about 4pc a year.

It's no surprise to learn that a large part of the strategy for achieving this is aggressive saving. So never mind 10-15pc of your annual income – you may need to put by closer to 50pc or even 75pc. Easier said than done, particularly for those on low incomes or with young families and mortgages to pay for, but there are other important parts of the effort to achieve this, FIRE advocates say. Among them are to track

your expenses and cut them to the bone, reduce unnecessary debt, build an investment fund and find ways to increase your income.

Above all, it's not a get-rich-quick scheme, but an approach to financial discipline that supposedly anyone can achieve, advocates say.

Financial adviser Paddy Delaney, who blogs and podcasts about personal finance issues at [Informeddecisions.ie](http://Informeddecisions.ie), says the expenditure aspect is critical because it's the one that we have the most control and influence over.

"I will always maintain that it is easier, for many of us, to decrease our expenditure than it is to increase our incomes. Based on that ethos, it can be said that achieving a state of financial independence is totally within the reach of the vast majority." He adds that a certain amount of cloth-cutting may be needed if you are on a relatively low income, though.

FIRE advocates often talk about financial independence as a journey. Michael Houghton, a freelance web developer in his 40s with three children, says this is why FIRE is becoming more popular and easy to relate to.

"Very little of us get a proper financial education in our school years and find ourselves coming out of college buried in debt. This forces us to take a job to pay the bills. Immediately we find ourselves in the work/spend cycle – or the rat race. FIRE is all about breaking this cycle and finding a new way to generate money."

Houghton, who blogs and podcasts at [Playingwithfire.ie](http://Playingwithfire.ie), acknowledges that building up a fund of 25 times our expenses is not straightforward in Ireland, even by the time we reach retirement age.

"We live in a country where we are taxed



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pretty much everywhere we turn. It has resulted in many in the FIRE movement, myself included, to think differently about how to achieve financial independence.”

## VARIATIONS

He has been exploring a few variations on the FIRE theme and writing about them.

Among them are ‘Fat FIRE’, where you have a conventional lifestyle but save more than the average retirement saver; ‘Lean FIRE’ is about living a minimalist lifestyle and an extreme saving regime; ‘Barista FIRE’ refers to followers who have quit their traditional nine-to-five job, but still employ some form of part-time work to cover current expenses that would otherwise erode their retirement fund; and ‘Coast FIRE’ also applies to followers with a part-time job, but who would have saved enough to fund retirement and current living expenses.

Houghton says he lives closest to a Barista FIRE lifestyle in that he works only part-time (four hours a day, six days a week) as a freelance web developer, and spends the rest of his time on hobbies and family, including school pick-ups.

He has generated extra income through a couple of side businesses, and also invests heavily. He managed to put €40,000 last year into his investment portfolio, and says he is on track to do the same this year. He publishes the monthly capital growth progress of his portfolio on his blog.

Lean FIRE is rare as lifestyles go because of the higher cost of living here, says Houghton, while Coast FIRE is a lot more popular thanks to the pensions system.

But Fat FIRE is where many start their journey to financial independence, namely by reducing food, accommodation and transport expenses. “Tracking expenses really is step

one. I started my journey in 2017 but didn’t make my first investment until April 2018. It isn’t about investing first. The first step is getting on top of your expenses and clearing high-interest debt.”

He has participated in some of the meet-ups in Dublin and Limerick of the 135-odd members of Financial Independence Ireland, which is organised by another FIRE advocate, Vince Doherty. “It is good just to get involved,

meet like-minded people and talk about money — a taboo topic in most social circles,” said Houghton.

Doherty, who also blogs about FIRE at [Ignitemyfire.ie](http://Ignitemyfire.ie) and is in his 50s, started his own journey to financial independence three years ago. He works full time at a tech company and has a mortgage but his goal is simply to have the freedom to not to have to rely on the pay cheque from his job.

He adds, however, that being relatively late to the FIRE philosophy, the ‘retire early’ part is probably not an option for him.

## TALKING POINTS

Whatever their view of the FIRE movement’s rules of thumb, many financial advisers and retirement planning experts say its real value is in getting people to talk about retirement more openly, and even up-ending traditional notions of what a retirement lifestyle should be all about. Paul Kenny, of the [Retirement Planning Council](http://RetirementPlanningCouncil.com), which runs a range of pre-

retirement courses, agrees that the goal of achieving enough financial independence so you are more free to make other late-career choices is an important one, particularly if you are in the kind of employment that you might not be able to sustain into your 50s and 60s.

“We had a nurse here a little while ago,” he said. “She was 57 and she said I’m retiring now as a nurse and I’m going to spend the next eight years working in Marks and Spencer because the physical demands of the job she was doing were too great.”

Most financial advisers say the FIRE movement also doesn’t undermine the validity of the pension system as the most tax-efficient savings vehicle for providing a steady income in retirement, particularly with employer pension contributions.

But enabling more flexibility in terms of accessing these funds is something that would provide options for all kinds of pre and post-retirement lifestyle options.

Furthermore, the average employee makes up to 15 career moves in their working lifetime, which means they need to take care in maintaining their PRSI record as well as not losing track of pension pots as they change jobs. “It takes only two years’ membership of a pension scheme to earn a preserved pension, so many job-hoppers will have an accumulation of small pensions, unless they



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have transferred them to the next employer's scheme, which may not happen, due to inertia or lack of knowledge," said Kenny.

## USEFUL RESOURCES

### ■ **MEETUP.COM/FINANCIAL-INDEPENDENCE-IRELAND**

The web page for the Financial Independence Ireland network's Dublin and Limerick groups, which meet up to talk about the principles of FIRE and how it works in an Irish context, but with

most of the questions focusing on the areas of pensions and investments.

### ■ **PLAYINGWITHFIRE.IE**

Michael Houghton's blog and podcasts on the FIRE movement, which includes information on

his investment portfolio as well as his posts about the steps that he is taking towards financial independence.

### ■ **IGNITEMYFIRE.IE**

Vince Doherty's blog on the FIRE movement, which includes advice,

opinion, information, book reviews and interviews.

### ■ **INFORMEDDECISIONS.IE**

Personal finance blog and podcasts by financial adviser Paddy Delaney, including some discussions on the FIRE movement.



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