The FIRE Movement: Creating Your Own Version of Financial Independence

The Entrust Group

Featuring: AOC All Options Considered

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Agenda

1. About Entrust & Self-Directed IRAs
2. What is FIRE?
3. Evolution of the FIRE Movement
4. Basics of FIRE
5. Types of FI/FIRE
6. Common Paths to FI/FIRE
7. What’s at the Core of FI/FIRE?
8. Q&A Time

Meet Your Host

Mindy Gayer

Business Development Manager at The Entrust Group

- 8 Years in retirement industry administration
- Educating investors and professionals on tax-preferred retirement accounts
- B.S. in Business Management from Southern Illinois University

About Entrust

$4B

Assets Under Administration

45k

Investors Empowered

40+

Years in Business

1

Point of Contact

About Entrust

- Self-Directed IRA administrators
- Knowledgeable staff with CISP designations
- Nationwide offices
- In-person events and virtual webinars
- National Continuing Education program for other credentials
- Bi-annual IRA Academy

What is a Self-Directed IRA?

- A retirement account in which the individual investor is in charge of making all investment decisions
- Greater opportunity for asset diversification outside of traditional stocks, bonds, and mutual funds
- All securities and investments are held in a retirement account administered by a regulated custodian or trustee

The FIRE Movement

Creating Your Own Version of Financial Independence

Meet Your Presenters

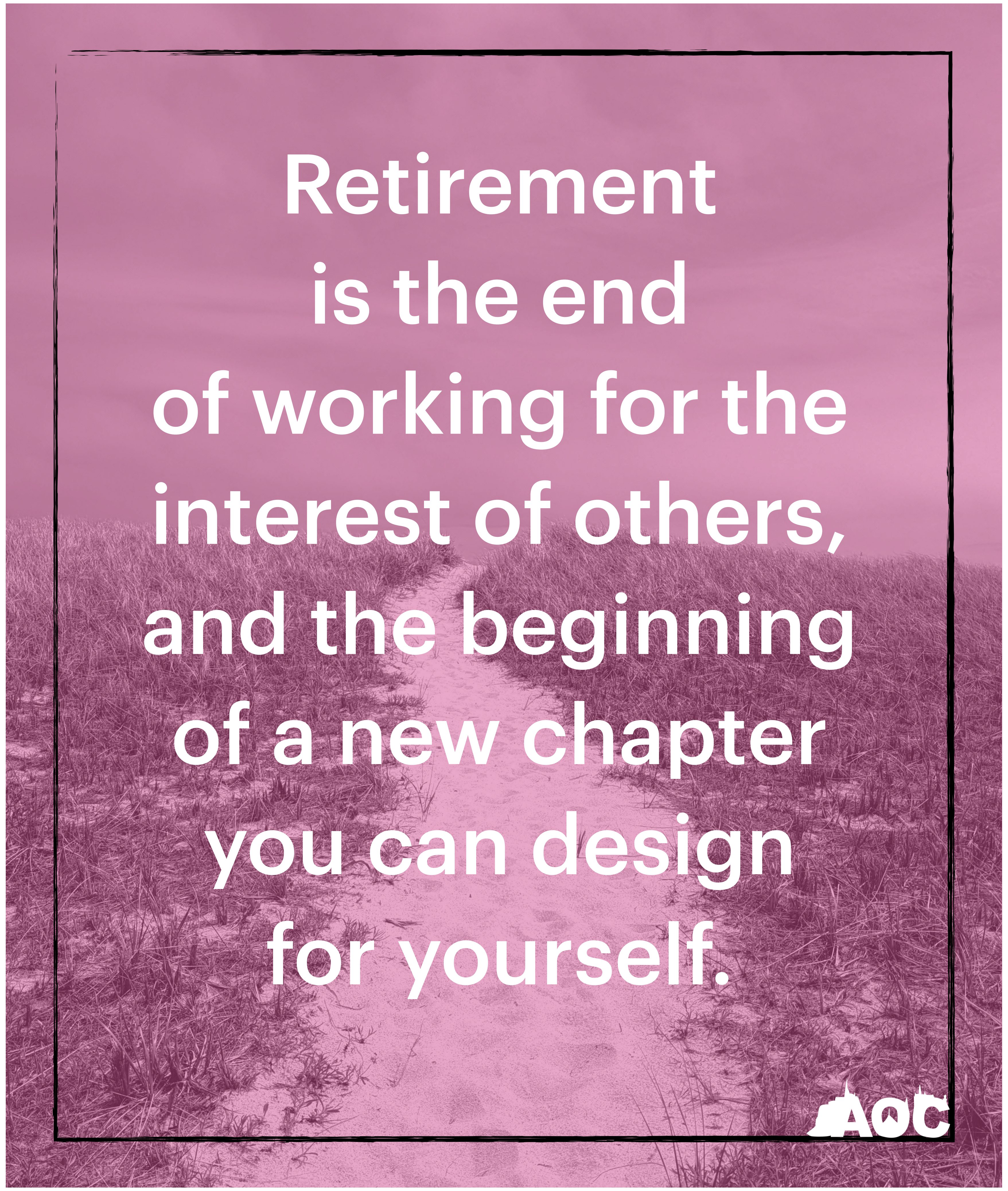
Alison

Ali

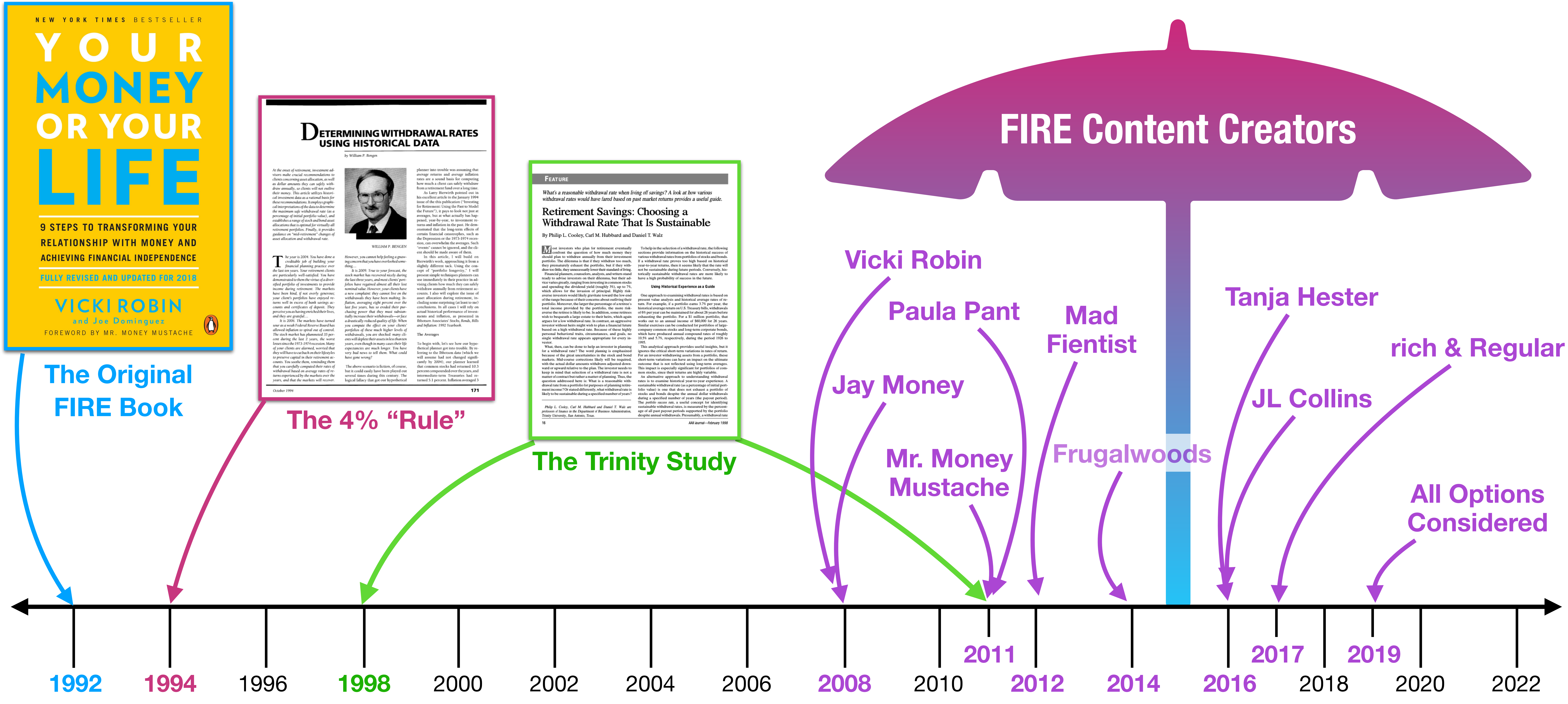
- We're regular people who retired early together in 2018 at ages 44 and 54
- Former BD/marketing manager (Ali) & digital image retoucher (Alison)
- Our blog, All Options Considered (AOC), is a passion project, not a business
- We're not experts, we're just enthusiastic about personal finance (PF) and FI/FIRE

1. What is FIRE?

- **FIRE** = Financial Independence Retire Early
- Innovative (sometimes contrarian) retirement strategies
- For some it's all about retirement
- For others (most) it's about building your own version of FI
- Can anyone reach FIRE? No.
- The question: How do you know if you have enough money?

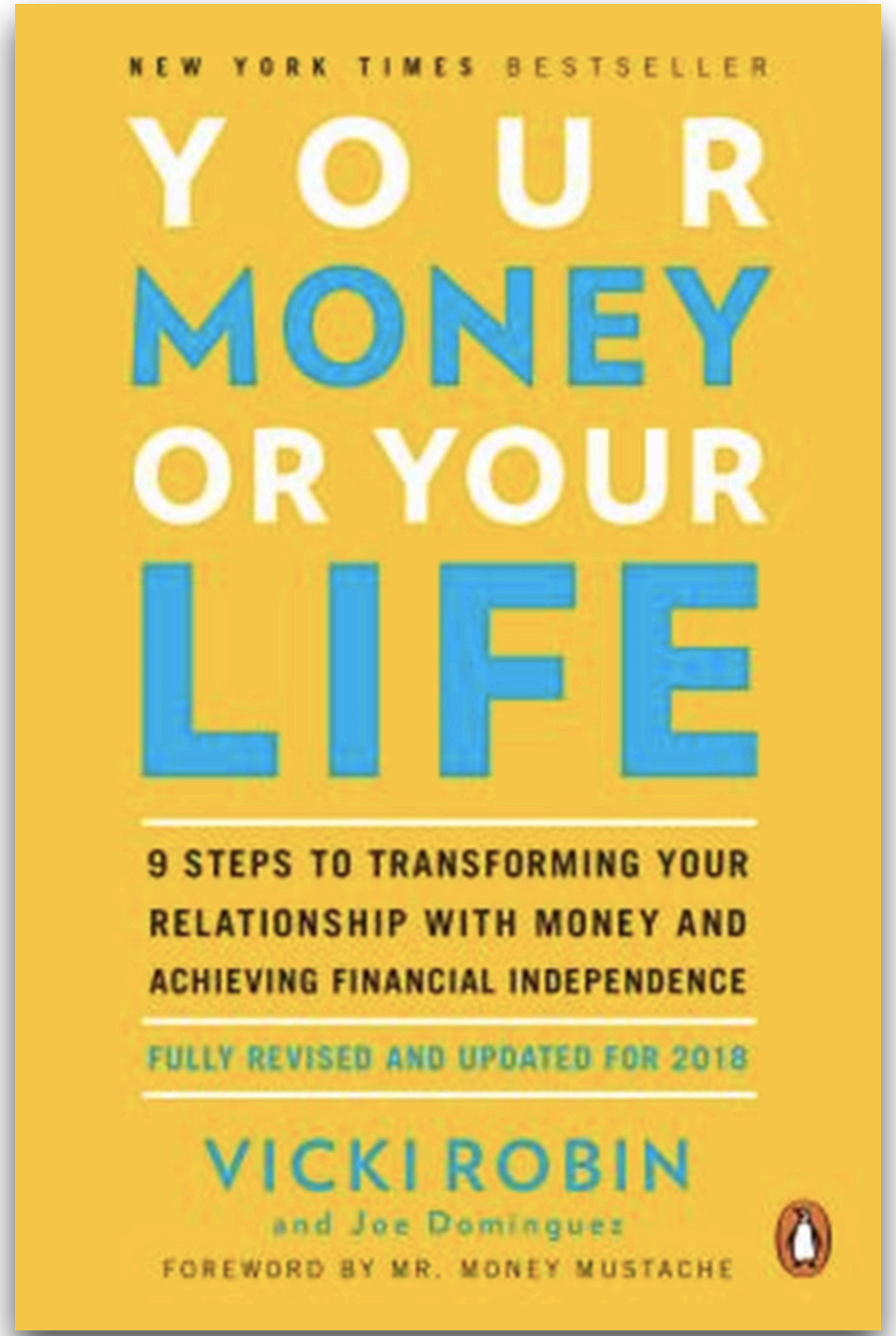


2. Evolution of the FIRE Movement



Your Money or Your Life (1992)

- Written by Vicki Robin and Joe Dominguez
- Demystifying Wall Street
- Defining the value of personal money management
- Alerting us to negative consequences of consumerism
- Explaining how to decide if you have enough money
- Shocking advice: Spend less, earn more, save as much as possible, and retire early enough to enjoy life



The 4% "Rule" (1994)

- Written by financial adviser Bill Bengen
- Published in Oct. 1994 issue of the Journal of Financial Planning
- Historical stock returns and retirement scenarios over 75 years to find the ideal SWR
- Concluded a retiree could draw down 4% +inflation annually for 30 years from a portfolio with 50/50 allocation, before running out of money
- The 4% withdrawal concept became a new rule of thumb known as the Bengen Rule or the 4% Rule

DETERMINING WITHDRAWAL RATES USING HISTORICAL DATA

by William P. Bengen

At the onset of retirement, investment advisors make crucial recommendations to clients concerning asset allocation, as well as dollar amounts they can safely withdraw annually, so clients will not outlive their money. This article utilizes historical investment data as a rational basis for these recommendations. It employs graphical interpretations of the data to determine the maximum safe withdrawal rate (as a percentage of initial portfolio value), and establishes a range of stock and bond asset allocations that is optimal for virtually all retirement portfolios. Finally, it provides guidance on "mid-retirement" changes of asset allocation and withdrawal rate.

WILLIAM P. BENGEN

The year is 2004. You have done a creditable job of building your financial planning practice over the last ten years. Your retirement clients are particularly well-satisfied. You have demonstrated to them the virtue of a diversified portfolio of investments to provide income during retirement. The markets have been kind, if not overly generous; your client's portfolios have enjoyed returns well in excess of bank savings accounts and certificates of deposit. They perceive you as having enriched their lives, and they are grateful....

It is 2006. The markets have turned sour as a weak Federal Reserve Board has allowed inflation to spiral out of control. The stock market has plummeted 35 percent during the last 2 years, the worst losses since the 1973-1974 recession. Many of your clients are alarmed, worried that they will have to cut back on their lifestyles to preserve capital in their retirement accounts. You soothe them, reminding them that you carefully computed their rates of withdrawal based on average rates of returns experienced by the markets over the years, and that the markets will recover. However, you cannot help feeling a gnawing concern that you have overlooked something....

It is 2009. True to your forecast, the stock market has recovered nicely during the last three years, and most clients' portfolios have regained almost all their lost nominal value. However, your clients have a new complaint: they cannot live on the withdrawals they have been making. Inflation, averaging eight percent over the last five years, has so eroded their purchasing power that they must substantially increase their withdrawals—or face a drastically reduced quality of life. When you compute the effect on your clients' portfolios of these much higher levels of withdrawals, you are shocked: many clients will deplete their assets in less than ten years, even though in many cases their life expectancies are much longer. You have very bad news to tell them. What could have gone wrong?

The above scenario is fiction, of course, but it could easily have been played out several times during this century. The logical fallacy that got our hypothetical planner into trouble was assuming that *average* returns and *average* inflation rates are a sound basis for computing how much a client can safely withdraw from a retirement fund over a long time.

As Larry Bierwirth pointed out in his excellent article in the January 1994 issue of the this publication ("Investing for Retirement: Using the Past to Model the Future"), it pays to look not just at averages, but at what actually has happened, year-by-year, to investment returns and inflation in the past. He demonstrated that the long-term effects of certain financial catastrophes, such as the Depression or the 1973-1974 recession, can overwhelm the averages. Such "events" cannot be ignored, and the client should be made aware of them.

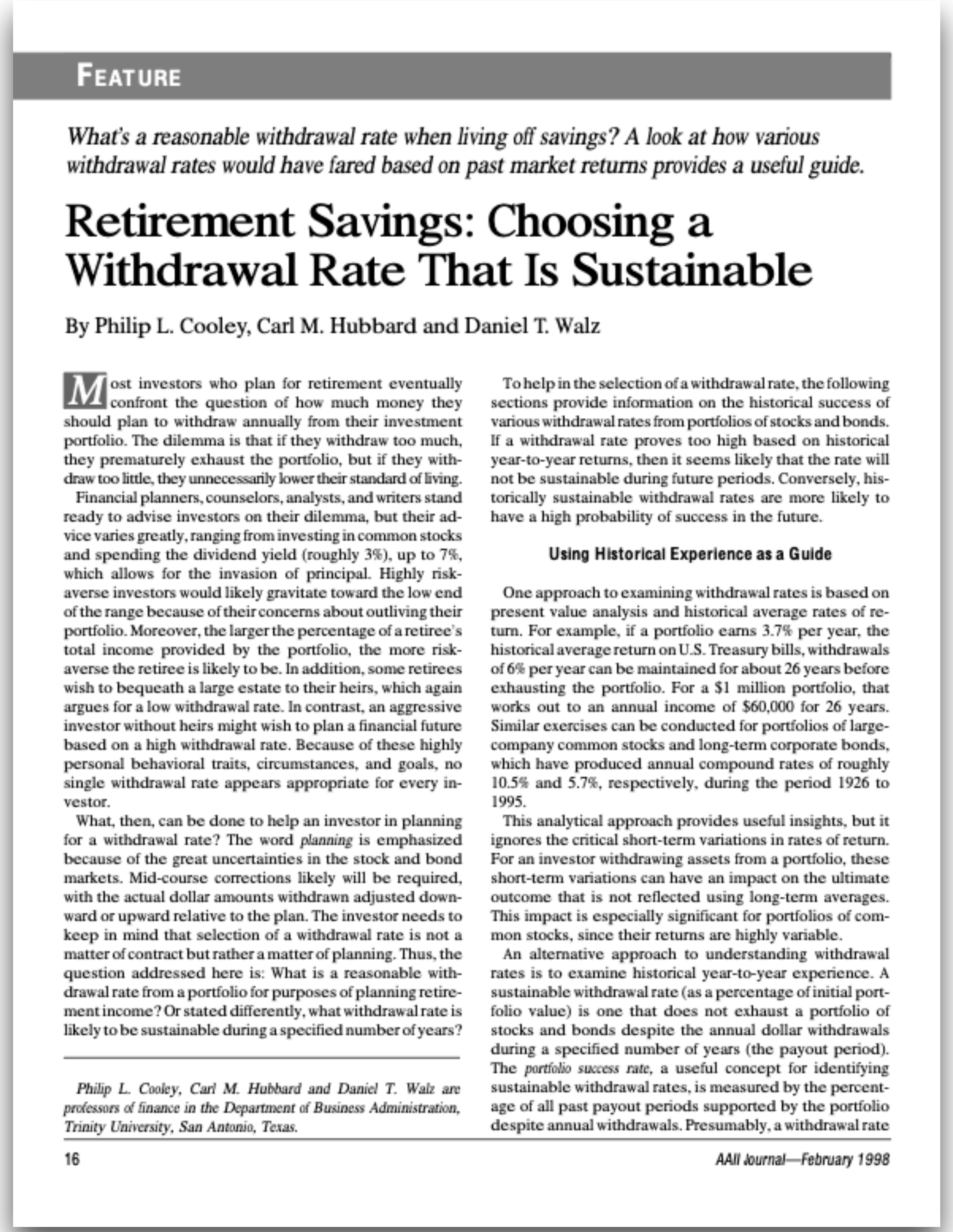
In this article, I will build on Bierwirth's work, approaching it from a slightly different tack. Using the concept of "portfolio longevity," I will present simple techniques planners can use immediately in their practice in advising clients how much they can safely withdraw annually from retirement accounts. I also will explore the issue of asset allocation during retirement, including some surprising (at least to me) conclusions. In all cases I will rely on actual historical performance of investments and inflation, as presented in Ibbotson Associates' *Stocks, Bonds, Bills and Inflation: 1992 Yearbook*.

The Averages

To begin with, let's see how our hypothetical planner got into trouble. By referring to the Ibbotson data (which we will assume had not changed significantly by 2004), our planner learned that common stocks had returned 10.3 percent compounded over the years, and intermediate-term Treasuries had returned 5.1 percent. Inflation averaged 3

The Trinity Study (1998)

- By Philip Cooley, Carl Hubbard, and Daniel Walz, professors of finance at Trinity University in Texas
- Feb. 1998, Journal of the American Association of Individual Investors
- 15 to 40 year time horizons, allocations ranged from 100% bonds to 100% equities, and withdrawal rates from 3% to 12%
- The 4% withdrawal rate was successful during historical market returns for allocations with 50-75% equities
- Conclusion: Success rates increase with higher equity allocations, lower withdrawal rates, shorter time frames



FEATURE

What's a reasonable withdrawal rate when living off savings? A look at how various withdrawal rates would have fared based on past market returns provides a useful guide.

Retirement Savings: Choosing a Withdrawal Rate That Is Sustainable

By Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz

Most investors who plan for retirement eventually confront the question of how much money they should plan to withdraw annually from their investment portfolio. The dilemma is that if they withdraw too much, they prematurely exhaust the portfolio, but if they withdraw too little, they unnecessarily lower their standard of living.

Financial planners, counselors, analysts, and writers stand ready to advise investors on their dilemma, but their advice varies greatly, ranging from investing in common stocks and spending the dividend yield (roughly 3%), up to 7%, which allows for the invasion of principal. Highly risk-averse investors would likely gravitate toward the low end of the range because of their concerns about outliving their portfolio. Moreover, the larger the percentage of a retiree's total income provided by the portfolio, the more risk-averse the retiree is likely to be. In addition, some retirees wish to bequeath a large estate to their heirs, which again argues for a low withdrawal rate. In contrast, an aggressive investor without heirs might wish to plan a financial future based on a high withdrawal rate. Because of these highly personal behavioral traits, circumstances, and goals, no single withdrawal rate appears appropriate for every investor.

What, then, can be done to help an investor in planning for a withdrawal rate? The word *planning* is emphasized because of the great uncertainties in the stock and bond markets. Mid-course corrections likely will be required, with the actual dollar amounts withdrawn adjusted downward or upward relative to the plan. The investor needs to keep in mind that selection of a withdrawal rate is not a matter of contract but rather a matter of planning. Thus, the question addressed here is: What is a reasonable withdrawal rate from a portfolio for purposes of planning retirement income? Or stated differently, what withdrawal rate is likely to be sustainable during a specified number of years?

Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz are professors of finance in the Department of Business Administration, Trinity University, San Antonio, Texas.

To help in the selection of a withdrawal rate, the following sections provide information on the historical success of various withdrawal rates from portfolios of stocks and bonds. If a withdrawal rate proves too high based on historical year-to-year returns, then it seems likely that the rate will not be sustainable during future periods. Conversely, historically sustainable withdrawal rates are more likely to have a high probability of success in the future.

Using Historical Experience as a Guide

One approach to examining withdrawal rates is based on present value analysis and historical average rates of return. For example, if a portfolio earns 3.7% per year, the historical average return on U.S. Treasury bills, withdrawals of 6% per year can be maintained for about 26 years before exhausting the portfolio. For a $1 million portfolio, that works out to an annual income of $60,000 for 26 years. Similar exercises can be conducted for portfolios of large-company common stocks and long-term corporate bonds, which have produced annual compound rates of roughly 10.5% and 5.7%, respectively, during the period 1926 to 1995.

This analytical approach provides useful insights, but it ignores the critical short-term variations in rates of return. For an investor withdrawing assets from a portfolio, these short-term variations can have an impact on the ultimate outcome that is not reflected using long-term averages. This impact is especially significant for portfolios of common stocks, since their returns are highly variable.

An alternative approach to understanding withdrawal rates is to examine historical year-to-year experience. A sustainable withdrawal rate (as a percentage of initial portfolio value) is one that does not exhaust a portfolio of stocks and bonds despite the annual dollar withdrawals during a specified number of years (the payout period). The *portfolio success rate*, a useful concept for identifying sustainable withdrawal rates, is measured by the percentage of all past payout periods supported by the portfolio despite annual withdrawals. Presumably, a withdrawal rate

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Content Creators

- FIRE content creators multiplied after 2011
- Initial influencers included lots of "silicon valley tech bros" talking about high incomes and extreme frugality
- Innovative investment approaches began to reach PF pros and regular people alike
- Today's FIRE community is becoming more diverse and inclusive
- FIRE is no longer 100% about accumulating money as more of us share content about mindful money habits and giving back

3. Basics of FIRE

- You can FIRE at any age (as long as you have enough money)
- The more you save the earlier you can retire
- An accurate post-retirement budget is critical
- Consumer debt can block you from FIRE, but "good" debt can help build wealth
- Income and growth from your portfolio should never outweigh your spending
- Let your portfolio work to build wealth while you focus on what you love and value

The Main Ingredient of FIRE is Math

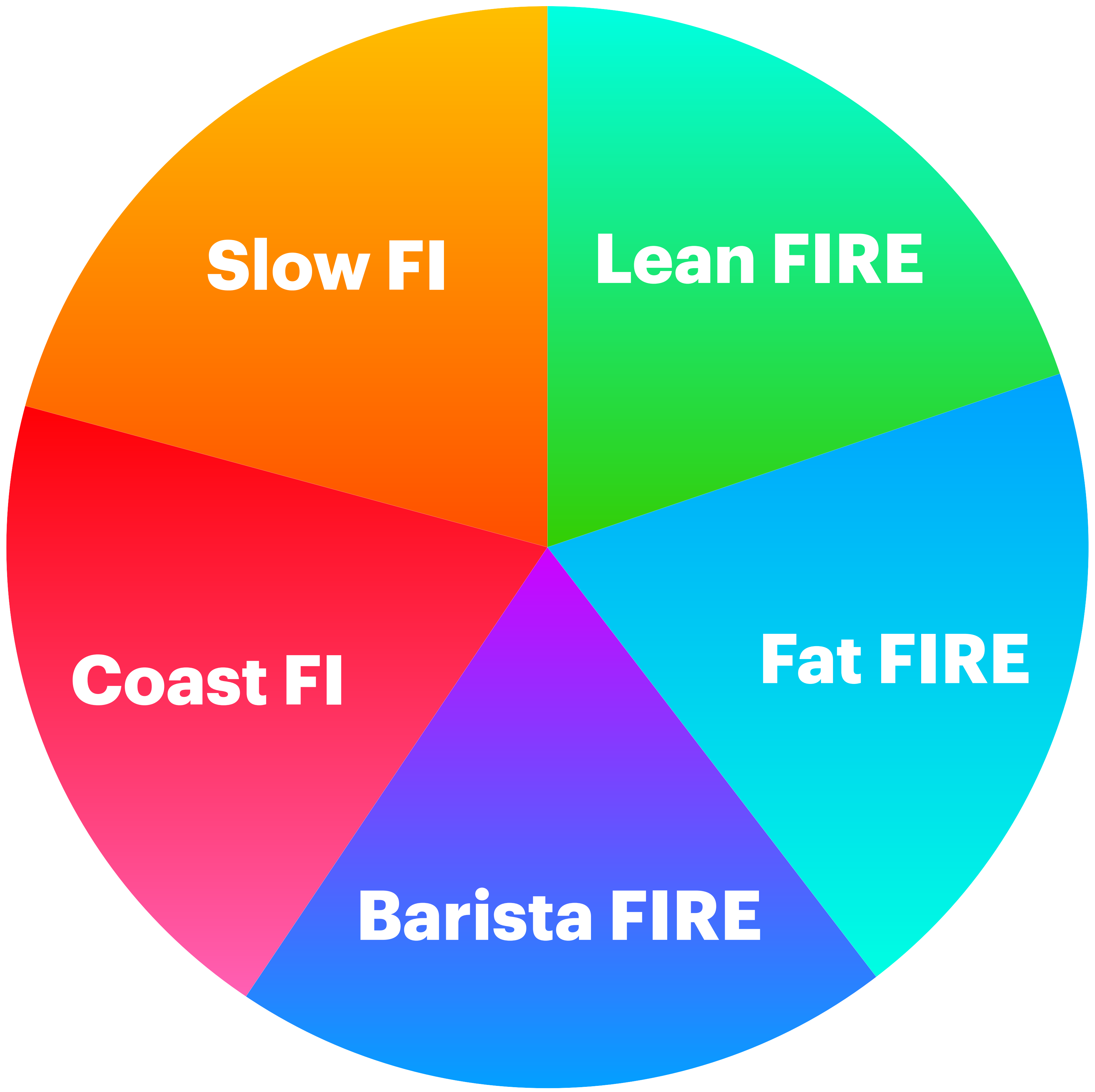
Your Budget ✗ 25 = Your FIRE Number

		Safe Withdrawal Rates			
		25 X	29 X	33 X	40 X
Budget	25X Portolio	4.00%	3.50%	3.00%	2.50%
$25,000	$625,000	$25,000	$21,875	$18,750	$15,625
$30,000	$750,000	$30,000	$26,250	$22,500	$18,750
$35,000	$875,000	$35,000	$30,625	$26,250	$21,875
$40,000	$1,000,000	$40,000	$35,000	$30,000	$25,000
$45,000	$1,125,000	$45,000	$39,375	$33,750	$28,125
$50,000	$1,250,000	$50,000	$43,750	$37,500	$31,250
$55,000	$1,375,000	$55,000	$48,125	$41,250	$34,375
$60,000	$1,500,000	$60,000	$52,500	$45,000	$37,500
$65,000	$1,625,000	$65,000	$56,875	$48,750	$40,625
$70,000	$1,750,000	$70,000	$61,250	$52,500	$43,750
$75,000	$1,875,000	$75,000	$65,625	$56,250	$46,875
$80,000	$2,000,000	$80,000	$70,000	$60,000	$50,000
$85,000	$2,125,000	$85,000	$74,375	$63,750	$53,125
$90,000	$2,250,000	$90,000	$78,750	$67,500	$56,250
$95,000	$2,375,000	$95,000	$83,125	$71,250	$59,375
$100,000	$2,500,000	$100,000	$87,500	$75,000	$62,500
$105,000	$2,625,000	$105,000	$91,875	$78,750	$65,625
$110,000	$2,750,000	$110,000	$96,250	$82,500	$68,750
$115,000	$2,875,000	$115,000	$100,625	$86,250	$71,875
$120,000	$3,000,000	$120,000	$105,000	$90,000	$75,000
$125,000	$3,125,000	$125,000	$109,375	$93,750	$78,125
$130,000	$3,250,000	$130,000	$113,750	$97,500	$81,250

For example

4. Types of FI/FIRE

- Lean FIRE
- Fat FIRE
- Barista FIRE
- Coast FI
- Slow FI



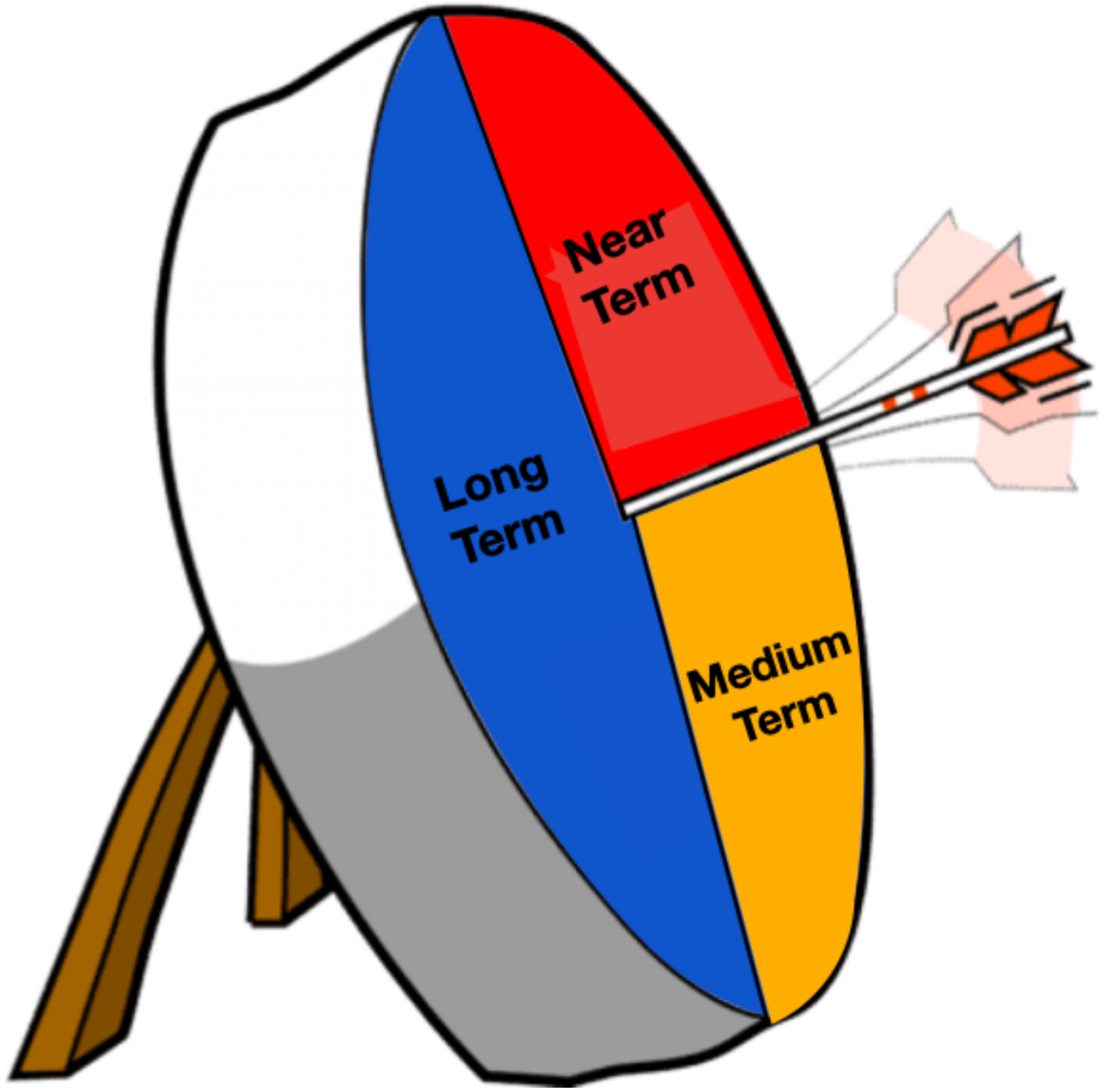
5. Common Paths to FI/FIRE

- Market investments
- Real estate investments
- Entrepreneurial businesses and side hustles
- Extreme frugality
- A little bit of each

6. What's at the Core of FI/FIRE?

Emotions

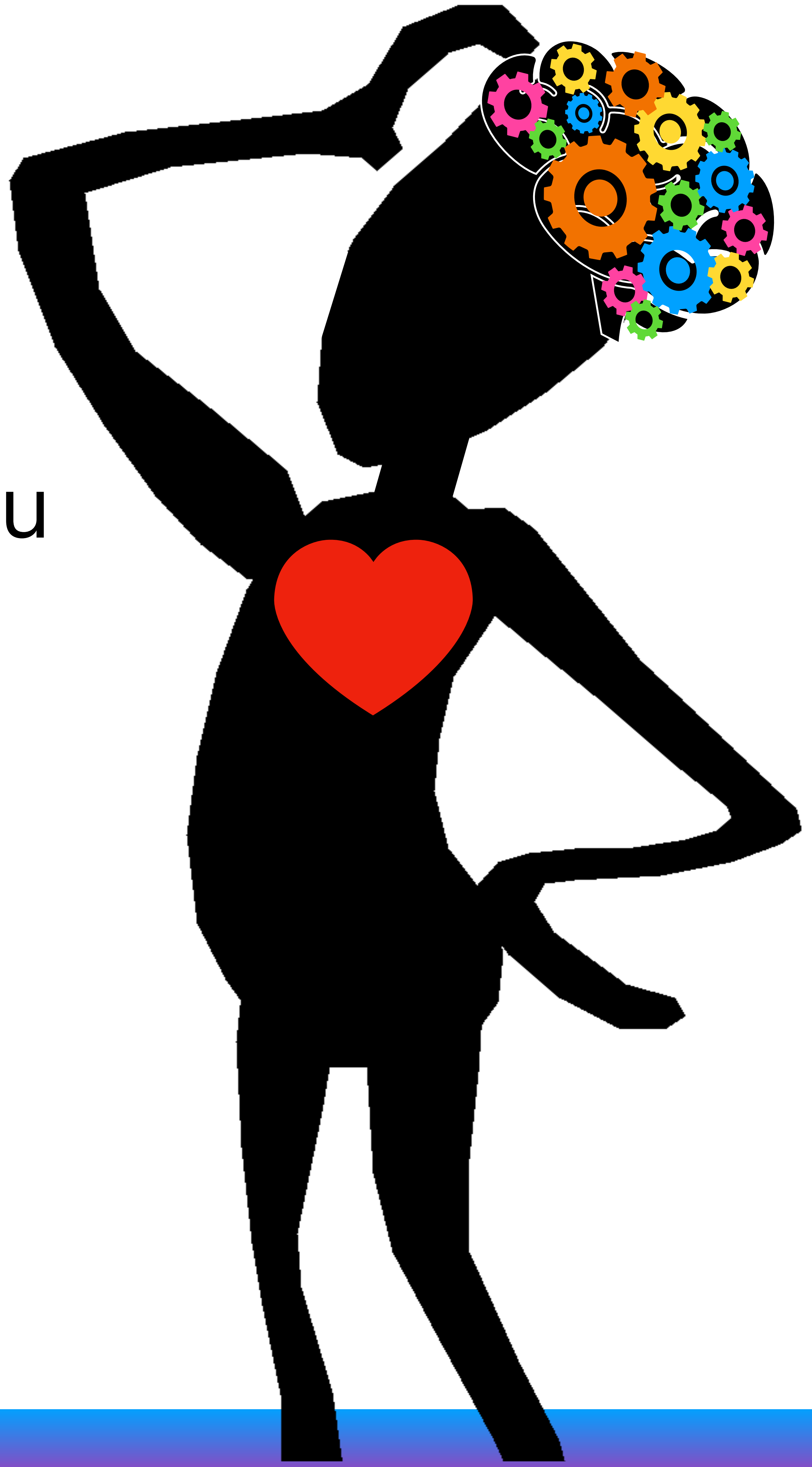
Planning &
Organizing



Money

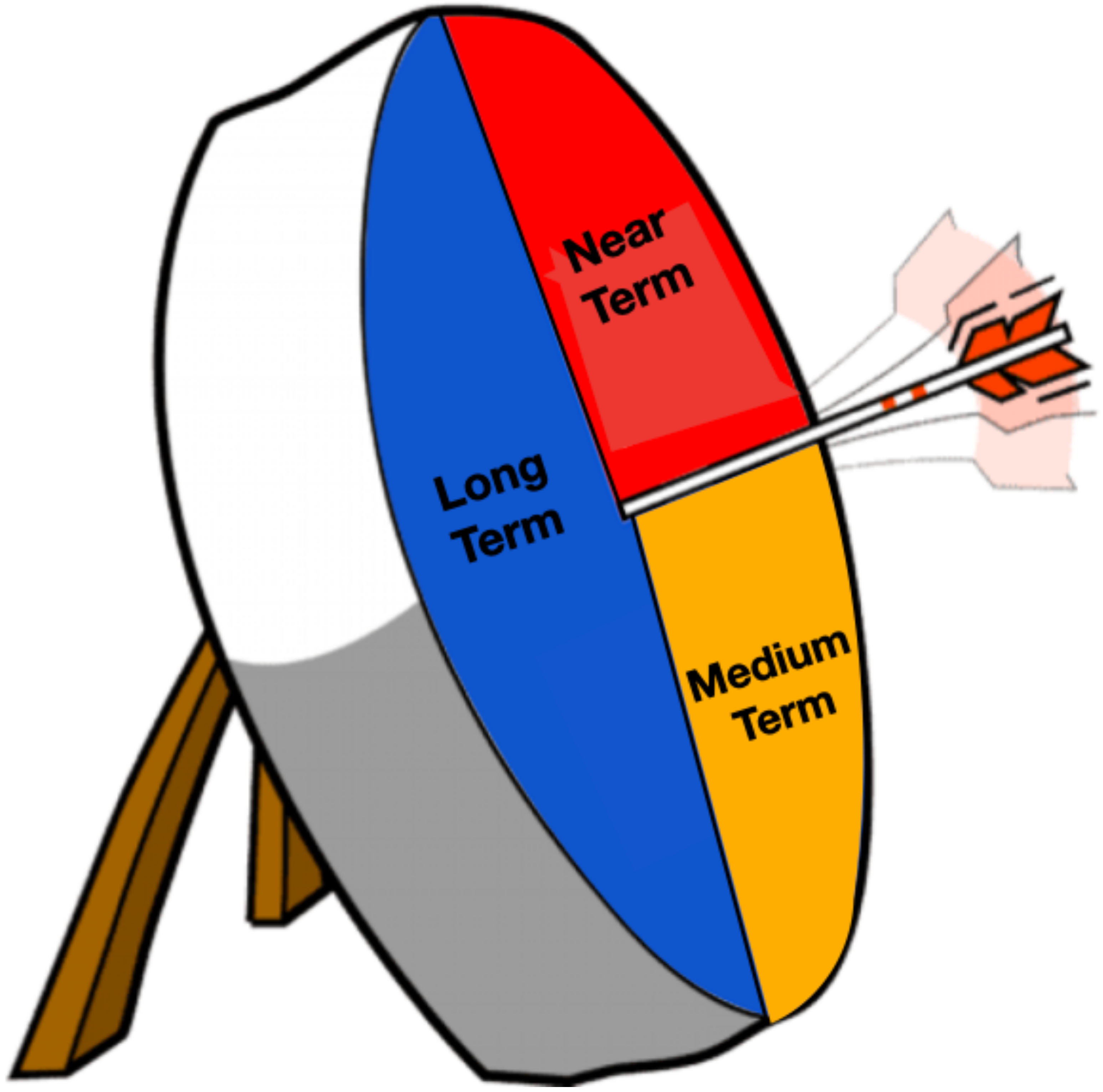
The Emotional Side

- Emotions impact spending
- Emotions impact retirement planning
- Personal finance is personal, don't make it competitive
- Buck tradition, make financial choices that are best for you
- Let go of money shame
- Family responsibilities can impact your spending and retirement
- It's ok to talk about money! Create a supportive PF community you can share with and learn from



The Planning & Organizing Side

- For couples, communication is key
- For singles, build your safety net first
- Lifestyles change so think about your routine, priorities, hobbies, and values
- Location and cost of living matter (you are allowed to move)
- Will you rent or own? Or both at different times?
- Plan for health care needs and costs
- Prepare for old age and end of life care early



The Money Side

- Save and invest as much as possible
- Keep your low cost diversified portfolio organized
- Set your own risk tolerance for market volatility
- Outline your withdrawal strategy from start to finish
- Balance accessible funds with long term growth
- Build a realistic post retirement budget
- Include realistic health care costs in your budget
- Consider current year taxes and lifetime tax obligations
- If you'll inherit be sure to factor that in (don't ignore it)
- Include giving and legacy plans in your budget

Last but not least, make it YOURS

- There's no one size fits all retirement plan
- FIRE concepts can/should be modified to fit you
- Decide what's safe for your SWR (3%, 3.5%, 4%?)
- Set your own timeline and age for quitting work
- Set your own FIRE number based on your real circumstances and your unique hopes and dreams

What's Next?

Upcoming Webinar – Selling Real Estate with an SDIRA

Register today & join us August 17!

Have feedback or topic requests?

Let us know in the survey as you leave

Need more information on SDIRAs?

Visit our website and Learning Center

Follow us on social media for updates

Time for Questions

Stay Connected

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> Teachers open the door,
> but you must enter yourself

- Proverb