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The vegans of the financial world: Is it really possible to retire at 40 by drastically reducing spending?

Those who live according to the principles of «Fire» eliminate all living expenses that don't contribute to their happiness. Their goal is to become financially independent. But in practice, a few key questions remain unanswered.

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Charlotte Eckstein / NZZ

Supporters of the «Fire» movement are a bit like the vegans of the financial world: they drastically cut their spending and like to talk about it. In countless blogs, books, Youtube and Tiktok channels, they give advice on how to drastically reduce expenses and multiply saved wealth through long-term investments.

The acronym «Fire» stands for «Financial Independence, Retire Early.» The movement has its origins in the 1990s, but it really took off in the 2010s following the financial crisis.

Those who live according to the principles of «Fire» eliminate all expenses that don't directly contribute to their happiness and invest the money saved in profitable shares or real estate. The assets should be enough to retire decades before normal retirement age. The goal is to no longer have to work for the sake of money and to do what is really important to you.

Cooking at home instead of getting takeaway

Saving money requires discipline. Instead of taking the train, people ride their bikes to work. Instead of spending 20 francs at lunch for a portion of Pad Thai and a bottle of Coca-Cola, people take their home-cooked food in Tupperware. Instead of living in the middle of Zurich in a 4,000 franc apartment in the Niederdorf, you live in Aargau in an apartment of the same size that costs less than half as much. Instead of flying to Santorini to a five-star hotel, you spend vacations somewhere nearby at a campsite. And ideally, you're just as happy as if you'd spent ten times as much.

One person who lives by the principles of «Fire» is Florian Wagner, 36, from Stuttgart. He wants to have saved «one to two million euros» in assets by his 40th birthday in order to become financially independent. He quit his job as an engineer several years ago, and today earns a living as a search engine specialist and with a blog called «Money Moustache,» where he writes openly about his financial circumstances.

Saving money isn't difficult for him. The most important thing is to get an overview of your expenses, Wagner says. When he started monitoring his costs, his expenses almost automatically fell by 30%, he says. He consistently skips everyday expenditures such as the buttered pretzel at the train station or the cappuccino to go. If he wants to go out for sushi with his friends, however, that is absolutely fine – just not every week, he says.

By consciously doing without, «Fire» supporters aim to achieve a savings rate of 40%, sometimes more than 60% of their disposable income. This is significantly more than the 10 to 20% that the average household sets aside.

The 4% rule

«Fire» supporters also have a clear idea as young adults how much wealth should be saved before retiring. Peter Adeney, a Canadian blogger living in the U.S., has popularized the «4% rule» in the «Fire» scene. This states that you need to save 25 times your annual expenses in order to retire. The money shouldn't be left in an account, but should be invested in market-wide, exchange-traded stock index funds (ETF), equity securities or income-producing real estate.

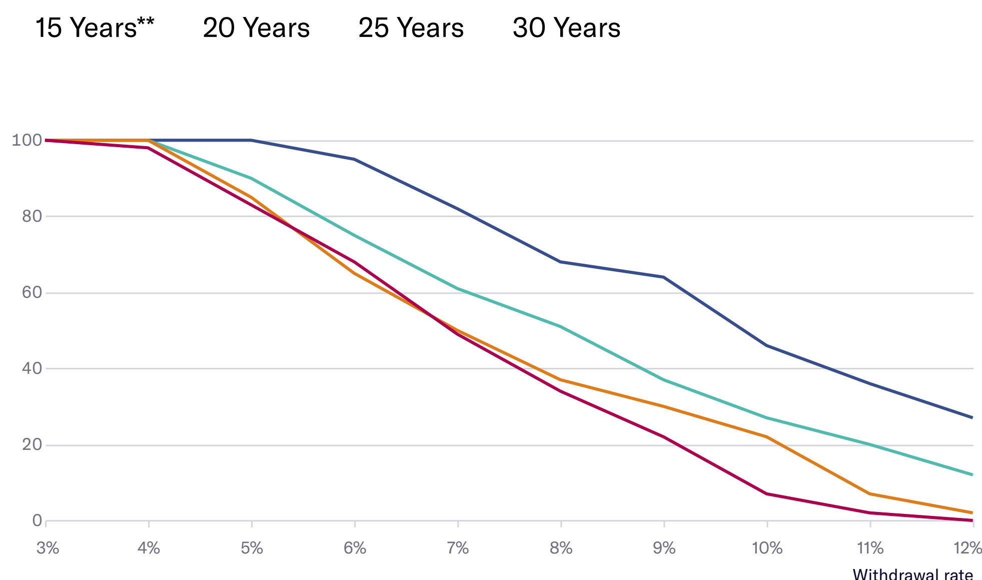
While the assets grow thanks to investment income, you can withdraw 4% of the original sum each year. Adeney and his wife said they retired back in 2005 in their early 30s with $600,000 in assets and with the goal of living on $25,000 a year.

A study published in 1998 by Trinity University in Texas serves as the theoretical foundation for «Fire» supporters. At the time, the authors calculated the maximum percentage that a retiree could withdraw from his or her securities portfolio each year without running out of money by the end of his or her life.

They assumed a reference period of between 15 and 30 years. The result: anyone who invested 75% of their money in the U.S. stock index S&P 500 and 25% in high-quality corporate bonds during any 25-year period between 1926 and 1995 could withdraw 4% of their money plus inflation each year, and still have money left over at the end. The same result was also obtained with 25% higher and lower equity ratios.

How long the assets of an early retiree could last

Percentage of cases in which the assets do not fall below zero, by withdrawal rate* and withdrawal period**



Example: With an annual withdrawal rate of 9% and a term of 15 years, the assets are sufficient in more than 60% of cases.
*Withdrawal rate: Percentage of the original amount withdrawn from the portfolio each year.
**Withdrawal period: Period during which the amount is withdrawn annually.
The data come from the Trinity study published in 1998. In the example shown, the study assumes that 75% of the assets are invested in the S&P 500 index and a further 25% in high-quality corporate bonds. The data are adjusted for inflation. NZZ

Does the «Fire» principle really work?

In theory, this procedure sounds simple, however in practice there are many unanswered questions. The most obvious: While standard-age retirees usually still have two to three decades ahead of them, for followers of the «Fire» movement it is sometimes half a century or even more.

It is also problematic that this model doesn't factor in the fees for holding, buying and selling securities. Depending on the amount, these fees can have a massive impact on the so-called portfolio success rate, i.e. the probability of not going

bankrupt before the end of the planned reference period. In addition, the financial market will develop differently between 2023 and 2092 than it did between 1926 and 1995.

You can also see the «Fire» movement as a prosperity phenomenon given that people who have to live on a minimum wage are happy if they can pay the bills at the end of the month. A savings rate of 50% is absolutely unrealistic for most people.

Adeney, who has become a shining light of the «Fire» scene with his blog «Money Moustache,» is of course aware of these objections. Still, he's convinced that the 4% rule works and allows you, as an early retiree, to never have to rely on regular income again, regardless of how rich you are to begin with.

Once you reach the usual retirement age, you benefit from state pensions, the lifestyle typically more favorable to retirees, and inheritances. There is also nothing to stop a young, financially independent adult from continuing to pursue an activity that gives them pleasure and earns them money.

This point is often forgotten in the public discussion of the movement: Saving enough money to be financially independent at age 30 or 40 is only part of the challenge. Perhaps the more important question is what you then do with your time as an early retiree.

Early retirement at 40 can also lead to depression

This is a topic that 36-year-old Marc Pittet from the French-speaking part of Switzerland, not his real name, is also currently dealing with. He and his wife decided ten years ago, with a balance of 50,000 francs, to eliminate all unnecessary expenses from their lives. At first it was just about buying their own property, then «Fire» became a lifestyle. He sold his sports car, canceled his TV subscription and set a goal to quit his job at 40. Currently, he and his wife have assets of 1.1 million francs. In a few years, it should be 2.1 million francs.

But Pittet already knows that the life of a retiree would probably make him miserable. He speaks about an American who became depressed when he reached his financial goal. The thought of introducing himself to new acquaintances as an early retiree also causes Pittet concern. As a first step, he's reduced his workload to 80% to get used to his new freedom. «When we're ready, we want to take things slowly, maybe spend a few months in another city and start a charity project.» He and his wife are deliberately not making too many plans; they want to keep their options open.

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