

Diversifying

MAY 2, 2022

How to Stop Working While You're Still Young



Speakers

Delyanne Barros, Purple, , YouTube Fire Montage, Trish Petak

Delyanne Barros

00:00:07

Do you hear that? It's the sound of my future. In just over five years. I plan to be living right off the beach in Portugal with my dog, my mom nearby, and the whole world open to me. Yes, it sounds like a dream come true. And it is. But I've been working towards this goal for ten years. If you're wondering how the answer is a four letter word fire that stands for financial independence retire early. Though I prefer to say relax early because retiring doesn't mean your life is over or that you no longer have goals to achieve. Fire is a well-known acronym in the personal finance community, but it can be interpreted many ways. Basically, people pursuing fire are just saving aggressively towards a goal that will allow them to work less or stop working altogether. Sounds pretty good, right? The point is, they have a choice. To be fair, the movement gets a ton of criticism for being exclusive and extreme, but that's something I'm working to change. You don't have to make six figures to pursue fire, but you do need disposable income. Today, we'll hear from two other people pursuing fire and going about it very differently. One retired at age 31, and as a nomad traveling around the world.

00:01:32

Purple

I only live out of 40 liter backpack and a tote. So if the market tanks, for example, I'll head back to Thailand for a little bit and spend very little money having an amazing life on the beach.

00:01:44

Delyanne Barros

And one plans to retire at 45 with her husband and two kids.

00:01:49

When I reach our early retirement goal, there is this part of me that just things like I wonder if we really will end up choosing not to work at all.

00:02:00

Delyanne Barros

I'm Delyanne Barros. This is diversifying. The first time I heard of fire, it seemed so complicated. And I didn't see any women, especially women of color talking about it.

00:02:20

YouTube Fire Montage

I'm going to show you how you can go from \$0 at just 20 years old to being retired by 30. Because of the decisions I made in my twenties. I've been able to live a life sailing. Can you even call yourself a finance YouTuber if you haven't made a video on this topic?

00:02:36

Delyanne Barros

But I learned that once you understand the vocabulary and assuming you have the income to pull it off, anyone can do it. So today I want to start by breaking down some of the commonly used terms. First, a fire number is the amount of money you need to have invested to hopefully generate enough returns for you to live off for the rest of your life. That's right. You reach fire by investing your money. If you haven't listened to our investing episode yet, go back and check out episode three.

00:03:09

You're investing really to one, you know, build wealth, but also to outpace inflation.

00:03:15

Delyanne Barros

My personal fire number is one and a half million dollars, but I also have a family fire number of 2 million because I'm planning to retire my mom. I know that sounds like a lot, but remember, I've made personal finance my whole career and I've been saving and investing for years. I calculated this using what's called the 4% rule. It's a formula based on withdrawing no more than 4% of your savings every year. So take your annual expenses and divide that by 0.04. That's your fire number. When I've reached \$2 million in investments and it's time to retire, I will sell \$80,000 worth of stocks every year and leave the rest of the money in the stock market to continue growing. This will allow the stock market to replenish that \$80,000 that I sold so I don't run out of money. This is a guideline, not a hard and fast rule. The stock market is volatile, and it's possible you may need to adjust your plans depending on how the market is performing when you retire. Everyone's fire number and their withdrawal rate will be different and may change over time. My approach is seen as fat fire, meaning I'm focused on increasing my income and investments as opposed to starkly cutting back on my expenses. Lean Fire is a more frugal approach. That means saving aggressively and keeping expenses low in retirement.

00:04:45

Purple

The way I did my modeling is that I want to be able to have completely variable spending. So I spend a lot more on upmarket years. And then since I am a nomad and I can travel wherever I want, depending on what's going on. Spend less in down market years.

00:05:00

Delyanne Barros

That's the author of the blog A Purple Life. She goes by purple to protect her identity since she shares a lot of financial information online. Purple is 33 years old and has already been retired for almost two years. She has a partner who also fired, but they keep their finances separate. They aren't planning to get married or have kids. And yeah, she lives out of a backpack. Her very early retirement. Her fire number of \$500,000 and her annual budget of about \$20,000 may seem extreme to some. Plus, the whole backpacking nomad thing. A lot of people would consider that lean fire, but Purple doesn't.

00:05:43

Purple

My mom actually had the exact same reaction, and we sat down and looked at her expenses and looked at mine. And we realized that because she owns a house and a rental house and multiple cars with her husband and has a pet and does all these other things, that actually the insurance that she pays on those things is more than my entire budget. So owning all of that has a huge impact on our annual spending and the fact that, like I mentioned, I am completely flexible so far. Living a very luxurious life in Thailand and Mexico has not been breaking the bank.

00:06:18

Delyanne Barros

See purple, tried the corporate life. She was really good at her marketing job and in her last few working years even had her dream job. But she was still stressed out and had little energy for life outside the office.

00:06:32

Purple

I went months without reading a single book and I absolutely love reading and traveling for two weeks out of the year, like running all around a new country and then being exhausted after.

00:06:43

Delyanne Barros

Then she noticed her. 401k was doing really well and her partner told her about this thing called fire.

00:06:49

Purple

My 401k basically had grown to about \$50,000, which was shocking to me. So yeah, I just put a little bit in and not thought about it, opened it up. I was like, What? So that was my first introduction to the power of investing. I was lucky enough to not have debt. I was very, very fortunate that my mom wanted to pay for my education. I actually decided to leave New York. As part of my fire plan. And in doing so, I moved from Manhattan to Seattle and without changing my life at all, in fact, I had a better life. It cost half of what my life in Manhattan cost.

00:07:23

Delyanne Barros

Wow. Okay. So you basically took 18 to \$20,000 per year. You multiply that by 25 and that's how you came up with your \$500,000 amount. And then you basically reverse engineer it, right? You're like, okay, this is how much I have saved today and invested. I want to get to 500,000. What do I need to do to make that happen? And you were doing this by basically stashing away sounds like, what, maybe 70 or 80% of your income?

00:07:50

Purple

So I am a person of extremes. I went to the too much spending route and I went to the too much saving route for a hot second. It was kind of in the final stretch. I could see the finish line. And so I was like, okay, if I just squeeze a little bit more, if I just save a little more like I can get there faster and obviously work, even though it was the best job I ever had, was still very stressful and I was just like, I'm so close. I just I can taste it. I want to be there. So yeah, I went a little wild in the other direction and then luckily I snapped out of it after a couple, I think months.

00:08:22

Delyanne Barros

That's it. That's how she did it. She calculated her fire number, saved and invested in order to reach it and then retired. As she said, Purple didn't have any debt to worry about, but she did go through a period of cutting back so much that she had a hard time enjoying her life in the moment she doesn't have kids, a car or a permanent home, so her situation is about as uncomplicated as it can be. But what about health insurance? How the hell does she pull that off?

00:08:53

Purple

Originally, my plan pre-pandemic was to travel internationally half of the year, and in doing that, I was actually going to get expat insurance. They basically cover anything that you want. And after a year that includes like preventative care. So it's just a really robust health insurance that works anywhere in the world. It depends on the countries you list and I include the U.S..

00:09:15

Delyanne Barros

Yeah, I think people don't realize that. And so I one of my plans is to retire abroad because one of my biggest concerns about retiring the U.S. is health insurance and health costs, not just for myself, but for my mom, because I also want to retire her. And I'm like, there's just there's just no way. What would you say is the biggest misconception you've encountered about fire? You know, the movement in general.

00:09:36

Purple

I think it is based on that retirement word, which, based on the dictionary definition, is like not contributing to society, which I think is messed up as a definition. But okay. Which is why I prefer your relax early. Yeah. When you have all of that free time and the mental space and the emotional energy to do whatever you want that you will sit in front of, I don't know what's the stereotype? TV watching Jerry Springer? Instead, I'm hopefully going to be fluent in Spanish by the end of the year. I'm spending my time in Spanish speaking countries for a fourth of it. I also have been reading more than ever.

00:10:12

Delyanne Barros

Some of you may think this whole early retirement thing is crazy or even lazy. But while your goals might not include living out of a backpack, Purple's fire journey is a great reminder to pay attention to your relationship with work. Not just are you happy, but what do you need to become happy? One nearly guaranteed way of getting happier is becoming financially independent. The flexibility, stability and peace that financial independence brings are what fire is really about.

00:10:44

Purple

One of my favorite things about being retired is that I have seen my loved ones more in the last year than I have in my entire life, and it's been absolutely wonderful to be able to drop everything and go help my cousin with her new baby or have my mom come to Mexico with us for a month, which is what she's doing right now. And we're going to class together in the mornings. And not only the time, but the fact that I am fully present when I'm with her. Because before, I'd always be thinking about work.

00:11:15

Delyanne Barros

We'll be right back. Welcome back to diversifying. Rita-Soledad Fernandez Paulino is 35 years old and the founder of Wealth Para Todos, a financial coaching brand. Soledad is also pursuing fire, but her plan has a lot more moving parts. For starters, she's married and has two young children.

00:11:43

So what has been key for us is understanding, like what is really, really important. And for my family, we love to throw like huge birthday parties. So we always want to have money for our fiestas. We want to have money for like simple weekend adventures with the kids.

00:12:00

Delyanne Barros

In 2019, Soledad was sick on bedrest when she picked up a book on personal finance. It inspired her to start digging into her family's accounts as she found they needed to boost their savings. She set a goal of saving \$30,000 in emergency funds in 18 months. To get there, she focused on budgeting and it wasn't easy.

00:12:23

How am I going to create an intentional plan with grace? How am I going to allow there to be flexibility in my spending? How do I make sure that I'm not rigid about how much needs to go in each savings account and how much needs to go towards eating out? How am I going to create space for compassion and life? And as I continued to practice that, that allowed us to eventually reach our emergency fund goal. And now, this year alone, I'm investing \$32,000.

00:12:52

Delyanne Barros

That's incredible. How long did it take you to save the first \$30,000?

00:12:56

So I thought it was going to take us 18 months and it turned out we were able to do it in six months. Because my husband got a new job. He got a sign on bonus. We also got a tax refund. That was also the year that we were getting stimulus checks. And all of a sudden, with very specific goals about where we wanted to spend our money. We reached those goals first. We were like, okay, everything's going to go to the emergency fund. Whereas in the past, every time I got a tax refund, any time when it came our way, it was like, Oh, let's go to Disneyland, let's go on vacation, which is really cool. Now I just create a sinking fund for it and I save for it poco a poco. But being very intentional about like what the priorities were allowed us to reach it really fast.

00:13:39

Delyanne Barros

And I think so many people underestimate that. And this is what happened to me, too. I tell people to build wealth. You need to, first of all, heal a lot of your money trauma and.

00:13:48

Say it louder.

00:13:49

Delyanne Barros

Yes. And also, you need to have a plan. I'm so curious about your numbers. And I want to hear, you know, what is it that you based it on and what you guys are going for and when do you think you'll reach it? So can you walk us through that?

00:14:02

Okay. So we are investing, thinking that each of us needs \$60,000 to retire a year. So together it's \$120,000 a year, which is a lot of money. When my husband first started, he was making \$60,000 and now he's making over 200,000.

00:14:28

Delyanne Barros

Okay.

00:14:28

And that's happened in three years. He's just really increased his income a lot. And I have to right, as, you know, having my own business and it's continued to be like, well, let's increase our income, but our lifestyle has stayed the same.

00:14:43

Delyanne Barros

Okay. Let's go over those numbers. Soledad and her husband are each planning to spend \$60,000 per year in retirement. That's \$120,000 annually for both of them. That means their total fire number is \$4 million based on a 3% withdrawal rate instead of 4%. Just to be on the safe side, they're currently on track to retire in about a decade. Soledad factored into her calculations that her family's expenses will change as the kids get older.

00:15:16

Right now, our expenses are pretty high because, you know, we pay \$2,400 a month for childcare.

00:15:21

Delyanne Barros

Would you consider your number a little higher than the usual people who are pursuing fire because you have two small children that you're still caring for while you're planning to retire early?

00:15:32

I think my number is higher because my husband has this idea that people who are on fire, like they only frijoles and they don't eat out. And my husband's like, we're not going to retire early if we're going to have to sacrifice, like no longer eating at restaurants and being foodies. My family thought a lot. We could be investing a lot more a month. What's key for us is creating a lifestyle that feels sustainable, understanding what's enough for us so they never feels like it's a sacrifice.

00:16:01

Delyanne Barros

One key aspect of Soledad's plan is that it doesn't include paying for her kids college tuition instead of investing in a 529 education savings plan. She's focused on buying property for the kids to inherit.

00:16:15

That's a decision we've made that some people would be like, Oh my goodness, you're not paying for your kid's college. Instead, you're focusing on retiring early. But that's. Part of what we've done, because instead we're more thinking about getting property right. We're also thinking about my mother in law who needs support for her retirement. So one day my kids are not going to have, you know, 529 accounts that have dinero for college, but they will be able to inherit real estate because we're looking to buy a multi-unit property. We tell our kids all the time, we're not investing for your college. If you want to go to college, prepare te be prepared to apply for scholarships, get internships, make sure that you're going to school for something that you want.

00:16:57

Delyanne Barros

This is something I say to parents a lot because they feel guilty about not, you know, doing all the things, investing for college, leaving them a huge inheritance, making all the sacrifices. But I tell them it's not just about generational wealth. It's also about generational knowledge. You know, I'm imagining all of the lessons that you're passing down to your kids and all the things you're going to teach them, all the mistakes that they can avoid and how they can invest for their future so that they're not bogged down with student loans forever. And, you know, you just said you're passing along real estate investments. That's going to put them way ahead of most people today. Right.

00:17:35

Yeah. And also the biggest thing that I want for my kids is to have the confidence to know that they don't have to tolerate certain toxic environments that I feel I've had to do as a queer woman of color. That's the thing I care most about, that my children know that they have options. And I think, you know, having financial literacy, understanding how to navigate your money, valuing your freedom, protecting your wellness, for them to have all this money, eh I want them to have time. I want them to have freedom to be who they authentically are.

00:18:10

Delyanne Barros

So what advice would you give to a parent considering pursuing fire with their family, you know, or someone who is trying to decide if they can pursue fire and have kids?

00:18:22

I would saying get very clear on the life that you want to live and the life that you hope your children are going to live. Ultimately, kids learn most from our actions. So if they see you being intentional with your dinero, they're going to learn to be intentional with your dinero too. It is possible to find ways to increase your income. Don't focus so much on decreasing your expenses. I believe completely money will always come our way. One of the greatest blessings, I think, is for children to see that, you know, parenthood doesn't have to be where you're sacrificing everything. You still have individual things that you're passionate about, that you make sure that you budget for so that you can still spend money on. Let your children know that life doesn't end as a parent. It just it gets more exciting.

00:19:15

Delyanne Barros

I want to leave off with what are you most looking forward to about retirement? Are there any particular places you'd like to visit or things you like to accomplish once you check off that, you know, independence goal?

00:19:27

It's funny because the more I continue to pursue fire, and like every time I invest money on a monthly basis to go towards, you know, a taxable brokerage account or a solo 401k. I just think, how am I retiring early right now? How am I relaxing right now? Perhaps we're going to find ourselves, you know, volunteering for a political campaign to just ensure that more people have access to quality health care or affordable child care. Ultimately, I would love everyone to calculate their fire number to get an understanding of how much money is enough so that you can just really start enjoying your life right now so that you're not in this constant, like, hamster wheel of trying to get more and more and more. And instead can practice gratitude on a regular basis about everything that you already have.

00:20:17

Delyanne Barros

Let me reiterate that fire isn't necessarily for everyone, and that's okay. Many people only want the FI part, the financial independence, and have no plans to retire early. But if you are interested in pursuing it, start by calculating your fire number and remember to be flexible because life can throw a lot of curveballs your way. By sharing Soledad and Purple's, fire journeys and my own, I just want to help people realize how important it is to have a long term plan, even if it's not retiring early. And if that makes you realize you're unhappy at work and need to make some changes, well, that's an added bonus. But if you come up with a fire plan and find it's too intense, take it slower. And if something unexpected happens or the market crashes, the worst case scenario is you keep working. If fire is making you miserable, you're doing it wrong. Investing is a huge privilege and should be empowering. Next Monday. There are people out. They're who have made thousands on crypto.

00:21:25

Trish Petak

We are checking our phones constantly because at one point we had, you know, \$20,000 and then the next day is 25 and then it just keeps going up. It was so surreal, honestly.

00:21:35

Delyanne Barros

But is it legit? Is this actually an investment strategy you should be paying attention to? We'll dig in. Before you go, we want to hear from you for an upcoming episode. We've all made mistakes with our money and there is no shame in that. I know I have. When have you made a mistake with your money? What was that mistake and how did it make you feel? What did you learn from it? Leave me a voicemail at 2025397370. Diversifying is a production of CNN audio. Megan Marcus is our executive producer and Haley Thomas is our senior producer. Our producers are Alex Stern, Kinsey Clark and Madeleine Thompson. Our associate producer is Charis Satchell and our production assistant is Eden Getachew. Mixing and Sound Design by Francisco Monroy. Rafeena Ahmad leads our audience strategy. Artwork designed by Brett Ferdock. Original Music by Andrew Eapen. Our technical director is Dan Dzula with support from Chip Grabow. Steve Kiehl. Anissa Wells. Abbie Fentress Swanson. Tameeka Ballance-Kolasny, Ashley Lusk. Lindsay Abrams. Lisa Namerow and Courtney Coupe. Delyanne Barros. Thanks for listening.