Expat Financial Advice: Successful Investing for an Overseas Retirement

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How much will you need to retire overseas, and how should you invest to achieve that goal? For many of us, a retirement portfolio worth the equivalent of USD 1 million might seem to be more than enough—almost like winning the lottery. Unfortunately, USD 1 million doesn't go as far as it used to. Depending on your overseas lifestyle, this amount may provide only a reasonable, not generous, retirement, especially if that retirement lasts 30 years or more. In this article, we'll explain how to judge if the equivalent of USD 1 million will be enough for you in retirement, as well as how best to invest to ensure you don't run out of money or have to curtail your lifestyle.

USD 1 Million Can Buy a Reasonable—Not Affluent—Retirement

One rule of thumb is that you should be able to withdraw an inflation-adjusted 4% per year from your retirement savings with a low chance of running out of money over a 30-year retirement. But even if you have saved USD 1 million, 4% is only USD 40,000—less than the median income in the U.S., and less than some expat families spend on travel and entertainment in a year. This amount doesn't quite purchase the type of lifestyle that you might expect for a millionaire.

Even then, depending on how you invest, there is a substantial risk of outliving your money. If you just put your USD 1 million under a mattress and divided it by 30, you would have about USD 33,000 per year. But this doesn't take into account inflation. Thirty years of inflation at 3% per year reduces purchasing power by 59%. At an average inflation rate of 5% per year (not unheard of if you live in a country with an emerging economy), purchasing power is diminished by 77%. This means that USD 1,000 today would buy you only USD 412 worth of goods in 30 years with 3% inflation and just USD 231 with 5% inflation.

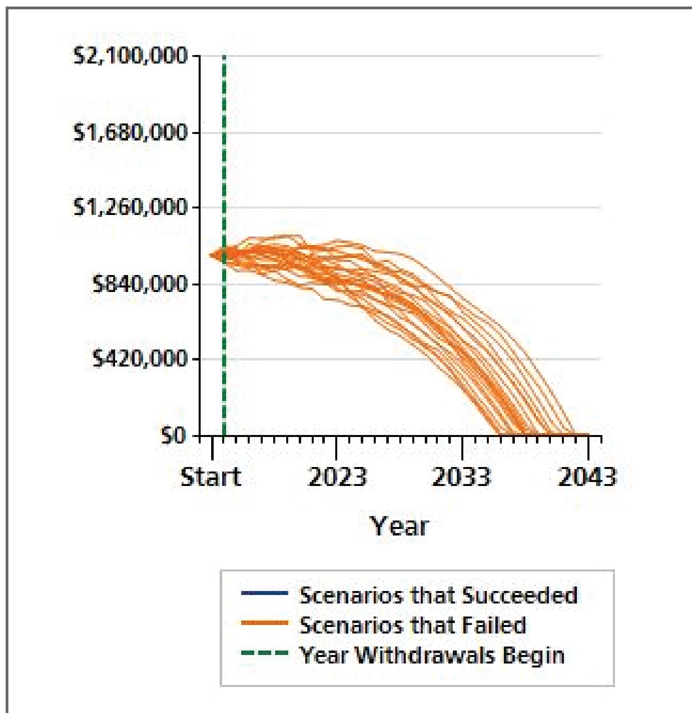
For your USD 1,000 to be worth USD 1,000 in the future, it's going to have to keep up with inflation. The annual inflation rate in the United States has averaged about 4% per year from 1972 to 2016.

To Beat Inflation, Invest in a Diversified Portfolio

Unfortunately, investing in a cash deposit or money market account won't get you much more of a return than putting your money under your mattress. An all fixed-income (bond) portfolio is better, but not good enough. The examples below show what happens to 1,000 potential 30-year return sequences for a USD 1 million cash or bond portfolio, subject to the long-term average inflation rate of 4% per year while withdrawing an inflation-adjusted, after-tax amount of USD 40,000 each year. Portfolio earnings are assumed to be subject to a 15% tax rate.

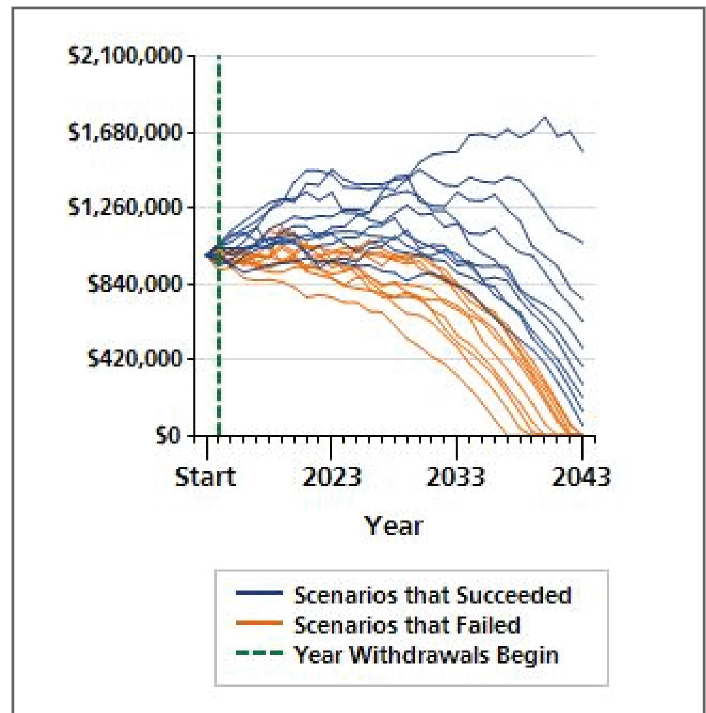
Is USD 1 Million in Cash or Bonds Enough for 30-Year Retirement at 4% Withdrawal Rate?

All-Cash Portfolio*



98% chance of running out of money before 30 years at 4% withdrawal rate

All-Bond Portfolio*



49% chance of running out of money before 30 years at 4% withdrawal rate

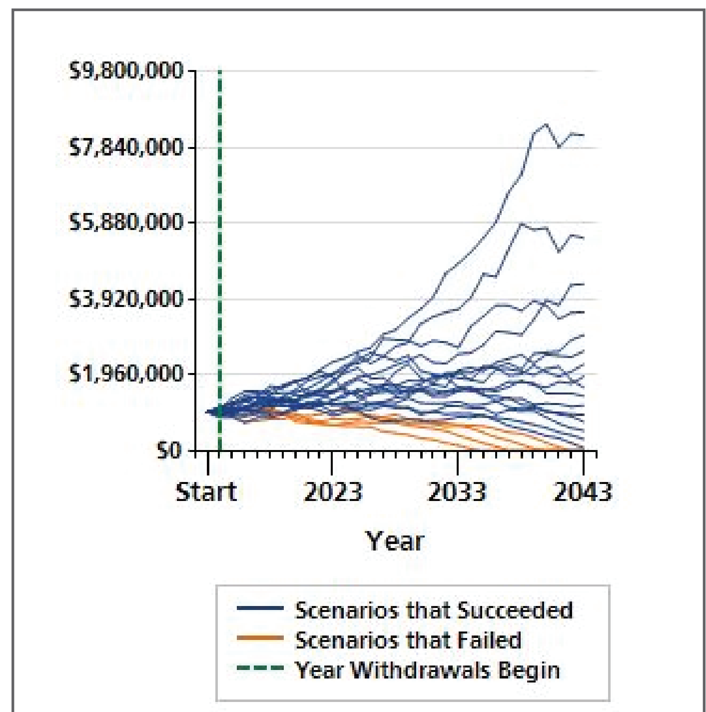
As shown above, the cash portfolio does not last for 30 years, and the bond portfolio succeeds only in about half the cases. If inflation is higher than average, the chances of either portfolio lasting for a 30-year retirement would be even lower.

Contrast the above results with the same analysis of a portfolio diversified across various fixed-income, equity, and alternative asset classes, with a split between equity-type risk and fixed-income risk of 60%/40%.

USD 1 Million in a Diversified Portfolio: A Better Chance for 30-Year Retirement

As shown to the right, the diversified portfolio gives you the best chance of success. Of course, to achieve this success rate, you have to put up with the additional day-to-day and year-to-year volatility that comes from including equity in the portfolio.

60/40 Diversified Portfolio*



22% chance of running out of money before 30 years at 4% withdrawal rate

** Note: Monte Carlo analysis, 1,000 iterations using different pathways of random actual returns.*

Order of Investment Returns Matters

Short-term volatility is common for investors, as is the general rise of portfolios over the long run. Part of what determines if a portfolio will last for 30 years in retirement are the up-and-down periods encountered over that time, the order of investment returns, and when funds are withdrawn.

For example, having positive investment returns early in retirement and one negative year out of five in the last year can leave you with the same five-year average if the return percentages are reversed. However, you'll end up with less money by withdrawing funds for retirement if the negative return year happens in the first year of the five-year average. Why? Poor returns at the beginning of a retirement period combined with withdrawals quickly deplete the value of the portfolio and overwhelm its ability to recover, even when there are better returns later in the retirement period.

Diversify and Save More

A diversified portfolio is the best way to ensure your money lasts throughout retirement. You should also test your plan against actual returns during different historic and economic periods. Look at return sequences where the poor returns occur up front. Use Monte Carlo testing to generate thousands of potential return sequences and see how your plan stands up. If you are a retiree in an emerging market, remember that emerging market equity and currency add another layer of volatility to expat portfolios. Plan accordingly.

Other things to do: Save more. Start early. Know your numbers, which means creating a financial plan that encompasses your unique situation and updating it frequently. Learn what successful long-term investing is all about. Learn to deal with market volatility. Create a lifestyle you can afford. Get help if you need it.

This article is a revised and updated version of one that had appeared previously on www.crevelingandcreveling.com.

Additional Resources

Expat Investment Advice: Seven Things Expats Need to Know About Investing

Expat Financial Planning: Will Your Portfolio Last Through Retirement?

Expat Investment Advice: How to Obtain Consistent Portfolio Returns

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