

**Published in: Acclimate Magazine, August 2009**

## **Couples Can Take Charge of Their Retirement**

By Peggy Creveling and Chad Creveling

The global economic crisis has been an unsettling experience for many expats. Not only have portfolio and house values tumbled, but exchange rates have moved significantly and job outlooks are less certain. These factors contribute to expats' feeling less well-off or in some cases broke. People look at their diminished net worth and ask: Will we be OK?

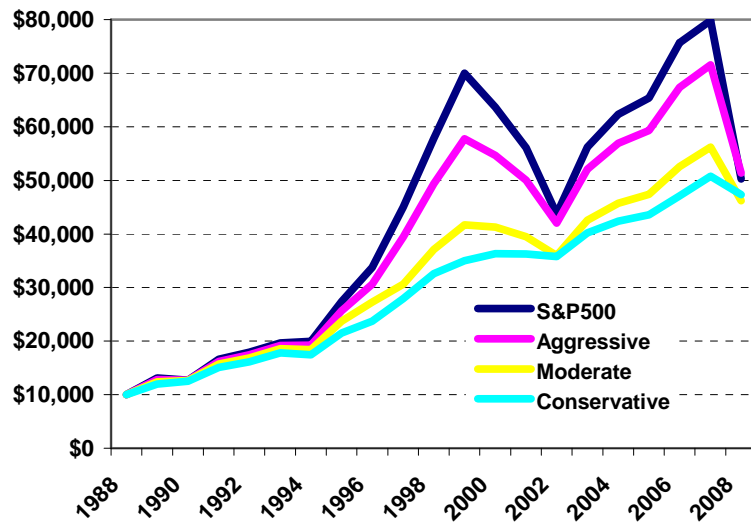
Last year's financial melt-down was certainly significant, although not unprecedented. But the reason behind people's worry about their finances is not really the melt-down itself. When it comes to feeling worried about finances, the problem starts with not knowing either what you want to achieve or how you are going to achieve it.

For married people, lack of communication often compounds the problem. A recent study by Fidelity Investments in the U.S. indicates couples disagree on just about everything related to financial goals such as retirement. But surprisingly, nearly half never argue about money. This suggests that couples simply don't discuss their finances, let alone come up with a joint plan to achieve their goals.

With no communication and no plan, people then use the value of their investment portfolio as the sole barometer for their financial well-being. The problem is that in reality the day-to-day (or even yearly) ups and downs in the markets only play a small role in the ultimate achievement of their goals. So if couples really want to build a sustainable feeling of financial well-being, they need to start talking to each other, craft a clearly-defined plan, and work together to put the plan into action.

*One thing is certain: markets will fluctuate. If you let gyrations in asset prices dictate your feelings of financial well-being, you'll always feel unsettled. Instead, gain peace of mind by working together to craft a clearly defined financial plan and put it into action.*

**Value of \$10,000 Invested in the S&P 500 & Various Diversified Portfolios (1988-2008)**



Source: Morningstar, C&C estimates

The good news is that once you define financial goals and start putting a plan together, you might be pleasantly surprised that you're not really that far off track despite the recent carnage in the markets. Alternatively, you might need to make a few modifications to get back on track. Don't let this keep you from getting a plan together—no matter how old you are. Your biggest asset is time and you have control over many things that affect your finances. The sooner you develop a realistic plan and begin executing it, the more influence you will have on your future.

### **What goes in to a good financial plan:**

*Cover your short-term goals.* To begin with, start discussing your near-term goals and make sure you have saved or set aside adequate cash to cover them. Include an emergency fund for unforeseen circumstances in your planning. If job loss is a real possibility, make that your priority planning factor. Longer-term plans can be made when your short-term goals are covered, or when your situation is more stable.

*Define your long-term goals.* Next, sit down together and define what your retirement will look like. Discuss: Where do you want to live? What do you want to do in retirement? Do you want to travel, play golf, do volunteer work, or work part-time? What are your expenses likely to be, and what are your sources of income? How much income do you need from your investments? Is that return realistic to expect? How will it be taxed? How much risk can you offload through appropriate insurance? Building a plan starts with discussing questions like these.

*Planning for old age:* In your planning remember that you will likely live for a long time. For example, average life expectancy for a 40-year-old in most developed countries is

greater than 80 years. This means that half will live even longer than those 80 years, so plan for the possibility of one or both of you living to 90 or beyond.

*Maximize your returns:* Don't forget about the impact of taxes and fees on your investment returns. These can have a real impact and you can take active steps to minimize both. Avoid thinking that offshore tax-haven products will help. If you're a U.S. citizen, those tax benefits might not be available to you, and for other nationalities, the undisclosed fees involved in most of these products outweigh any tax benefit.

*Plan for market volatility:* Both market volatility and the order in which your returns occur matter—as anyone retiring in 2008 can attest! Although you cannot control market volatility, you can plan for it. Stress-test your assumptions using real world volatility to make sure that you are saving and investing enough. You'll both want to know that your plan works before 2008-like conditions happen again.

Once you have discussed all of these factors, it's time for you and your partner—together—to work out a target savings and investment plan that will have a high probability of succeeding across many different market scenarios. Develop a long-term portfolio suitable to your specific goals and level of risk tolerance. Find a suitable custodian for your portfolio—look for a low-cost broker in an appropriate tax jurisdiction, keeping in mind some special considerations depending on your age:

### **Young People**

- 1) Clearly defining long-term goals might be difficult at this stage, yet you are in the best position to make a real difference to your future. Whether or not you can come up with firm plans, get in the habit of saving by spending less than your income level now.
- 2) Pay down debt first and then start adding to your long-term investment portfolio.
- 3) Make maximum use of any low-fee tax-deferred or tax-free savings vehicles available to you. The compounded tax savings will really add up over time.
- 4) Avoid counting on someone else to look after your retirement. With people living longer and health care costs on the rise, your parents or rich uncle might need all their savings to look after themselves.
- 5) If you're single, do plan for your own future.

### **The Middle Years**

- 1) Now you may be in a better position to clearly define and prioritize your goals. Review your goals, and make any changes needed. Consider: do you really need that expensive house, car, or vacation? Is it worth it to you to risk *having* to work until you're 80 (assuming that you're able)?
- 2) Weigh competing goals. Often this takes the form of college for children versus your retirement. Tough as this trade-off is, your retirement must come first. Your kids might not be in a position to look after you once they have families of their own. If needed, look for alternative ways to help finance goals such as college such as scholarships, student loans, work-study programs, etc.

- 3) Remember that your parents might also need some financial help in the future. Talk to them about their goals and plans. Find out if they have long-term care insurance and where their retirement income is likely to come from.
- 4) Above all, continue your savings and investment plan. Avoid betting on future inflated portfolio returns, rising house prices, a possible inheritance, or your country's national insurance or social security program to fund your retirement.

### **Pre-Retirement and Retirement**

- 1) Re-evaluate your retirement goals and your ability to meet these goals using all assets and cash flow streams to which you are entitled.
- 2) Simplify your life. Have a garage sale or donate unused items. Consider downsizing your house if you no longer need the extra space. If you have multiple homes, consider whether you really need to own them, or if periodically renting a vacation home might more make sense.
- 3) If you were planning to retire in a high cost-of-living location, you might wish to reconsider and research somewhere interesting, but more affordable.
- 4) Make sure that you will have adequate insurance in place to cover any needs before you leave your employer.
- 5) Consider when you will purchase long-term care insurance and what type of coverage you will buy, and be sure to put it in your budget. (Generally this type of insurance becomes cost-effective after age 55.)
- 6) Consider whether you really *want* to retire. Many people find life more satisfying when they have some form of employment. Even part-time income can really help stretch finances in retirement.
- 7) If needed, consider purchasing a fixed annuity with a portion of your savings in order to make up for cash flow shortfalls. Before making a purchase, first understand what an annuity can and cannot do, shop the market, and get full disclosure on fees and counter-party risks.

Once you start communicating as a couple, take the above steps and put a real financial plan in place. You'll soon find that you can control many aspects of your financial future, and the unending roller-coaster ride of the global economy will be easier to take. The planning process will be dynamic—expect to change your plan over the years—but the changes will be driven by you, not by market gyrations. Through it all, you'll feel confident that you're planning adequately and that together you will be okay.

*Chad Creveling, CFA, and Peggy Creveling, CFA, are co-owners of Creveling & Creveling Financial Planning Limited, a fee-only cross-border advisory firm that is U.S. SEC registered and Thai licensed.*