

The Expat Spouse as Household CFO: Strategies for Boosting Your Family's Savings

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This is the fourth installment in "The Expat Spouse as Household CFO" series. To read the previous installments in this series, see recent AWC newsletters or contact Creveling & Creveling, www.crevelingandcreveling.com, for copies.

If you've been following the "Expat Spouse as Household CFO" series, you've already sat down with your spouse and identified some of your long-term and more immediate financial goals. You may have also started to set up the financial accounts required to manage and simplify your life as an expat. Now it's time to come up with a plan to fund your future goals. This is probably the most important task, especially for those who may have waited a bit longer to get started.

The Importance of Savings

In a recent special series of reports on pensions, "70 or Bust!," www.economist.com/node/18529505?story_id=18529505, The Economist took a look at the state of retirement pensions in developed countries and concluded that most people are just not saving enough to support a comfortable lifestyle in retirement.

There are a number of reasons for this. People are living longer and spending more time in retirement. Meanwhile, demographic trends and a decade of poor investment returns have resulted in underfunded public and private sector pensions. At the same time, there's been a massive shift in the responsibility of funding retirement from the employer to the individual employee, or from Defined Benefit (DB) plans (where the employer pays) to Defined Contribution (DC) plans (where the employee pays). As reported in The Economist, "Between 1979 and 2009 the share of employees in DB pension plans in America fell from 62% to 7% of the total ... whereas those in DC plans rose from 16% to 67%."

On average, the lack of individual savings may indicate that people are still hoping someone else will pay for retirement. Whatever the reason, it's clear that many people significantly underestimate the savings they need to acquire for retirement, as well as overestimate the investment returns they can achieve. As Tony Webb of the Centre for Retirement Research in Boston points out in The Economist's special report, even a seemingly large retirement portfolio of USD 1 million will buy an inflation-linked annuity of just USD 45,000 a year.

Unfortunately, in many cases, USD 45,000 is far less than the average expat household spends on basic living expenses, let alone other major retirement expenses such as healthcare or travel. To support a comfortable middle-class retirement, most expats will need to substantially increase their savings rates.

Steps to Start Your Savings Plan

The sooner you get started saving, the easier it will be.

According to William J. Bernstein in the book *Investor's Manifesto*, "Each dollar you do not save at 25 will mean two inflation-adjusted dollars you will need to save if you start at age 35, four if you begin at 45 and eight if you start at 55. In practice, if you lack substantial savings at 45, you are in serious trouble."

1. Set and Prioritize Goals.

You should have covered much of the work of setting and prioritizing goals in Part One, www.crevelingandcreveling.com/blog/52-the-expat-spouse-as-household-cfo-working-together-to-set-goals.html, of the series. The key is to be as specific as possible. Determine amounts

and time frames. Set ideal and acceptable targets. Prioritize. Not all goals are equally important. You might want a BMW, but you could live with a Honda if that meant a more comfortable retirement. There are many ways to fund college for your kids (including borrowing), but you can't borrow to support your retirement.

2. Determine How Much You Need to Save

Ideally, you should determine how much you need to save annually to fund each goal and then, based on the amount you can actually save, allocate those savings to the most important goals first. Determining how much you need to save depends on the future amount you need to fund, the time available for saving and the returns you can achieve on your savings. The longer the time horizon and the higher the return, the less you need to save.

To determine these amounts, you can use an online financial calculator or seek help from a qualified financial advisor. You can also do the math yourself.

3. Set Realistic Expectations for Investment Returns

Many people under save and fall short of their goals due to unrealistic investment return expectations. If you think you can achieve double digit returns year in and year out, you will be sorely disappointed. With an average inflation rate of 3-4% per year, you should be looking at an average return of 6-9% per year, depending on how much risk you're willing to take with your savings. You won't get this every year, but when you average your annual returns over time, they will likely be somewhere in this range.

4. Determine How Much You Can Save

Here is where you match your plans with reality. Determine how much you really can save. Most savings will come from salary, but a significant amount can be generated by being more efficient and less wasteful with the money you do have. Create a budget if you have to and figure out what you can live without or where you can substitute something less expensive. Savings can come from being more tax efficient, cutting unnecessary fees, and avoiding interest on consumer credit. Most people look for the big things, but cutting several little things can add to big savings.

5. Revise Goals if Required

After determining what you can really save, go back to your goals. What can you afford? What needs to be adjusted? By reprioritizing and adjusting your goals, you can link your actual savings to the attainment of realistic goals. This is a critical step. For most people, there is no clear link between their actual savings and the financial goals they would like to achieve.

6. Build in Slack

No matter how well you plan, life is unpredictable and stuff happens. You need to build in some slack to your plan. Jobs don't last forever, people get downsized, emergencies occur, and planned for investment returns don't materialize. Assume that unplanned events will occur, and build that into your long-term savings plan.

7. Find Out About Employer-Sponsored Plans

Find out what pension/savings plans and other benefits your em-