Chapter 1

Setting Your Bull's-Eye

When I first started investing, I wanted to retire at 40. I was 19 years old and saving like a lunatic. I won't confess the screwy things I did to pinch pennies. Instead, I want to share what I did right: the part you'll find helpful. I planned how much money I wanted to save, and why. Such planning, even more than the hyperactive saving, made my life a heck of a lot easier.

In 2014, shortly after my 44th birthday, my wife and I retired from our Singapore-based teaching jobs. That doesn't mean we live like trust-funded hedonists. Nor does it mean we'll never work again. It does mean, however, that our private parts aren't sitting in somebody else's vise. A few years back, if our boss had gone on a firing spree, sacking skinny bald guys and bilingual blondes, we would have been fine. We had enough money to survive without working.

When you're financially free, you might choose to keep working, take a long-term leave, or retire. Financial freedom provides options.

If you're not financially free today, set a target.

Begin with the following question:

If you were retired today, how much do you think you would spend each year?

For now, ignore inflation. Everything from a back wax to cornflakes will cost more in the future. But we'll make adjustments for that later. Just consider how much you would need annually if you retired today. It's silly to suggest a specific number of dollars needed by every retiree. If you're retiring in London, England, for example, costs will be higher than in Chiang Mai, Thailand.

Big spenders also require more. Five-star holiday junkies have pricier tastes than those who reserve luxury for special occasions. Some experts suggest you should budget retirement expenses totaling 70 to 80 percent of your working household income. But such cookie-cutter solutions make little sense. Even among those in the same income bracket, some people consume like gas-guzzling Mack trucks; others sip like a Smart car. Your future expenses depend on your personal needs, wants, and chosen retirement location.

To estimate future costs of living, figure out what you're spending right now. Record every penny you spend for at least six months. It's easy to do with an app on your phone, or with a pencil and notebook. Then make adjustments for predicted retirement lifestyle changes. Without a job, you won't be maintaining a professional wardrobe. Nor will you be saving for your kids' college or your retirement. Do you plan to be somewhere cheaper or more expensive than where you currently live? In either case, make adjustments. Costs of living in the world's major cities are available at www.numbeo.com.

This isn't about keeping up with Mr. and Mrs. Jones. But if you want to know how much the typical (non-expat) retired household spends, here's a peek.

According to the University of Michigan's Health and Retirement Study, total costs for the typical American retired household were $31,365 in 2012.[1]

Canadian Business magazine reported that on average a Canadian retiree spent $39,400 (Canadian dollars) in 2009.[2]

MGM Advantage estimates that British retirement expenses averaged £23,107 per year in 2013.[3]

Australian households, according to the ASFA Retirement Standard Benchmark, need $32,603 (Australian dollars) for a "modest" retirement.[4]

Your needs depend on you: your lifestyle, your retirement location, and your financial obligations. Unfortunately, those afflicted by expatitis crave more than the average Dick or Jane.

What's This Ailment Expatitis?

Expatitis isn't a common medical term. But if you're an expatriate, chances are either you or someone you know is infected. It's easily diagnosed. Symptoms get posted on Facebook. Fortunately, it doesn't hurt—at least not in its early stages.

Unlike bronchitis, arthritis, appendicitis, or colitis, expatitis is rather pleasant. Afflicted individuals get addicted to five-star holidays, manicures, pedicures, massages, expensive dining, and entertainment. But expatitis creates delusions. It's much like drinking champagne underwater without checking your air supply.

Symptoms creep up. The better the expat's financial package, the greater the risk of contracting the condition.

I've been giving financial seminars to expatriates for a decade. When I ask people to estimate their retirement expenses, their needs vary. And I expect that. But here's the irony. Those reporting they need the most money are usually saving the least.

Fortunately, such spendthrifts can eke out the final laugh.

Whether you're suffering from expatitis or hoping for a more luxurious retirement than you could afford in your home country, retiring overseas offers a creative solution.

Cheating Conventional Retirement Rules

Meet Billy and Akaisha Kaderli. They live better than the typical American retiree. But they also spend less.

If you struck up a midweek conversation with them, you might peg them as early retirees. The energetic 61-year-olds share the glow of a couple freed from the rat race. But a few things make them different.

They spend long-term stints (sometimes years) in low-cost countries. They also retired when they were just 38, and will mark their 25th year of retirement in 2016.

Previously, they owned a restaurant in the United States. Akaisha ran it. Billy worked at an investment firm. But in 1991, they quit. While most of their friends were acquiring large houses, new cars, and filling their homes with fine furnishings, the Kaderlis downsized. "We sold most of our possessions," says Akaisha, "including our house and our car." For a quarter of a century, they've lived off their investment portfolio. Today, it's worth more than it was the day they retired.

To stretch their income, they moved to Lake Chapala, Mexico. But they enjoy bouncing around, renting homes in new locations for months at a time. Some of their favorite hubs include Thailand and Guatemala. They commit to community projects, meeting people, embracing different cultures, and learning different languages. They have a mortgage-free apartment in the United States, where they stay when they visit family.

The Kaderlis have also discovered how to bask in luxury on a shoestring. Through TrustedHousesitters.com, they found a luxurious home overlooking Lake Chapala in 2013. They stayed four months without paying rent. "We may do more of that in the future," says Akaisha, "if the right opportunity arises."

Their living costs may be low, but the Kaderlis don't scrimp. "We have a great deal of fun," Akaisha says, "living on $30,000 a year." In 2013, they spent roughly $3,900 on housing, $5,400 on transportation, $6,600 on food and entertainment, $6,900 on medical expenses, and the rest on miscellaneous costs.[5]

The Kaderlis are the authors of *The Adventurer's Guide to Early Retirement* (CD-ROM, 2005). They also maintain a helpful blog, Retire Early Lifestyle, at www.retireearlylifestyle.com, where they share their stories and tips for living well on less.

Suzan Haskins and Dan Prescher, authors of *The International Living Guide to Retiring Overseas on a Budget* (John Wiley & Sons, 2014), live much like the Kaderlis. Located in a small town in Ecuador, they spend roughly $25,000 a year. "We live well. . . . We go out to lunch and dinner once a week . . . we enjoy the occasional martini or scotch, and every evening with dinner we polish off a bottle of wine." Their costs include at least one annual trip to the United States, occasional fine dining, and a worldwide health care policy that costs roughly $5,800 a year, with a $5,000 deductible.[6]

Cooking Up the Road Less Traveled

Forty-eight-year-old chef Shane Brierly desires a more upscale retirement than he could afford in his home country. The New Zealand native left Australia in 2004 to work in Dubai. He explains, "I thought it would give me an edge, giving me a more comfortable financial position than previously."

But instead of moving back to Australia, Shane moved to Vietnam, where he works as a chef at the Pullman Hotel in Ho Chi Minh City. Now he's planning to retire overseas. "The respect and community values in Asia really inspire me," says Shane. "Not so many criminals, a culture of nonviolence and respect, plus awesome food.

"Costs of living are also lower," he adds, "and these countries are far less materialistic." Shane's views on materialism were altered by misfortune. "But it was a blessing in disguise," he says.

A shipping company lost all of his household goods when he moved from Dubai to Vietnam. Initially forced to live with less, he warmed to its simplicity. "Owning a whole lot of stuff means maintaining, repairing, replacing, or running it." He no longer buys what he doesn't need, preferring to spend his money on traveling instead. Gaining experiences, Shane explains, is more fulfilling than acquiring possessions. "The Western economy runs on unneeded goods and services, and everyone lives to consume. You need half your income just to sustain impulse buys and comfort purchases. The rest disappears on essentials and tax."

Shane doesn't live like a monk. He lives simply, but doesn't mind paying a premium for quality. In a country where you can survive on a relative shoestring, he claims you can live well on $3,000 per month ($36,000 annually). "I love exploring. It's inexpensive to travel locally in Southeast Asia or in Vietnam, and you can splash out quite affordably and have a comfortable life." He plans to retire in central Vietnam, Laos, Cambodia, or Chile. But he'll be keeping his hands in the hospitality business. "I'll probably set up a restaurant or guesthouse to run. To be financially free at 60 would rock, but retiring at age 65 is more likely."[7]

If Shane wants to retire with an income of $36,000 a year, he'll need to make adjustments. Inflation is greedy, sometimes frighteningly so.

Inflation.eu compiles country inflation figures. In 1981, Canada's inflation rate recorded 12.12 percent; in 1975 Great Britain's peaked at 24.89 percent; and in 1979 the cost of living in the United States rose 13.29 percent.[8] Those lamenting the good old days of the late 1970s and early 1980s, when savings accounts paid 10 percent a year, may have forgotten inflation's gluttony.

Lately, inflation's appetite has slowed. The decade ending 2012 saw Canada's annual inflation average 1.83 percent, Great Britain recorded 2.64 percent, and the United States averaged 2.41 percent per year.[9]

But past decade levels are rarely repeated in the future. Caution is prudent. In this case, let's assume inflation will average 3.5 percent each year—which is slightly higher than the developed world's 100-year average.

Shane plans to retire in 17 years, when he turns 65. If inflation averages 3.5 percent, he'll spend $64,608 annually 17 years from now to give himself and his wife the same buying power that $36,000 would provide today. In other words, if $36,000 can buy a certain number of goods and services now, it would require $64,608 to purchase those same goods and services in 17 years.

To make the postinflation adjustment, Shane went to www.moneychimp.com and clicked Calculator. Figure 1.1 shows how he used the website to estimate his postinflation income equivalency.

The Earthquake and the Epiphany

When figuring out how much money you'll need, focus on your own lifestyle and needs, not somebody else's. Thirty-five-year-old Ben Shearon, a British professor living in Sendai, Japan, shares his retirement expense projections.

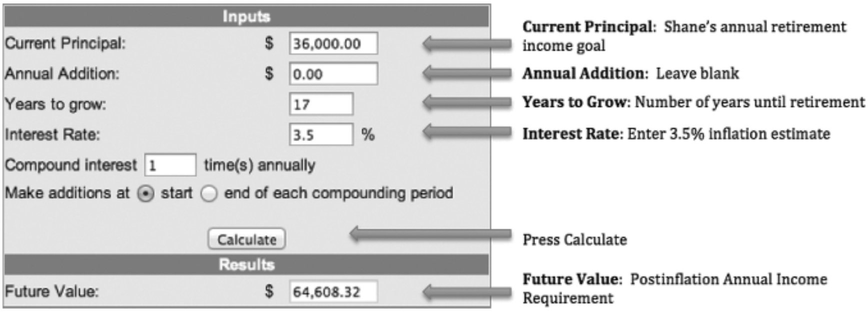

Figure 1.1 Shane Brierly's Postinflation Adjustment
SOURCE: www.moneychimp.com.

He and his wife, Chiho, lost their home to the Japanese earthquake in 2011. "That turned me into a pretty hardcore minimalist," Ben says. "I have seen how fragile life can be." The experience strengthened his desire for earlier financial freedom. Rather than working, he'd rather travel, read, keep fit, and spend time with his wife.

Ben and Chiho seek financial freedom when Ben turns 45. They save 50 percent of their household income, now that their three children are "mostly grown up and more or less independent." Ben hopes that he and Chiho can live off dividend and interest income from their stock and bond market portfolio. They're considering retiring in Malaysia or Thailand where the weather is better and the costs of living lower.

Working full-time as a teacher trainer at a university in Sendai, Ben also consults on English as a foreign language (EFL) textbooks and writes a blog. Chiho runs a small private school, which also absorbs a lot of Ben's time. "Right now it's all work, work, work, but we are hoping to gradually scale that back as we hire more people to help us with the school."[10]

Currently, they don't own property.

Ben and Chiho estimate their annual retirement costs at $47,100 (U.S. dollars). Because they're hoping to retire in 10 years, this sum will need to be adjusted for inflation. If inflation averages 3.5 percent, they'll require $66,439 each year (a decade from now) to give them the equivalent buying power of $47,100 today.

Figure 1.2 illustrates how their numbers look when plugged into the compound interest calculator at www.moneychimp.com.

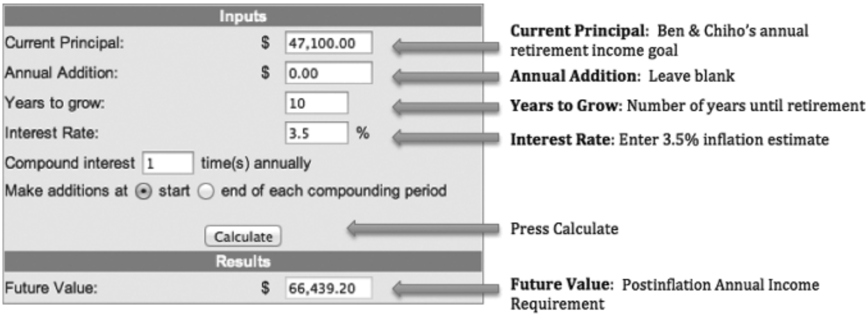

Figure 1.2 Ben and Chiho's Postinflation Adjustment
SOURCE: www.moneychimp.com.

Jujitsu Junkie Taps Out for Home

Despite his 44 years, school psychologist Jeff Devens strikes an imposing figure against younger fighters on the jujitsu mat. A wrestler in college, he took a break from grappling until he was 40, when the Brazilian jujitsu bug bit him. Today, he battles opponents half his age. But that doesn't mean the Singapore-based American lives in a youthful Neverland. Jeff and his wife Nanette know the years creep up. Consequently, they are prepared for their retirement. They plan to be based in the United States.

The typical American retiree spent $31,365 in 2012. But Jeff and Nanette don't want to be average. By sidestepping expatitis, the Devenses are realistically poised to retire on $93,300 per year.

They started their expat careers in 1995, teaching at the International School of Beijing, China. "We came overseas after two years of marriage," says Jeff, "with $25,000 of student loan debt. During our first year, we paid off our school loans and had enough money left over to put a down payment on a home in North Dakota."

Jeff and Nanette are now mortgage free. Each June, they fly from Singapore to the United States to spend time at their lakeside home with their two children. "Purchasing the house was a lifestyle decision," says Jeff. "It gives our family a place to spend seven weeks each summer. Paying off the mortgage also gave us peace of mind."

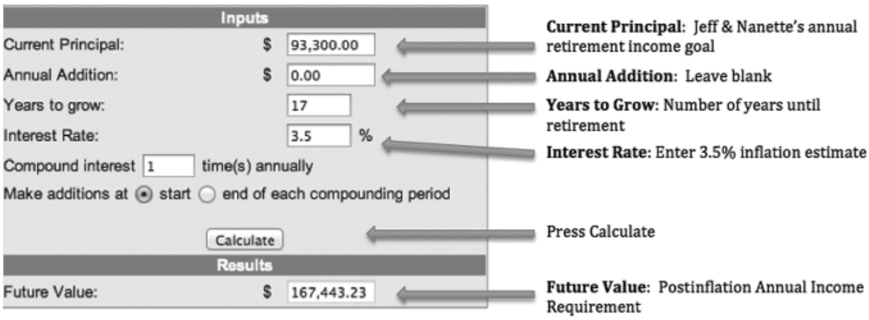

Figure 1.3 Jeff and Nanette's Postinflation Adjustment
SOURCE: www.moneychimp.com.

The Devenses figure they'll spend most of their retirement time in North Dakota. "When we get closer to retirement, we'll likely buy or rent a second home in a warmer climate, giving us an escape from North Dakota's winter months."

After researching medical insurance, Jeff realized it will cost them much more than it will for most stateside Americans. "We would have a high deductible because we haven't had enough years vested in any stateside school district, nor have we paid enough into Social Security to qualify for Medicare."[11]

Americans are required to pay 10 years or 40 quarters in Medicare taxes to qualify.[12] Career expatriates, like the Devenses, will pay higher insurance premiums if they can't accumulate the minimum requirements toward Social Security while living overseas.

Jeff and Nanette figure they can retire in 17 years. But if they want the equivalent buying power of $93,300 today, they'll need more money. If inflation averages 3.5 percent over the next 17 years, the Devenses will require $167,443 per year (see Figure 1.3).

Now It's Your Turn

The first step toward planning your retirement is realizing what you spend today. Every healthy business documents its income and expenditures. Those not doing so head for bankruptcy. Government

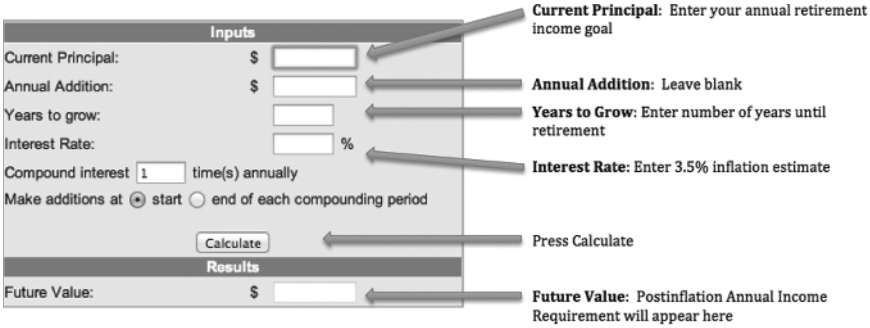

Figure 1.4 Your Postinflation Adjustment
SOURCE: www.moneychimp.com.

assistance doesn't intervene to save the grocery store or restaurant with the unbalanced budget. But many expatriate family households come to expect just that. Unfortunately, no such crutch exists for social pension noncontributors. Many expatriates sink or swim based on their own strokes.

After figuring out what you spend each year, determine how many years from now you want financial freedom. Estimate your postinflation cost of living with the calculator at www.moneychimp.com. Retirement is a journey to a foreign city. You've never been there, so you'll need a map—and knowledge of the number of steps ahead.

Take the first step now. Plug your numbers into Figure 1.4.

Notes

1. "Growing Older in America," University of Michigan Health and Retirement Study. Accessed April 30, 2014. http://hrsonline.isr.umich.edu/sitedocs/brochure/HRS-brochure.pdf.
2. "How Much Do You Need to Retire Well?" *Canadian Business*. Accessed April 30, 2014. www.canadianbusiness.com/investing/how-much-do-you-need-to-retire-well/.
3. "Couples Must Budget £600,000 for Retirement," *The Telegraph*, April 26, 2010. Accessed April 30, 2014. www.telegraph.co.uk/finance/personal finance/7635532/Couples-must-budget-600000-for-retirement.html.

4. "Resources," ASFA Retirement Standard. Accessed April 30, 2014. www.superannuation.asn.au/resources/retirement-standard.
5. Interview with Billy and Akaisha Kaderli. Telephone interview by author, February 2, 2014.
6. Suzan Haskins and Dan Prescher, *The International Living Guide to Retiring Overseas on a Budget: How to Live Well on $25,000 a Year* (Hoboken, NJ: John Wiley & Sons, 2014).
7. Interview with Shane Brierly. E-mail interview by author, June 30, 2013.
8. "Inflation—Current and Historic Inflation by Country," Inflation.eu. Accessed April 30, 2014. www.inflation.eu/.
9. Ibid.
10. Interview with Ben Shearon. E-mail interview by author, June 20, 2014.
11. Interview with Jeff Devens. Interview by author, September 15, 2013.
12. Medicare.gov: Official U.S. Government Site for Medicare. Accessed April 28, 2014. www.medicare.gov/.