Financial Puzzle List

1. **Types of Spending:** Includes day-to-day costs as well as one-time and irregular expenses:

   a. Recurring Living Expenses: While you won't accurately know what these expenses are until you live in your chosen location for a while, you can use your *International Living* resources to obtain reasonable estimates for these costs. The overall living expense estimates commonly include the following (except healthcare, which is often called out separately):

   i. **Housing:** This is usually the single biggest monthly expense—unless you purchase a home, in which case it is usually a lump-sum expense (unusual to obtain a mortgage in most other countries) followed by smaller recurring expenses (property taxes, maintenance, etc.). Whether renting or owning, this category should include any utility-type expenses (electricity, gas, water, cable, internet, telephone). Your timeline may provide for renting when you first relocate, then purchasing a home at a later time. The obvious advantage of home ownership if you find that "rest of our lives" location is that you eliminate rent thereafter, effectively eliminating the risk that you later get priced out of your ideal home because too many others come to discover that your location is extremely desirable as well, driving up rental rates.

   ii. **Food:** Includes everything you would be consuming at home for meals.

   iii. **Entertainment:** Restaurants, movies, theater, sports and similar events.

   iv. **Local travel:**
      1. If you own vehicle: gas, insurance, repairs.
      2. Public transportation: buses and taxis.

   v. Items often outside the typical overseas location budgets reported by *International Living*:

      1. **Healthcare:** This is a complicated topic where the best choices depend on your age and health concerns, the country, availability of insurance plans, and so on. Fortunately, healthcare is far more affordable almost anywhere overseas than in the U.S. You will also want to consider whether to maintain your Medicare coverage once you start it, as a complement to any overseas insurance.

      2. **Taxes:** If you are likely to owe them, you better plan for them. The good news is that most people who have Social Security and modest to moderate earnings from investments and savings are unlikely to owe much if anything in income taxes. That's because Social Security benefits are subject to preferable tax treatment that results in little or no tax due if you don't have much in other taxable income.

      3. **Recurring home country costs:** These include storage facilities for items that you don't either liquidate or take with you when you move. Another cost to consider is a mail-forwarding service if you want the convenience of maintaining a local address in the country you are moving away from.

   b. Non-Recurring Living Expenses: These include one-off expenses like the purchase of a home. The purpose of the following brief list is to provide some ideas that hopefully trigger a reminder to you of an expense you are aware of but might not have thought of yet.

i. **Relocation:** Includes at a minimum the flight to your new location, any excess baggage or shipping, and procurement of visas when you make your move. Pre-relocation scouting trips can be added in. To the extent you don't ship many belongings, you may need to allow for local purchases. While many rentals can be found fully furnished and stocked with the basics for a household, others may not. You likely will need property deposits for rentals as well.

ii. **Non-local travel:** This includes any trips back home (and/or trips you may pay to bring family out to visit) as well as other travel in the region or elsewhere in the world.

iii. **Wedding(s):** Will you be paying for (or contributing to) a family member's wedding at some point down the road?

iv. **Education:** You may be paying now or in the future for someone's college or other education.

v. An around-the-world cruise on your bucket list.

Again, this brief list is far from exhaustive and is intended to help you think of any special financial items that could have significant impact for you.

2. **Sources of Funds to Pay for Spending:** For the prior section on "Spending," the quick and easy approach was to use the guidance provided by *International Living* in its publications. For this next section, you need to look to your own set of circumstances to identify the needed information.

a. Earnings and Other Income:

i. **Earnings from work:** Perhaps you have an internet-based business you can continue after you move, or you may start a business in your new location; this could be as simple as offering tutoring in English or as complicated as opening a bed and breakfast or restaurant.

ii. **Social Security benefits**: The key decision is at what point, between ages 62 and 70, to start claiming for retirement benefits. As you should know by now, this is a complex decision. That said, here's a high-level guidance. For singles, try to find a way to make it until 70, unless you have an extremely short life expectancy or you are financially destitute. For couples, also try to make it to 70. The first compromise on this strategy should be to take the lower potential benefit earlier; the person eligible for the highest benefit should always try to make it to 70, in order to maximize the survivor benefit.

iii. **Voluntary withdrawals and Required Minimum Distributions (RMDs) from tax-deferred savings accounts.** These are reportable as taxable income in the year in which withdrawn from these accounts. As of 2020, RMDs apply beginning in the year you turn 72.

iv. **Pensions:** These vary so much that it is impossible to generalize about them here. If you are eligible for one, this is a good time to look into the terms (when it starts and the monthly payment amount). Keep in mind that many pensions do not adjust for inflation like Social Security benefits do. This means that the amount you start with decreases in purchasing power steadily over time with inflation, in which case it will be less valuable to you as you age.

v. **<u>Regular income from investments such as property rentals:</u>** For instance, you might own a home and choose to rent it out instead of selling it after you relocate overseas. Consider only the net income (or loss) after all anticipated transaction costs.

vi. **<u>Earnings from investment interest or dividends:</u>** If these earnings are not zero after inflation, you can always use any such "excess" earnings down the road to justify an increase in your spending budget.

vii. **<u>One-off and irregular gains (or losses):</u>**

1. Gain (or loss—which would effectively be "negative" income or earnings) on the sale of a property or business (after costs to prepare for sale, agent commissions, tax on any net gain, etc.).
2. Anticipated inheritance.
3. Other: you may have any number of other potential hard assets (art, antiques, a classic car, etc.) that might be converted to a financial asset like savings.

viii. **<u>Any other income streams you may have:</u>** income from a trust, royalties, and so on.

b. Regular Savings: I recommend that you set up your budget plan to use "Regular Savings" as the active line item for settling up your gains and losses at the end of the year somewhat as follows:

i. Start the first budget of the first year in your plan with your "Beginning Savings Balance."

ii. Calculate the difference between your total income (item 2-a, above) and your total spending (item 1, above). If it is positive (i.e., you spend less than all your earnings and other income), then add this to the Beginning Savings Balance to get the End Savings Balance (which is the Beginning Savings Balance for the next year). If the difference is negative (i.e., you spend more than all your earnings and other income for the year), then subtract this from the savings to get the end savings.

c. Deferred-Tax Savings (IRAs, 401k's, etc.): Track these savings separately from Regular Savings. Any earnings that occur within such accounts are not taxable until withdrawn, so they stay in these accounts.

i. Start with the beginning balance.

ii. Add any earnings, since these are not taxable until withdrawn.

iii. Subtract any voluntary withdrawals.

iv. Subtract any RMDs (Required Minimum Distributions, required beginning at age 70½ before 2020, and at age 72 thereafter).

v. The result is an end balance for deferred-tax accounts that becomes the beginning balance for the next year.

What have we missed? This list is far from exhaustive and meant to get you thinking about the other important financial pieces that apply to your life. Just because it isn't called out in the foregoing doesn't mean that it won't be an important puzzle piece for you.