

# EXPATLAND FINANCE



## Introduction

The cost of living is of major importance to you and your family in looking at whether you will be better off in Expatland.

The cost of living in different parts of Expatland varies widely and is affected by many factors beyond your control. Just one of these for example is, say, the effect of tax rises in Expatland.

Those countries in Expatland that may have higher national debt as a percentage of GDP might seek to raise taxes shortly after your arrival.

This tax rise – whether indirect or direct – may affect your cost of living in a very short period of time.

It is therefore important for you to prepare a budget.



## 5.1 Preparing a Budget

One of the key action items when venturing into Expatland is to prepare a budget.

If you arrive in Expatland without full-time work, you should ensure that you have made provision for the cost of living until you secure full-time employment. Remember the old adage that 'the more free time you have, the more time you have to spend money'.

Costs in many parts of Expatland may be cheaper than your home country for some items such as staple foods, but other costs may be much higher, such as alcohol or other discretionary goods.

Delays in finding full-time employment can quickly erode capital buffers designed to cover the cost of living. We have seen situations where clients lose employment in Expatland, and rather than returning home, stay in Expatland looking for alternate employment.

This strategy has some merit, as it may be easier to find employment by remaining in the market looking for work rather than looking for work from your home country.

Nonetheless, the cost of remaining in an expensive city such as Hong Kong (where education expenses for children are relatively high) has to be evaluated against the cost of returning to your home country.

Thus having a provision for the cost of living during your entire period in Expatland makes sense.

If you have no separate provision established, then working towards having a six-month cost of living buffer to remain in Expatland with no employment income is wise.

When you are preparing your budget, consider these points:

- What are the additional expenses that you will be expected to incur while in Expatland? For example, school fees for your children or more significant medical costs.
- Will your spouse transition from working to not working? If your spouse or partner has more time on their hands they are likely to spend more money.
- If the tax rate is lower in Expatland than in your home country, then it is likely there will be much more cash floating around and this may lead to a temptation to spend more on expenditures like travel and entertainment.
- Understand the weekly cost of your consumables as lower costs in some areas may be outweighed by higher costs in others. For example, in some parts of Expatland you will need air conditioning running all year round and this has to be budgeted for.
- When moving to Expatland clearly understand what relocation costs will be covered by your employer and what costs are not. Depending upon your employer you may be able to negotiate cost of flights to Expatland, importation of furniture and belongings plus allowances for in-country costs such as a maid.

Only when you have fully understood the complete cost of living can you understand the financial benefit potential of moving to Expatland.

Let us now examine some of the main cost items ahead of you in Expatland:

## Accommodation

Will your employer cover the cost of accommodation? Is there a specific allowance in your salary package for this item? If so, then how realistic is the allowance you receive in Expatland?

Some parts of Expatland commonly require you to pay rent in advance – sometimes up to six months – when you first arrive. So although your employer may cover you on a 'monthly' basis, you may have to fund the initial payment or security deposit and this may require some out of pocket funding in advance. It is important to be clear about that.

Similarly, if you are not renting furnished accommodation, you may need to buy furniture and appliances. Depending upon the location in Expatland, this can be expensive. An alternative is to import your own furniture from home.

Other costs associated with accommodation include utility bills and property taxes. While sometimes these costs can be lower in emerging countries than in your home country, it is worth understanding issues around consistency and access to infrastructure services, internet, cable TV, gas and other costs. In some parts of Expatland, service providers of the utilities are privately owned and costs can fluctuate widely.

## Car

Depending upon the location of your employment, you may not require a car in Expatland.

As such, budgeting for this expense may not be needed. However, if public transport is inconvenient or you want to have the freedom to travel as you wish, then the cost of buying or leasing a car has to be considered.

Some parts of Expatland, such as Singapore, impose significant costs for using private vehicles. Importing your car may be an option worth considering.

It is also important for you to factor in other costs, such as insurance, fuel and maintenance along with the initial challenge of obtaining a driving licence as most parts of Expatland will not allow you to continue driving on your home country licence.

## Education

For expats travelling with children, this is usually one of the more significant expense categories. These expenses refer to all school fees from kindergarten to university.

In some locations in Expatland you will be required to fund a bond for your children to secure them a place in a private school. Other parts of Expatland will allow your children to use local schools at little or no cost.

Make a note to research how effective the local free education is, because if attendance at a local school is not comparable to your home country education system it may be hard for children to fit into the education system in their home country.

For this reason, in key markets many expats prefer private school education. University costs can be significant and readers with teenage children close to finishing school might consider if it is appropriate for children to return to home country universities.

Regardless of your location in Expatland, funding secondary and higher education expenses is something that should be budgeted for so that you are not confronted with expenses all at the same time.

## Food

The cost of buying brands you are familiar with in Expatland is generally higher than local brands as these have been imported in many cases.

Hence it may be worth testing local produce to keep control of this item on the budget.

## Medical and Health Costs

As discussed earlier, having the right medical insurance in place in Expatland is essential. It is very important that you are aware of the standard of the local healthcare system and if you qualify as a non-citizen to use it.

Keep in mind that costs vary widely throughout Expatland for both pharmaceutical and medical services.

## Leisure and Entertainment

This item covers leisure expenses, generally for the amusement and relaxation of you and your family. It may cover enjoyable activities such as movie tickets, trips to amusement parks or exhibitions and the like.

Generally if you have a maid in Expatland, you will have more free time and this can often lead to higher entertainment and amusement expenses.

## Restaurants

This is an area that most expats spend more on in Expatland. The existence of more after-tax salary tends to lead to higher spending in both family restaurants and fast food outlets.

Our suggestion is to do your research and look for those restaurants that offer you a reasonably priced night out, particularly as you are likely to be eating out much more often.

## Liquor and Tobacco

In certain parts of Expatland, such as in the Middle East, where alcohol is prohibited in public areas, spending on these items is almost zero.

Having said that, some parts of Expatland allow alcohol consumption in expats' residential compounds. In the Middle East, some of the larger expat compounds have a bar and they usually serve home-brewed alcohol.

Some of our client Expats have regaled us with stories about how they learned to make alcohol. Thus your cost in these areas may be very little. However, in some parts of Expatland, governments may be attempting to limit the use of alcohol and cigarettes and thus prices may be artificially higher. In other countries, like Singapore, alcohol is much more expensive than in the West.

### Public Transport

While not usually an exorbitant cost, it is nonetheless important to understand how you and your family will get to and from work and school. The cost of public transport or taxis can soon add up.

### Credit Rating

In some parts of Expatland, you will not be able to obtain credit facilities without a credit rating. Therefore establishing a credit rating when you move to Expatland is essential if you wish to apply for a credit card or loan.

For example, in the US your credit rating will impact your ability to borrow and the rate of interest you will pay. All parts of Expatland have their own procedures to follow in order to establish a credit rating. Indeed in some parts of Expatland loans to certain types of visa holders may not be available.

It is worth undertaking a review of the rules around credit and loan facilities before your arrive. Retaining your home country credit cards and debt facilities is often advisable until you have assessed the viability of obtaining such facilities in Expatland. It is generally the case that an expat who is not registered with the government in Expatland and who does not possess some form of tax file number or social security ID will find it impossible to obtain credit in Expatland.

When you are registered with the relevant government authority – in some cases city, state and federal authorities – opening a bank account is the next step in establishing a credit rating.

It may be the case that having a history with a bank in your home country facilitates you to form a relationship with the same bank in Expatland.

In other cases, when you initially open a bank account the transactions you can undertake may be restricted, such as in the US. Remember that credit cards are useful for covering short-term expenses, but they can quickly become a debt trap.

In other parts of Expatland, different banks have slightly differing bank account security measures. For example, some may make you wait a period of time before clearing an overseas cheque.

Therefore, if you are receiving a foreign payment by cheque it may be necessary to establish cheque clearing times. In other parts of Expatland, you may have to make a minimum opening deposit to establish your bona fides.

Other banks require you to establish a term deposit account and then will give you a credit card. The deposit account is held as security until you have established that you are a good customer.

After a period of time this deposit is then released. Keep in mind that using your credit card to pay for small items often helps you to establish a good credit rating.

Some business clients find that establishing merchant facilities usually requires placement of a security deposit.

For those expats who are accustomed to reasonably flexible home market banking systems, this can come as shock. It can feel as if it is a privilege to have a bank account in some parts of Expatland!

As noted earlier, if you keep your credit card from your home country and although you may have changed your mailing address, you should be aware that on occasion your transaction may be declined as you are overseas.

If you are offered credit cards in Expatland, consider accepting them as a back-up source of funding rather than an essential part of day-to-day living.

In Expatland you might consider using a local card with a small credit balance to buy goods online.

Generally speaking, expats arrive in Expatland with credit cards from their arrival countries that have higher credit limits.

This may mean that use of a card with a higher credit limit offers the opportunity for others to access more of your funds fraudulently.

## 5.2 What are Exchange Rates?

An exchange rate is the price at which one currency can be bought or sold and which is expressed in terms of another currency, often called a foreign exchange rate, FX rate or rate.

All quotations are made up of two currencies:

The base currency and the terms currency. These form what is known as the 'currency pair.'

The first currency in the quoted currency pair is known as the base currency and the second is referred to as the quote currency.

A quotation shows how many units of the quote currency will equal one unit of the base currency.

### 5.3 Impacts on Exchange Rates

Against the backdrop of the ongoing trade wars, uncertainty over BREXIT negotiations, emerging market stress from the likes of Turkey and questions marks over our local economy – the Aussie and Kiwi dollars will continue to be turbulent, which depending on what side of the market you're on, will move in your favour or against you.

Other common factors impacting exchange rates include:

- Economic data releases
- Announcements on inflation
- Announcements on unemployment percentages

Movements in the exchange rate can have a significant impact on the value of your funds when moving money across borders.

It is therefore important to consider the timing of your currency exchange and what risk management strategies are available to you to ensure you obtain the most for your base currency.

Most foreign exchange providers provide value-add advisory services to their clients.

They can assist you to follow the news in the market, and their updates can provide insights into how the market is moving – we recommend signing up for their market updates and rate alerts to ensure you stay in the loop.

It's also worth seeking advice from your foreign exchange provider on the risk management tools available to you to ensure you can mitigate currency risk when moving money from Expatland to your home country.

## 5.4 Moving Foreign Currency

Exchange rate fluctuations can cause significant erosion to expat savings. Based on your personal circumstances, there are many reasons why you may need to exchange currency, the frequency by which you transact and the volume.

A currency need will typically arise from:

- Transferring life savings
- Selling and/or buying a property in your country of origin and/or Expatland
- Pensions transfers
- Repatriating income
- Investing in assets domiciled in Expatland
- Sending money home to friends and/or family

Regardless of the reason to transact, there are a number of issues to consider when moving money across borders, chief amongst these is knowing where you want to retire to and what your home currency asset base is.

When the time comes to leave Expatland and retire back to your home country, you will want to ensure you have built a savings reserve of your base currency by regularly and systematically transferring funds home.

When it comes to large transactions of this nature, that take place over extended periods of time, it is critical to consider the impact that exchange rate movements can have on your transaction. The longer the time frame between realising you will need to convert your currency, and the actual conversion taking place, the bigger the risk.

It is worth seeking out a trusted and reliable foreign exchange provider who will help you understand the current risks – the direction and extent to which the currency may head over a given period of time, trends and key levels –and provide you with tailored advice to achieve the best outcome given market conditions.

Based on the market and your circumstances, your foreign exchange provider will be able to work with you to develop a plan that includes:

- Whether to “hedge” (lock in a rate for a future date) or not
- What product to use – simple spot transaction, forward exchange contract or foreign exchange option
- When to transact given your flexibility, or window of opportunity
- At what levels to place a live order in the market to target a favourable rate or protect against an adverse move

Understanding where and when monthly expenses are incurred, and payable is essential in this respect.

## 5.5 Foreign Currency Transfer Methods

Transferring foreign currency from banks can be expensive for many expats.

For retail clients, the daily buy/sell rates set by the banks often include a cost to transact plus additional sending and receiving fees. When you are making a foreign currency transfer always try to obtain the best exchange rate you can.

We recommend seeking out first hand recommendations from fellow expats in Expatland or reading reviews on trusted review sites like TrustPilot in order to seek out a reputable foreign exchange provider. There are numerous ways of moving money abroad. Remember to do your research to ensure you get the best deal.

Here are some of the most popular methods:

## International Bank Transfers

Your home country bank may have an internet platform that allows for small transfers of funds from your home country to Expatland.

In that case, you might want to move home country rental income or investment income to Expatland to meet regular expenses.

If this is so, then depending upon the fees involved, accumulating income on a quarterly or six-monthly basis may be more cost effective than transferring weekly or monthly.

For those banks that don't allow the transfer online, then usually you can set up authorisations to voice call or fax instructions. As a guide, international bank transfers take one to two working days.

Another option is establishing a regular telegraphic transfer payment facility with your bank for a set amount. At the outset it is important to get the transaction established properly.

Some banks required a swift code or an ABA (American Bankers Association Number) or IBAN (International Bank Account Number). Whatever the requirement, your bank will be able to assist you.

The benefit of this approach is that you will not have to manually do these transfers and you can have some peace of mind that a system has been established to move home country income to Expatland.

In terms of charges, it would be normal to pay a flat fee per transaction with some form of percentage fee for the currency conversion.

Remember that transferring larger sums less frequently is cheaper than transferring lesser amounts more often.

## ATM Withdrawals

Given the improvements in technology, many expats are tempted to use their home country Visa or MasterCard's to access cash from their bank accounts back home.

While this is quick and easy, it is worth understanding the fees applicable because sometimes there can be significant fees for this type of transaction.

There may also be limits in place in terms of how much cash can be withdrawn via the ATM network.

Also please be aware that cash withdrawals from your credit card pay not only the higher interest rate from the credit card provider, but also the fee for using the ATM network – as well as a fee for the currency conversion.

Try to obtain details from your local bank of what charges will be involved when you convert your home country currency into Expatland currency through the ATM network.

## ForeignExchangeProviders

Foreign exchange providers can offer significant advantages over banks, including lower rates than the banks, and in many cases, no additional fees.

Foreign currency providers are often able to provide more competitive rates of exchange because they have access to the interbank rate and don't have the same overhead as many banks.

Generally speaking, these savings can vary from between 1-4 per cent on the exchange rate alone, and these specialists do not usually charge fees for transmitting the funds overseas.

## Risk management products to protect against currency risk

Retail banking clients are not always provided with risk management tools to ensure they are able to mitigate against currency risk.

A reputable foreign exchange provider will be able to advise you on a suitable hedging strategy to ensure you are not left at the mercy of fluctuating exchange rates.

The risk management products they may recommend include:

- Market Orders

If you're flexible with your transfer time, a market order allows you to select a rate and settle on that rate when the market hits your desired rate.

- Forward Exchange Contracts (FECs)

An FEC gives you the ability to lock in the current exchange rate for a given time frame in advance, giving you a fixed rate and known local currency amount allowing you to plan and budget well in advance of the contract settlement date.

*When seeking out a foreign exchange provider, always ensure the provider you contract with complies with the standards of international regulatory organisations, ideally in your home country.*

*Examples of these organisations include:*

- *FinCen in the USA*
- *FCA in the UK*
- *ASIC in Australia*
- *FMA in New Zealand.*

# AT A GLANCE

- Planning a budget is highly recommended.
- Have a contingency plan and a financial buffer in the event you become unemployed. Credit cards are useful for covering short-term expenses, but they can quickly become a debt trap.
- Consider credit cards in Expatland as a back-up source of funding rather than an essential part of day-to-day living.
- In Expatland consider using a local card with a small credit balance to buy goods online.
- Higher credit limit offers the opportunity for others to access more of your funds fraudulently.
- If you plan to retire in Australia, while in Expatland it may be a good idea to regularly transfer funds back to Australia. This mitigates currency impacts that may prevail at the time of your return.
- Expats whose families remain in the home country could request that part of their salary is paid in their home currency and part is paid in the currency of Expatland. This spreads the currency obligation between the jurisdictions of expenditure.

- When looking at global wealth management and currency allocation, an emphasis on your retirement country's currency should remain a focus point.
- If transferring money is essential, then best to transfer larger amounts to your home account as banks usually charge per transaction.
- Keep in mind that international bank transfers take one to two working days.
- If you use your home country Visa or MasterCard to access cash from their bank accounts back home, sometimes there can be significant fees. There may also be limits to how much cash can be withdrawn via the ATM network.
- Foreign currency brokers can offer significant advantages over banks.
- Movements in the exchange rate can make a significant difference to the value of your funds when moving money overseas. Time your currency exchange appropriately and seek out an effective risk management strategy in order to obtain the most for your base currency.