

A photograph of a desert landscape with sand dunes. A series of footprints leads from the bottom left towards the top right, receding into the distance. The sand is a warm, golden-brown color, and the lighting creates soft shadows, emphasizing the texture of the dunes.

8

STEPS TO  
**FINANCIAL  
INDEPENDENCE**

PRACTICAL GUIDE TO WEALTH ACCUMULATION AND PASSIVE INCOME

BY DAMODHAR MATA



# 8 STEPS TO FINANCIAL INDEPENDENCE

**By Damodhar Mata**

# FOREWORD

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Life as an Expat in the UAE can be very hectic, juggling work responsibilities, family activities, coping with frustrating traffic, overflowing To-do lists, planning for this and arranging for that....

Amongst all this do you get time to think about retirement?

When was the last time you thought about it?

If you haven't thought about retirement, now is the right time, and this book by Damodhar Mata will give you all the necessary tools and motivation to plan and achieve financial independence.

In the following chapters Damodhar endeavors to simplify various financial aspects, making it easy for everyone to understand and, more importantly, put the concepts into action.

While there are many self-help books on financial success, this book is unique because it is written with a UAE resident's financial planning needs in mind.

This excellent book is the essence of Damodhar's experience as a Financial Advisor helping residents of the UAE to achieve their financial goals.

I thoroughly recommend this book to anyone who is keen to improve their financial situation – especially if they live and work in the UAE!

All the best,

Nick Henderson

Financial Services Training & Development Director

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# ACKNOWLEDGEMENT

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*To begin with, I would like to thank the God Almighty, my parents and my friend Amit, who introduced me to the idea of writing this book.*

*I would like to thank my wife Prabha for helping me with the editing of this book and my children for standing beside me throughout my career and writing this book.*

*I would like to express my gratitude to Mr. Nick Henderson - Group Training & Development Director, for writing the foreword for this book and my colleague Shuchita Udhas for her support in editing this book.*

*I would also like to express my sincere gratitude to all the people who saw me through this book; to all those who provided support, talked things over, read, wrote, offered comments, allowed me to quote their remarks and assisted in the editing, proofreading and design.*

*I also want to beg forgiveness of all those who supported me over the course of the years and whose names I have failed to mention."*

# ABOUT THE AUTHOR

Damodhar Mata is a Passionate Blogger and an Independent Financial Adviser, helping UAE residents build wealth, while protecting loss of income and assets.



He has more than 15 years of experience in the banking and financial services industry, helping his clients make wise decisions with money.

He is accredited by The Chartered Insurance Institute, UK; with Awards in Financial Planning and Investment Planning.

He is also a contributor of articles to Gulf News.

To know more about his work please visit <http://financialplanning.ae>.



# WHY READ THIS BOOK?

Information is Wealth!

What a big lie?

Information is one of the most useless commodities on earth.

We are constantly being bombarded with information from various sources like Internet, TV, Email, Newsletters, Podcasts, Radio etc...



We are being choked; with far too much information and left starving for practically useful wisdom, which can be applied to make our lives better.

Thankfully our brain preserves our sanity by deleting more than 90% of the information we receive on any day, saving only the wisdom necessary for our life.

When it comes to accumulating wealth, the most important thing that makes a difference is "**Taking appropriate, guided and consistent action**"

One can read as much as they want about swimming, they can watch hundreds of videos on Youtube, which coach on how to swim, but until and unless the individual takes action and jumps into a pool to start practicing the strokes he learnt, he will never be able to swim.

Likewise the best book in the world on Wealth accumulation is of no use to a person who reads it and fails to take the necessary action.

It remains in his cupboard collecting dust.

Please don't let that happen to this book!!

There are tons of books on wealth creation and financial independence, some of which have inspired me to a large extent.

I have provided a list of such books in the following chapters.

If there are many books already, then why do you think I am writing this book?

**While writing this book, I had only one objective in mind;**

**To give you ultra-precise actionable steps leading to financial independence and peace.**

Ask yourself....

**If you stop working today!**

## **Can you maintain the same lifestyle you are now enjoying?**

Will you be still able to afford; The house you are now living in...

The car you are now driving, Clothes, Electronics, Holidays etc...

## **If your answer is no or not sure...**

Then this guide can be of much help to you.

By reading this book you will get the essence of what I have learnt from working with hundreds of investors in India and UAE, while helping them create passive income from various sources.

You will also get the essence of my personal experience with money, investing in Properties, Stock Market, Mutual Funds and most importantly on myself.

This book is a practical guide for converting your income to wealth and earning a regular income from your wealth accumulated.

Please note that this guide does not replace expert financial advice or take into account of your particular investment objectives, financial situations, or needs.

Before acting on any recommendation from this book, you should consider whether it is suitable to your particular circumstance and, if necessary, seek professional advice.





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# THE 8 STEPS....

Of living life on your own terms..

Financial wellbeing is often mistaken with high income and wealthy lifestyle.

While the income high or low, is an essential component of financial wellbeing; what you do with that income determines, how successful you are.

Have you ever thought why; some people struggle financially in spite of a very high income?

It is because they do not understand the difference between income and wealth.

They believe that earning a high income is being wealthy and hence they sport a wealthy lifestyle.

The most common sources of income for a majority of us is the salary from an employment or profit from a business.

If your source of regular income is either salary or profits, then you are working for money.

As long as you continue working for money, income flows;

If you stop, the income stops as well...

Financial Independence is being able to meet your needs, even when you have stopped working for money!

It is when you have sufficient passive income, without having to work actively for your living expenses.

It is when your assets, including money, property, stocks, bonds and funds are working to create a passive income, instead of you having to work for money.

You may be young, or old, it doesn't matter, if you have enough assets to generate a regular and dependable passive income, enough to pay for your needs it means you have achieved financial independence.

Your future largely depends on the decisions you take while handling today's money.

It also depends on your financial habits and knowledge.



While there is no one size fits all strategy to help individuals prepare for their future, there are a few common elements, suitably classified under each of the 8 steps discussed ahead.

These 8 steps can help you prepare for a financially secure and independent future....



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# STEP ONE



# IMPROVE CASH FLOWS

## **Cash is King!**

We all have heard it so often, that it is become a cliché, but nevertheless, cash is indeed King, Queen and everything else when it comes to securing our future....

Whether an individual, a company or a country, effective management of cashflows is very important.

It is one of the most important reasons attributable to the sustenance and growth of an individual, company or a country.

To effectively manage and improve cashflows, you should;

1. Create a Budget
2. Record Income
3. Track Expenses
4. Identify surplus.

The above mentioned aspects are discussed in detail on the following sections...

# CREATE A BUDGET

*“What gets measured gets managed” - Peter Drucker.*



A Budget is the most basic and important factor in helping an individual achieving financial success.

It helps you to make the best use of the money you earn; to meet the needs of today and goals of tomorrow.

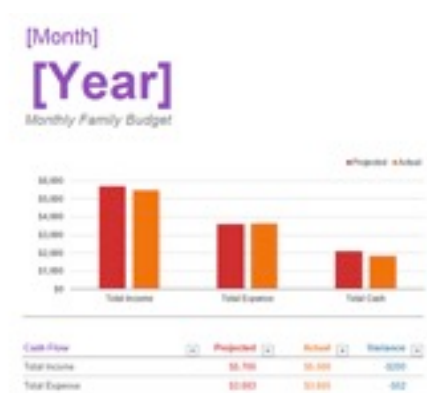
It also allows you to manage your cashflows effectively while focusing on your long term financial goals.

## **How to Budget?**

There are many budgeting tools like an excel templates, mobile applications and Desktop applications, which can help in setting up a personal budget and track expenses regularly.

The following are some of the excel templates available free to download for creating a personal budget;

Click on the following pictures, to view each budget template and choose the one, which suits you the best;



Monthly Budget Calculator		(NOV 2013)	Under/Over
Budget summary		Monthly income and expenses	
Category	Total	Category	Amount
Income	\$5,700.00	Income	Pat's Paycheck \$2,200.00
Housing	\$1,500.00	School	School Registration \$200.00
Utilities	\$700.00	Utilities	City Power & Light \$700.00
Insurance	\$200.00	School	School supplies \$100.00
Phone	\$100.00	Insurance	Security Blank \$400.00
Cash Cdn	\$200.00	Entertainment	Bookbridge Video \$7.00
Savings	\$2,000.00	Phone	ThePhone Company \$20.00
Entertainment	\$100.00	Income	John's Paycheck \$2,200.00
Other	\$0.00	Housing	Homeowner's Insurance \$700.00
		School	School of New Art \$400.00
		Cash Cdn	Homeowner's Bank \$700.00
		Savings	Homeowner's Bank \$200.00
		Phone	Comcast Manager \$40.00
		Income	Pat's Paycheck \$2,200.00
		Housing	Homeowner's Bank \$700.00
		Insurance	Homeowner's Insurance \$700.00
		Utilities	City Power & Light \$700.00



The following are mobile applications available on iTunes and Android, which can help you manage your money effectively.

## HomeBudget



HomeBudget is a complete application, which can not only help you budget your income and expenses, it also helps you track expenses easily, as you can install it on your smartphone and record expenses as they happen.

HomeBudget is available for iPhone, Android and Windows based phones. It is also available for a windows pc and Mac

I use HomeBudget to manage my budget and cashflows, and I highly recommend it to anyone who wants to budget and track expenses.

## Wally

Wally is a free personal finance application available on the iPhone and Android.

It helps you record your income and expenses to understand what happens to your money after you have earned it.





Wally lets you keep track of the details as you spend money: where, when, what, why, & how much.

## **8 steps to effective budgeting**

Once you have decided which method to use, either a mobile application or an excel sheet, or you can also budget using a simple paper and pen, the following steps will help you create your budget...

**Step 1 – Pay your self first:** The biggest mistake most of us do, is that we pay bills, expenses, loans and everything else before we pay ourselves.

When all bills and expenses are paid, there is very little or nothing left to pay ourselves.

The most common advice shared in almost all financial self help books, like Rich Dad Poor Dad & The Richest Man in Babylon is to pay ourselves first.

George Clason, in his book “The Richest Man in Babylon states that this is the cure for a lean purse....

Determine a certain percentage of your income (10% of your income is highly recommended) and setup an auto debit into a savings plan.

I know that most of you might be thinking that it is impossible to set aside 10% of your income, given your current state of affairs.

Don't be disheartened, start with a 10% provision, we are still in the planning stage, and you can always comeback to firm the percentages before your fix your budget...

**Step 2 – Determine your monthly income** When I say, monthly income, add only the regular and recurring income.

Only include actual income, do not consider income you are likely to receive or notional income.

For best results, add your last 12 months actual income from your bank account and take the average figure as your planned income.

**Step 3 – Ascertain fixed expenses** Fixed expenses are the ones which are regular and do not change in small intervals..

They are also usually the basic expenses like; Rent, School Fees, School transportation, Maid salary, Elife – Internet and TV bill, gym or club membership etc...

**Step 4 – Ascertain Variable Expenses** which are likely to change according to usage and other factors are called variable expenses..

Examples of variable expenses are; Food, Groceries, Utilities, Departmental, Personal Care, Laundry, Car fuel, repairs and maintenance etc...

**Step 5 – List and organize debt:** Make a list of all the debts like credit card(s), personal loan, car loan, mortgage, student loan and hand loans...

Organize the list in the order of highest interest to lowest interest...

For example: Credit cards always come first, as they are likely to charge the highest interest, followed by personal loan, mortgage, car loan and other loans...

**Step 6 – List your Savings:** Savings can be for short term or long term financial needs..

Short term needs could be an annual vacation, purchase of gadgets, saving for buying jewelry or buying a car..

Long term needs could be, saving to buy a property, saving for children's education or for retirement...

**Step 7 – Don't forget Charity:** Allocate at-least 1.00% of your income to your favorite charity. When you give without remorse, it creates a feeling of fulfillment, which is essential to lead a happy life..

**Step 8 – Balance Your Budget:** An ideal budget should have the following ratios;

Head	Percentage
Pay Yourself	10%
Short term Savings	10%
Bills and Expenses	60%
Loan Repayments	20%

If your income is more than your expenses, then you are very fortunate and it would be very easy for you to create and maintain a budget.

If your expenses and loan repayments are more than 80% of your earnings, then you have a serious cost cutting exercise to undertake.

Revisit all your expenses, involve your family members and identify expenses, which can be avoided or trimmed.

Consider debt consolidation to make the repayments more affordable.

Banks like ADIB, NBAD and Mashreq are offering debt consolidation loans to residents of UAE to help them better manage cashflows and save on interest costs..

You can also consider refinancing your mortgage, to take advantage of the low rates currently prevailing.

Also check if you can get a lower premium on your mortgage insurance and property insurance, because banks usually charge a fixed percentage of premium, irrespective of the fact if you are a smoker, non smoker, healthy, unhealthy, young or old....

Talk to an independent financial adviser to ascertain how much premium you will have to pay to protect your mortgage, if the premiums are lower than what you are currently paying, consider switching...



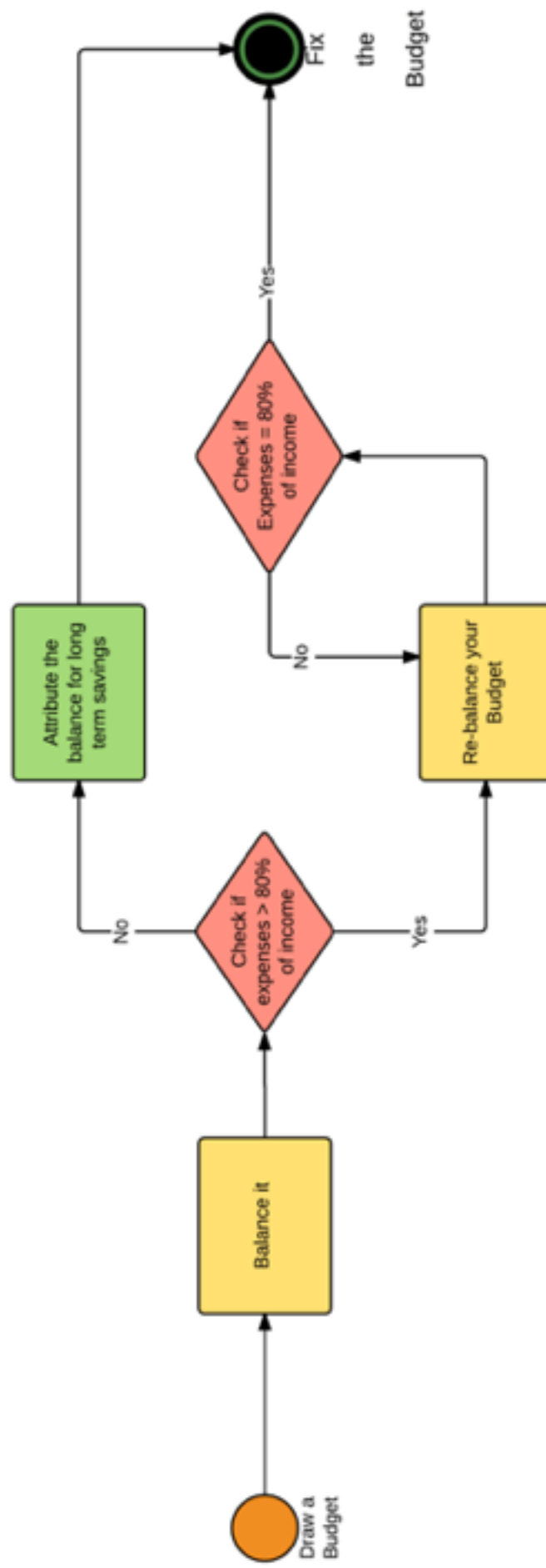
Try and reduce 5% to 10% on all variable expenses like groceries, eating out, departmental, clothing, utilities and car expenses.

There is always scope to reduce these expenses..

The flowchart on the next page explains the Budget rebalancing process.

If your expenses are less than or equal to 80% of your income, fix your budget, to start implementing from the beginning of each month.

# Budget Re-Balancing Process



## RECORD INCOME

As discussed in the previous section, it is important to identify and record all forms of income like, Salary, commission, allowance, and perks etc for salaried individuals; Profit, Commission and fees for self employed individuals.



Common sources of income could be rent, interest, dividend and royalty...

It is easy to record an income of a salaried individual, as it is directly paid to them for them to keep, while it is little difficult to record an income of a self employed individual.

Proper care should be taken to differentiate between revenue and income.

Most people think that revenue and income are same, and end up spending more than they actually earned.

Once you know how much you earn every month, the next step is to track your expenses, loan repayments and savings to ensure that they do not exceed your income.



# TRACK EXPENSES

## **Why is it important to track expenses?**

If you are not sure where your money goes or why and how you are spending, it is difficult to identify the habits you can change to reduce your expenses.

While a budget helps you set priorities and allocate your income for spending under various heads, tracking expenses identifies if the money was spent as budgeted.

Effective tracking of expenses is one of common trait of financially successful people and organizations.

Tracking expenses could be a monotonous chore for those who do not understand its potential, but for those who understand; it the basic constituent of wealth accumulation.

Use whatever means you are convenient with, to record and track expenses, on a daily basis.

Try to include all expenses, no matter small or big. Using a smart phone application, to instantly record expenses is a very good idea, as it takes not more than a minute, and because you can do it instantly, it is less likely you will forget.

If you are not comfortable with the smart phone applications, do not worry, a small notepad, that can fit in your pocket also will do.

Once you have at-least 3 months of expenses tracked, you will be surprised with the insights, they will provide you.

# IDENTIFY THE SURPLUS

Now that you know how much you make, where it is coming from, you also know how much you are spending and on what, the next logical step is to create a surplus of income over expenses.

A surplus can be created either by increasing your income or decreasing expenses.

## **How to increase income?**

While you are pursuing your day job, identify opportunities of making an additional income by a part time or a freelance gig.

There are immense opportunities if you lookout, monetize your hobby, passion or expertise.

Read books on how to increase your income, and try to implement the ideas. Some of the books that I would recommend are;

Think and Grow Rich by Napoleon Hill

Get Paid More and Promoted Faster by Brian Tracy

CRUSH IT! by Gary Vaynerchuk.

Visit [www.nabbesh.com](http://www.nabbesh.com), create your profile based on your passion, expertise or hobby, also check if any of the projects listed match with your expertise.

Start a blog or write a book, If I can, so do you...

Learn Arabic, it will be useful to increase your income

Create a plan to get promoted and to get an increment, implement the plan without delay.

Lookout for opportunities offering higher salary, once you have the offer negotiate with your current employer or move to get a higher salary.

### **How to Decrease Expenses?**

The following are some of the ideas to reduce expenses;

Check if you can find a house with lesser rent than you are now paying, even a saving of AED5000 will go a long way.

If you have a mortgage, renegotiate your mortgage interest rates, if necessary move your mortgage to a bank offering lesser interest rates.

If you have a mortgage of AED 1 Million, one percent reduction in interest rate will save you AED 10,000 a year.

Keep your car for at-least one more year than you would normally do.

If you buy a new car with an EMI of AED 2,000, delaying this purchase for a year will save AED24,000/-

Do not buy a brand new car, look for a well maintained car 3 to 6 months old and buy it, you will get it for much lesser price and with warranty and service contracts.

Check with 3 -4 insurance providers, before buying car insurance,

Consolidate credit card debt into a personal loan and do not borrow further.

Plan your travel early to get cheaper air tickets and room rent for your vacation.

If you are a smoker, quit or reduce smoking, it is not only good for your pocket, it is also good for your health.



If you have sustained without smoking for more than 12 months, you can renegotiate your life insurance premiums

Before going for grocery shopping;

1. plan
2. make a list,
3. buy only the items on the list, no matter how good the offer do not buy other items.

Take advantage of the loyalty programs like myclub by Carefour, and Shukran by landmark group.

If used properly these can help you save a lot

Plan your travel to avoid traffic jams.

Maintain your car properly, check air pressure regularly.

Use public transport when possible

Wash and Iron clothes at home as much as possible

Review your mobile plan, home tv and internet plan, gym subscription, newspaper, club membership and all other subscriptions. Reduce or avoid subscription wherever possible

Reduce or avoid eating out, home cooking is not only costs less, it is also good for your health. Drink coffee at home or at work.

Save on utilities like water and electricity, visit [www.dewa.gov.ae](http://www.dewa.gov.ae), for useful conservation tips.

Include your family and friends in the saving spree, motivate each other to spend as less as possible.

Make it a game or a challenge and try to excel each other...

Follow the above listed and many more expense reducing strategies to reduce your expenses at least by 5%.

Assuming that your monthly expenditure is around AED20,000, a 5% reduction will create a surplus of AED1000.

When you invest that AED 1000 per month for a period of 15 years, growing at 8.00%; you can accumulate AED 351,652.06.

Assuming you saved and invested AED 1000 for 26 years, you will have more than One Million dirhams.

If you plan, budget, consciously spend your money and track it effectively, you will be surprised with the amount of savings you can make.

Do whatever necessary and create a surplus, does not matter how small it is at the beginning, keep working at it and slowly you will get better for sure.

# PLAY CASHFLOW 101

Cashflow 101 is board game developed by Robert Kiyosaki, the author of the popular Rich Dad Poor Dad series of books.

This game simulates practical situations where you can practice and learn various aspects of investments, like property, stocks, expenses, income, cash flow management and achieving major financial goals.

This game is very easy to play with friends or as family with your spouse and kids above 10 years. Playing this game at home will help you and all in the family to understand the financial concepts while having a good family time.

The main objective of the game is creating a passive income, equal to your regular monthly expenses, helping you get out of the rat race or being financially independent.

Once the player gets out of the rat race, he goes on to the Fast Track, where the onus shifts to achieving his major life goal.

## About The Game

No of Players Required	:	2 to 6
Time Required	:	45 minutes to 4 hours

## Objective #1: Get Out of the Rat Race

Each player starts with a random profession like Engineer, Doctor, Teacher, Clerk, Truck Driver etc., and choosing his life goal from the various options provided.

Based on the random profession, the income and expenses are allotted to the player.

Each player begins with the inner circle of the board game called the Rat Race, depicting the real life financial struggles we all have.

He or she will continue to circle in the Rat Race until their passive income from investments exceed their total expenses.

Each player rolls a dice making them land on one of the following tiles:

Opportunity  
Doodads  
Charity  
Pay Check  
The Market  
Baby or Downsized.

A roll of dice also allows a player to advance to a certain stage where they get paid.

With each turn, players will have the opportunity to make decisions and each decision will impact their financial statement.

## Objective #2: Achieve Your Dream

Once a player has built up their passive income more than their expenses, they get “out of the rat race” and move onto the “fast track,” which is the next stage.

With each turn, he or she will have the opportunity to increase their cashflow to achieve their dream.

The first person to achieve their dream is the winner.

This game is an easy introduction to personal finance.

Many people would never have filled out a personal financial statement. This





game will show you how to fill out a personal financial statement, it also helps in learning the real meaning of Assets/Liability.

The most interesting aspect of the game is that you can win the game as a truck driver or a doctor, helping you realize the fact that you can be financially successful regardless of your current job or profession.

Cashflow game is available on Apple store and Android to be played on your Ipad or tablet.

Click the following link to know more about the game.

Apple iTunes:

<https://itunes.apple.com/us/app/cashflow-the-investing-game/id821135385?mt=8>

Android:

<https://play.google.com/store/apps/details?id=air.com.tornscreen.cfgame01>

I am starting a cashflow game club shortly in Dubai, where readers can play with each other to understand the financial concepts better.



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## STEP 2

### Establish Short Term and Long Term Financial Goals.

Establishing challenging but practical financial goals puts you in charge of your money and your life.

This helps you understand your financial priorities; helping you decide where you want to be financially at a certain age.

It helps you prepare for the expected and unexpected financial events of your life.

### **How to set your goals?**

We have heard and read enough about effective goal setting, some would have also attended trainings and seminars about the same, but still we find it difficult to pursue and achieve our goals.

The reason why we are unable to achieve our goals is because; we do not set up an action plan, helping us achieve our goals.

I recommend the following strategy while setting financial goals

Think on Paper, write down all goals

Use the services of a financial advisor in setting up a financial plan in line with your personal goals.

Be specific,

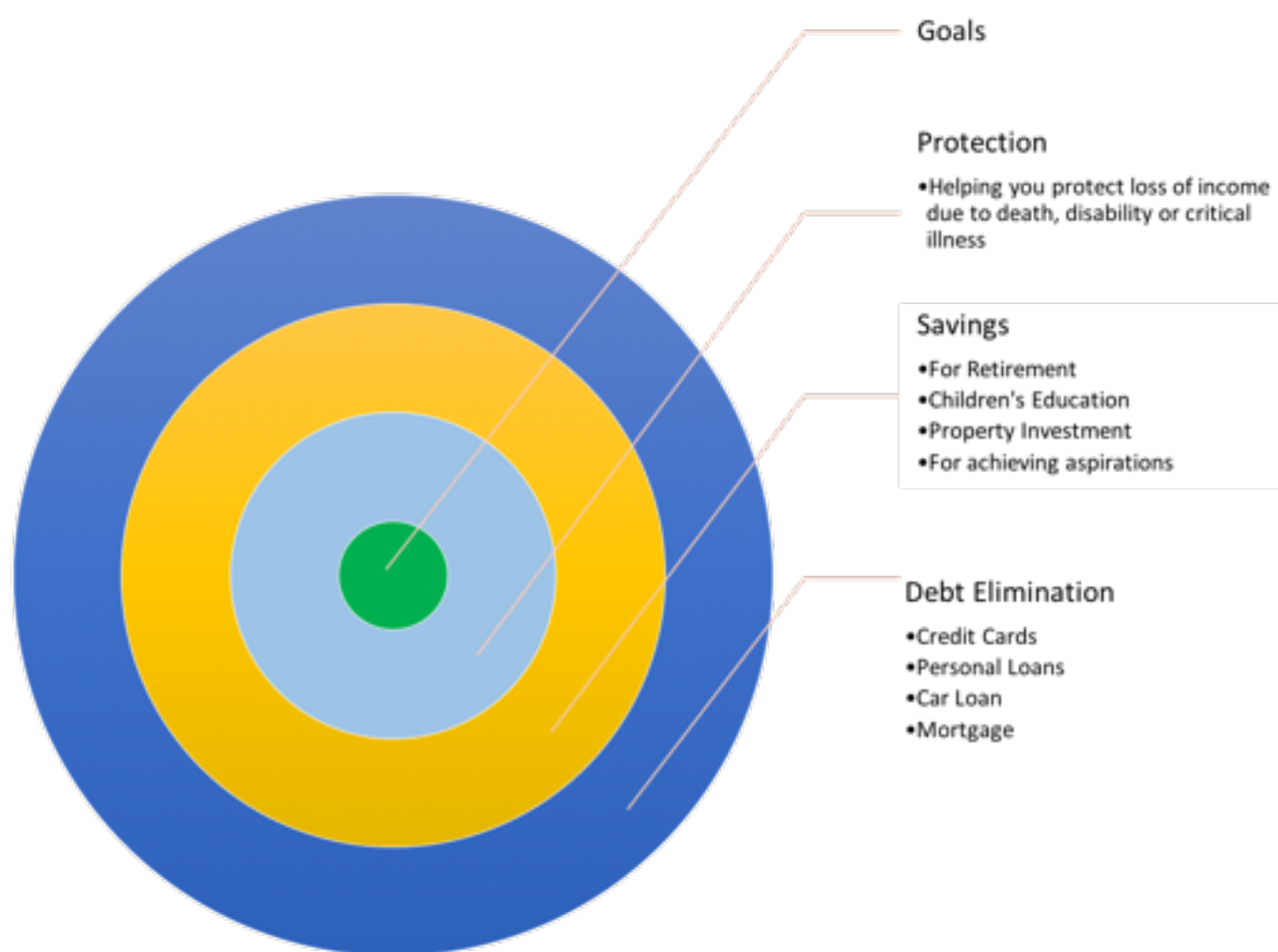
Be realistic, Keep each goal simple -

Breakdown larger goals into small and multiple sub goals

Set a specific timeframe in terms of months, not in years.

Fix a Dollar / Dirham amount for each goal and sub goal.

The following picture tries to highlight the aspects of a financial plan with goals for protection, savings and debt elimination.





# HIRE A COACH

**If Sachin Tendulkar needed Ramakant Achrekar and Usain Bolt needed Glen Mills what makes you think that you can do it on your own?**

Hire an Independent Financial Advisor as your financial coach, who can understand



your current financial situation, cashflows, needs and future goals to help you setup a robust financial plan.

Once the plan is setup he should also help you implement review and manage the plan effectively to make sure it stays in line with your goals.

Do all the due diligence necessary before choosing the right financial advisor, the following ideas will help you choose the right one.

## Qualities of a Good Financial Advisor

A Financial Advisor should be a good leader, and not the typical salesperson. He should be a good listener, if he does not understand your goals, how will he help you achieve them?

He should have good communication skills, if he cannot communicate well, how will he motivate you do get out of your comfort zone and take the necessary action?

A good financial advisor should be available for his clients, a person who does not answer calls, or does not return calls can never be trusted.

He should educate his clients to help them take the right investment decisions at the right time, hence he should be well versed and update about the markets and techniques.

He should be qualified, In UAE certification from CII UK is considered as a good qualification, check if your financial advisor is qualified enough to advise you.

He should be experienced, you don't want to be a guinea pig; or a training ground do you?

He should put your interests ahead of his.

No doubt he is trying to make a living by helping you achieve your financial goals; but he should not take advantage of your trust.

He should be a part of a larger organization, to ensure continuity if he chooses to move and to be able to negotiate better terms and service from the providers.

He should have a good support team, if he is a one man army, he cannot do justice to your relationship.

He should be open to discuss his investment strategies, explain the charges and pros and cons.

He should be able to exactly explain, what he plans to do with your money.

At the same time, the planner should also be prepared to steer your investments in a different direction; if in case the first plan doesn't work out as expected, or market conditions don't coincide with the plan.

Finally, a good financial planner should not panic when the markets go south, he should be confident enough to handle the situation well and should be able to explain the need for remaining calm and take the right decisions.

Avoid advisors who are always trying to sell, without considering your goals or needs.

Be very careful in choosing your financial advisor, by obtaining the necessary information like his experience, about the company he represents, and his testimonials from his satisfied clients.

After obtaining the relevant information from the prospective financial adviser, do your own due diligence by referring to his LinkedIn and other social networks to cross verify the information provided.

Most of us choose to sign up for an investment / savings policy without setting up a financial plan, which may not be the right approach.

It is important to invest in a policy which fits into your larger financial plan; helping you achieve your financial goals, instead of investing in ad hoc investment plan.

## INCLUDE YOUR SPOUSE



Share with your spouse the idea of setting up and implementing a plan to achieve financial independence and peace.

Have a healthy discussion about your future goals, cashflows etc.,

If your spouse is also working; seek concurrence on financial decisions, which require joint investments.

Meet the financial advisor together and allow your spouse to clarify all the questions he or she has about the plan.



It would be very difficult to implement an effective financial plan without voluntary support of your spouse, hence his or her involvement is important for financial success.



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## STEP 3

### Protect the Downside

Protecting loss of income and assets is one of the most important steps, on the journey to Financial Independence.

Our income could stop temporarily or permanently due to various reasons, and when it does, it can have dreadful effects on an individual and his family.

Temporary loss of income could be because of a job loss, emergency back home, immigration to another country or return to home country, and this can be managed with the help of emergency savings.

This aspect is discussed in detail in chapter 5.

Permanent loss of income due to Death, Disability or Critical illness can create huge financial setbacks making it difficult for the individual and those dependent on his or her income.

We will discuss in detail, the solution to loss of income in the following sections;

## **Loss of income due to Death**

Life Insurance is perhaps the simplest answer to a dreadful question; how will your family manage its finances, if you were to die today?

While no one wants to think about this subject, you really cannot avoid this if you have people, who are financially dependent on you.

There are many types of Life Insurance in UAE, the basic purpose of all type of plans is to provide lump sum cash to your family, in the event of your death, helping them secure their future.

Proceeds of Life Insurance are usually used to cover the following;

- Repatriation and Funeral Expenses of the deceased
- In countries which levy estate taxes, Life insurance is a wonderful tool to save the estate of the deceased
- To replace your regular income for the daily living expenses of the family
- To clear outstanding loans like mortgage, credit card, personal loan, car loan etc...
- To fund children's education, marriage

- To ensure peaceful retirement of spouse
- To ensure business continuity, if the insured is a business owner
- To establish a corpus for a charity, if the insured supported the charity organization
- And many more....

While you continue to strive to create a strong financial foundation for your family, your life insurance serves as a solid base of your financial pyramid, on which other investments like property, saving for education, retirement and liabilities like mortgage, car loan or personal loans can comfortably rest upon.

## **You should consider buying Life Insurance if;**

### **You are Single**

While you are single you may not have a spouse or kids dependent on your income, you may have a moral obligation to support your parents or your younger siblings, who may not have started earning yet.

In the event of death, you would not want your parents or siblings to bear your debts if you have any.

While you are young and healthy, you can benefit from bigger insurance benefits at very low premiums, which continue to be low for the term of the insurance, allowing you to focus on other financial commitments as you grow older.

### **Newly Married**

Marriage brings together two individuals who agree to share their happiness and sorrows along with the financial commitments of the family.

If both partners are working they plan their future based on joint incomes and may borrow to buy a cozy apartment, bigger car or a luxury holiday.

God forbid if one of the partners dies, the surviving spouse's life is devastated due to grief and huge pressure of having to clear the debts on his / her own.



## **Married with Young Kids**

Both spouses in many families in UAE earn to make ends meet, and if your family is one of them, both of you should consider buying life insurance at the earliest.

If one of you were to die, then the surviving spouse will be left with young children, half or less income to;

- Pay the bills
- Fund the education
- Clear the debts,
- Along with additional expenses of baby sitting
- And probably repatriation to the home country

Even if you are the sole bread winner of your family, you must still consider insuring the life of both partners, as your spouse makes vital contributions like child care, cooking for the family, managing your house and other important chores.

In the event of his / her death, you would be left with young kids, and lesser time to manage the chores and earning a living.

Proceeds from a life insurance will help you to an extent to spend for a full time nanny, cook, maid, and enabling you to look for a job which may allow you to spend more time with your kids.

## **Single Parent**

As a single parent, you play the roles of a father, mother, cook, friend, driver and many more.

You would be surprised to know that many single parents do not have life insurance, and even if they have, they do not have the adequate life insurance to address the financial needs of the children if they are no longer alive.

## **Married with Older Children**

Your children may have finished college, and your commitments like mortgage might be paid up, you still need life insurance, to provide for your spouse, who may outlive you by 20- 30 years, thanks to the medical advancements.

If your savings are not adequate your surviving spouse may have a difficult time in maintaining the current lifestyle, or might have to be dependent on your children, who are about to start their own family.

### **You are retired**

Many countries levy up to 40% as estate taxes, a life insurance plan can enable your heirs to claim their inheritance without having to sell the whole or the part of your estate.

In case you have not saved enough to leave a legacy, a life insurance plan is cost effective option to create a legacy to your heirs, and providing for your surviving spouse.

### **If you are a Business Owner or Partner**

As a business owner or partner you are not only responsible to provide for your family, you are also responsible for the continuity of your business, in the event of your death, because many employees, co-owners and their families will also get affected financially if your business has to close down in case of your death.

# TYPES OF LIFE INSURANCE

IN UAE you can get Life Insurance in 2 forms;

Term Life Insurance or Whole of Life Insurance

## **What is Term Life Insurance?**

Term Insurance policy is the simplest and the most affordable form of income and asset protection. It aims to provide an agreed cash lump sum, during the term of the plan in the event of death or diagnosis of one of the critical illness covered in the plan.

## **What is Whole of Life Insurance?**

Whole of Life Insurance, as the name suggests, provides life cover for the whole life of the insured. In addition to life cover it also includes investment, which accumulates a cash value over the life of the plan. This cash value is one of the important elements of whole life insurance.

In UAE most whole of life policies are unit linked and they also offer the most important critical illness benefit for the whole of life of the insured.

Such policies were designed to address the short comings of a term insurance. The biggest challenge with term life insurance is that it offers cover for a fixed term, usually upto 70 years.

If the insured dies after the term ends, the beneficiary does not receive the death benefit nor does he get back the premiums paid; because the insured did not die during the term.

All the premiums paid into a term insurance plan are an expense and the money has no chance to comeback.

Term Insurance can be compared to a rented house, where you can live as long as you pay rent, if you stop paying rent, you can no longer live in the house.

When you leave the house you do not get back the rent you have paid.

Whole of life plans can be compared to a own house on a mortgage, where you pay the mortgage for a certain period, once the mortgage is paid the property is yours.

When you sell the property you can expect to get more than what you have paid for it, similarly a whole of life plan pays out a cash surrender value, when you feel that you no longer need cover and surrender the plan.

## **Difference between Term Insurance and Whole of Life Insurance**

### **Cover Term**

A whole of life plan aims to provide protection for the entire lifetime, while the term plan aims to provide protection for a specified period of time (e.g., 5, 10, 15, 20, or 30 years) at an affordable cost

### **Cash value accumulation**

Whole of life plan accumulates a cash value, which can be withdrawn partially or fully. Term Insurance does not accumulate cash value, premium paid is written off as expense.(Like Car Insurance)

### **Flexibility**

Whole of life plan is very flexible as the cover amount or premium can be increased or decreased and premium holidays are allowed.

The amount and the benefits are fixed throughout the life of the term assurance, no premium holidays are allowed.

### **Optional Riders**

On a whole of life plan, living benefits like hospitalization cover, Long term care, Family Income Benefit, and dismemberment cover can be added as riders, along with Critical illness cover and Permanent Total disability, while critical Illness Cover and Permanent total Disability cover can be availed as riders on Term Assurance

### **Purpose**

Whole of Life plan is used for long term insurance needs, like family protection or personal life cover. It is preferred by business owners / partners as Key Man Insurance to protect their business, as a retirement age for partners or owners cannot be defined.

Also preferred by young people, who are looking for a long term cover, to protect against loss of income due to death, disability and critical illness.

Used widely for estate planning, and by investors having multiple property investments and mortgage with terms more than 20 years

Term Insurance is typically used to cover mortgages, business loans, or time defined goals like children's education or marriage, for a term less than 20 years.

It is highly recommended for people who are older than 40 years and want to supplement an existing, whole of life plan.

### **Market Fluctuations**

The performance of a Whole of life plan is based on market linked investments, hence expert advice and regular review is required to obtain the desired results from a whole of life plan.

The Term insurance has no investment options, hence does not need a regular review to maintain the term assurance plan.

### **Options Available**

The best whole of life products available in UAE are; Zurich International Life's Futura, Metlife's Future Protect, and Salama's Hyat Plus.



Zurich international Life's International Term Assurance, Friends Provident International's International, Protector Middle East and Hemaya from Salama are some examples of good term insurance plans available in UAE.

# CRITICAL ILLNESS INSURANCE



UAE is home to a relatively young population, predominantly expat, who are here for the tax-free income, better living conditions and unsurpassed infrastructure.

The young population is not only attracted to the good things of UAE, but alas is also affected by the evils like excessive Smoking, Drinking, stress and Obesity.

Smoking, Stress, Junk Food and lack of exercise are causing heart diseases in UAE 15 years earlier than western countries.

2011 UAE health statistics show that 38% of the deaths in UAE are caused by Cardiovascular diseases, followed by External causes like accident, suicide and injury at 17 % and Cancer related Deaths at 16 %.

While these statistics are alarming, they fail to highlight the fate of the survivors of these dreadful diseases and their struggle to make ends meet.

Most of us fail to consider the financial implications of surviving or continuing to suffer from a critical illness like Heart Attack, Cancer, Stroke etc.,

Advancements in the medical professions have resulted in vast improvements in survival rates following critical illnesses.

While this progress is much appreciated, it has resulted in millions of previously self-sufficient individuals struggling to meet their financial commitments, denting their confidence and crashing their dreams.

### **Is there a solution to this?**

Leading insurance providers like Zurich, Salama, Friends Provident, Metlife offer wonderful plans that cover as many as 36 critical illnesses.

These are international providers and the plans they offer are portable, so one does not have to worry, if they would be covered if they choose to return to their home country.

## **Critical Illness Insurance**

Critical Illness Insurance aims to provide a Cash Lump sum, if the insured is diagnosed with one of the illnesses defined in the policy conditions, assuring Financial Peace of mind.

The following video was on Youtube and it clearly explains the importance of critical illness insurance;



The claim procedure of these plans are quite simple and does not involve in submitting bills for claims.

If an approved Medical Practitioner certifies along with relevant medical reports that the insured is diagnosed with a certain critical illness, the claim is paid by the insurance companies.

Any resident of UAE can avail a Critical Illness plan, for as low as 100 Dirhams a month, and protect themselves from the financial disaster due to a serious illness.

Some of the ailments covered by Critical Illness Plans in UAE are;

- Heart Attack
- Cancer
- Stroke
- Kidney Failure
- Liver Failure
- Loss of Speech
- Loss of Eye sight and many more..

While Critical Illness Insurance can't stop death or serious illness, but it can make dealing with the consequences a lot easier.

Many of us already insure our homes, our pets and even our fridge, freezers and mobile phones – so why not insure ourselves?



# MEDICAL INSURANCE

In current times medical costs are sky rocketing, and not having or having inadequate amount of health insurance cover can prove to be a huge financial disaster. If an individual is unable to afford proper health care it could lead to poor health.

## **What is Health/Medical Insurance?**

It is a Promise to;

Pay the bills in case of accidents, emergency treatments or regular medical consultations either as inpatient or outpatient

Insure the coverage of specific medical services offered through specific network of hospitals, clinics, diagnostic centers and pharmacies etc.

## **How Medical Insurance in UAE Works?**

The Client Pays a Premium or fee to be enrolled in the correct plan based on his/her needs.

The Insurance Company provides cover and Pays the balance, after client has met the deductible and pay the Co-insurance (if any)...

## **Understanding Key Health Insurance Terms**

The following aspects have to be planned before choosing the right plan;

**In-Patient:** The care of patients whose condition requires admission to the hospital

**Out-patient:** The care of patients whose condition does not require admission to the hospital

**Pre-Existing:** Any personal illness or health condition that was known and existed prior to the writing and signing of an insurance contract

**Chronic:** A medical condition which persists for a long period or indefinitely

**Deductible:** Amount you pay out of pocket on each visit, before the insurer will pay for the service (Nil – AED 50, 100 etc.)

**Co-Insurance:** Percentage share of cost, usually 10 % or 20%

**Area of coverage:** Whether the insured needs only a local coverage, or if he / she travels frequently will they need medical cover in other countries.

Medical cover in USA is very costly and the premiums for plans covering USA can be very high.

**Any Pre-existing medical conditions:** If the Insured suffers from any preexisting conditions like diabetes, hypertension, he should disclose the same to his insurance broker or medical insurance provider, otherwise he could be denied cover at later stages.

Based on the medical conditions the premium for the medical insurance is arrived.

### **Do you require Maternity Cover?**

DHA compliant plans in Dubai and Plans in Abu Dhabi now offer maternity cover on all plans without a waiting period.

However if the applicant is already pregnant the premiums could go up substantially, hence it is important to avail medical insurance in advance.

### **Do you require Dental cover?**

Dental cover is optional and usually comes at a higher premium .

**What grade of Hospital Network do you require?** This aspect is very crucial and most issues of a medical insurance arise due to confusion on the network of hospitals.

The Insured is advised to obtain a list of hospitals which are in the network of suggested medical insurance plans and ascertain if his preferred clinics or hospitals are a part of the list.

The premium amount depends on the network of hospitals selected.

**Exclusions:** All medical insurance plans have certain exclusions and a good understanding of the exclusions is very important before deciding on the suitable medical insurance plan.

# HOME AND CONTENTS INSURANCE



Home and Contents Insurance is easy to understand, easy to avail and is very affordable.

Inspite of which most of us comfortably ignored it, until the recent Fire in Torch Tower in Dubai Marina and in Tamweel towers, and the very recent fire accident at Address hotel on the new year's eve.

Every body would talk about it for 2 to 3 days and slowly it would be forgotten, assuming that nothing will happen to us or that the possessions we have are not significant enough to be insured.

Many people believe that Home and contents insurance is only for the rich, who have big assets and they also believe that it costs a lot to insure their home and contents...

Contrary to the popular belief, Home and Contents Insurance is useful for every individual, whether a home owner, tenant or a landlord. You will be surprised to know that it is very affordable, in-fact contents insurance may cost you less than One Dirham a day...

## **What is Home and Contents Insurance?**

For most people in UAE, their home is their biggest asset, not to mention all the valuable items inside. Home and Contents insurance covers a loss or damage to your home and or all the valuable items within your home including Furniture, Fittings, Electronics, Electricals, Art, Jewellery, wardrobe and other priceless valuables.

## **What does it Cover?**

**Building:** Accidental Damage to the Building due to Fire, explosion, earthquake, smoke, storm, theft, damage by domestic animals, riot and so on.

Also including domestic garages, swimming pools, terraces, patios, drives, footpaths, wall fences, gates, permanent fixtures and fittings.

Home owners liability towards third party like tenant, building association etc...  
Alternative accommodation or loss of rent.

**Contents:** Accidental loss or damage to contents due to fire, water leakage, theft etc....

Also covers improvements to the property made by the tenant.

Tenant Liability towards landlord Third Party Liability

**Personal Belongings:** World wide Coverage to personal belongings like Jewelry, Watches, Laptop and other valuable items against following risks;

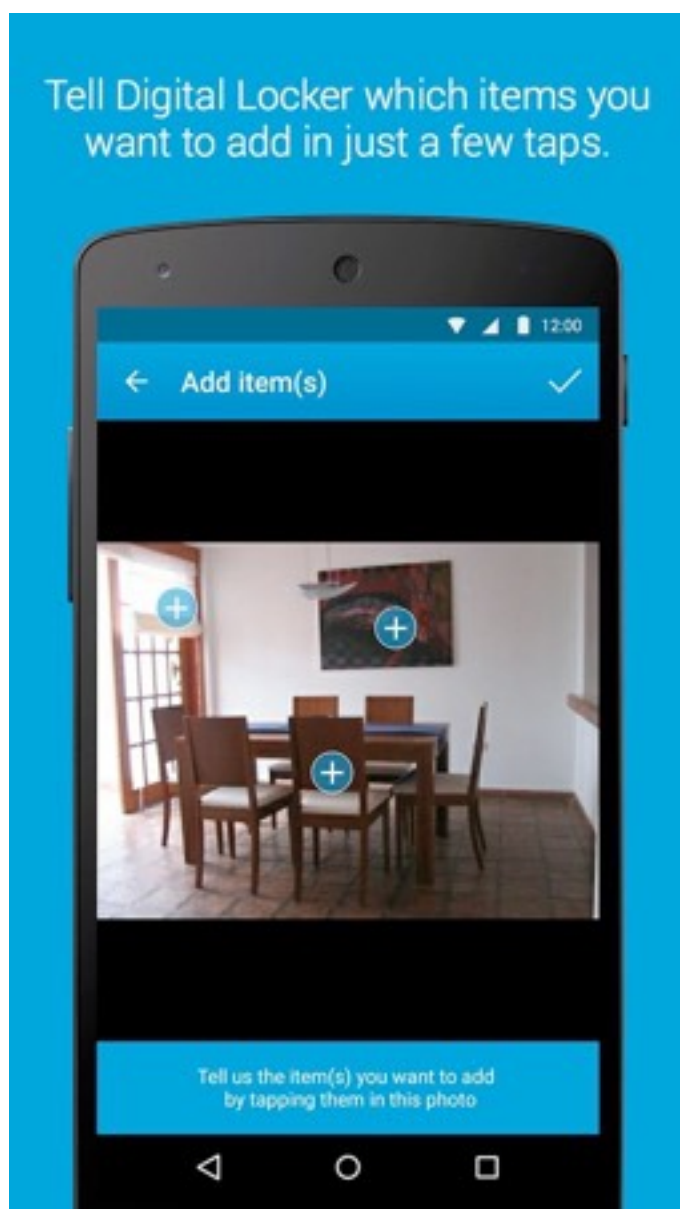


- Accidental contents damage
- Malicious damage
- Theft or attempted theft
- Accidental breakage
- Accidental loss

Before you buy Contents and Personal Belongings Insurance, take an inventory of your belongings.

An easy way to conduct a home inventory is to walk through your house or apartment with a video camera, while giving a brief description of the things that are the most

valuable—like your big-screen TV, computer, antique furniture, major appliances and other pricey belongings.



You can also use the **Allstate Digital Locker** Smart Phone or Web application, to catalog the items you own. Once you have the list, it will be a lot easier for you to figure out how much coverage you need. And, it may help if you ever need to file a claim.

The next step is to decide, how much you would want each content to be insured for?

You can either calculate the Actual Cash Value of the asset (Current Value) or the replacement cost of the asset.

For eg : If you bought a flat screen TV, 2 years back for AED 5000/- and the current cash value of that TV may be around AED 2,000 or less, while the cost of replacing with a similar TV might still be around AED 5,000..

It is up to you to decide which value you would want to choose for insuring your assets and arrive at a total value of the assets to be insured.

Contact your financial advisor, to help you decide and avail the most suitable solution for you.

With Home and Contents Insurance you can afford to relax, knowing that you are covered in the event of loss or damage to your home, contents and or personal belongings.

### **What about you?**

Do you have Home and Contents Insurance? if not have you thought what will happen if your home was destroyed in a fire?

Job Loss



Emergency travel



Car Repair



Medical  
Emergency

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## STEP 4

### Emergency Savings

Emergency savings is like insurance: painstaking and boring, but outright necessary.

Can you imagine driving without car insurance?

No isn't it?

Likewise; you should not try to live life without emergency savings.

An Emergency fund is a certain amount of money available at a short notice to meet the unexpected expenses like;

- Loss of job
- Medical Emergencies to parents or relatives back home
- Emergency travel / Unexpected Travel
- Medical or Dental emergency if you do not have an insurance
- Breakdown of Car, electronics or appliances at home

Emergency savings should be earmarked separately and kept in a savings account or an esaver account, accessible at short notice.

For this purpose money; in your current account kept aside for your rent cheque, school fees or for any other purpose does not count.

A part of your emergency funds can be invested in National Bonds, although it does not offer a good return, the money invested is safe and can be liquidated within 24 hours.

It is highly recommended to have 3 - 6 months of income as emergency savings, and more if you have small children in your family.

If you are finding more month at the end of money regularly, saving for an emergency might seem as a challenge; trust me, it can be achieved with a little effort and by following the 5 steps listed below;

**Step One: Start Small** - It is certainly desirable to have at least 3 months of income as emergency savings, but having some is definitely better than having none!!!

Set a small goal of AED 5000 or AED 10,000 depending on your income. Take action today, start an E - saver account with your current bank, you can do it online in less than 5 minutes.

Transfer a minimum of AED 100 or more if you can afford immediately into your e-saver account.

**Step Two: Set a Date** - Once you have set the desired emergency savings; set a target date to achieve it. Depending on your cashflows, expenses and income it can be between 3 - 6 months, and not more.

**Step Three: Sacrifice** - Till you achieve your emergency savings goal, reduce or if possible avoid expenses which you can live without, like eating out, or coffee at Costa or Starbucks.

If you smoke reduce or stop smoking it is not only helps you save money, it is also good for your health.

Do not buy any gadgets, appliances or any luxury on cash or on credit card till your desired emergency savings is achieved.

Identify the one big expense you can avoid in the next three months, which can help you reach closer to your goal and avoid it.

For Eg : If you are planning for a vacation or travel within the next 3 months, revisit the decision to understand if you really need to travel and if you can postpone it to save money for your emergency.

If yes then divert the funds you were planning to spend for the travel towards emergency funds.

I know that this is difficult, but one has to make small sacrifices to achieve greater things in life.

**Step Four: Save** - As indicated earlier , open a Savings Account or E-saver account, or you can also save with national bonds regularly with fixed monthly payments, Mashreq Millionaire Certificates or any other bond you can liquidate at short notice.

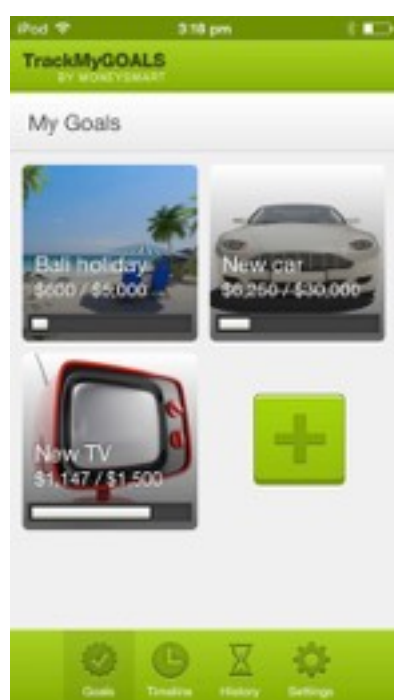


Setup standing instructions from your current account to the savings, Esaver account, and also you can set up standing instructions with National Bonds for saving a fixed regular amount ever month.

**Step Five:** Monitor - Mere setting an emergency fund goal may not always suffice, it would certainly help if a course of action and a facility to track progress is setup.

You can use some good Smart phone applications like;

1. **TrackMyGOALS**



2. **Apscade Saver 2**



These applications help you visualize your emergency savings making it more interesting to pursue and achieve it.

When you see savings grow, you are motivated to do more, hence you will achieve your goal faster.

# WHY EMERGENCY SAVINGS?

Emergency Savings provides you the feeling of security that you are well provided when an unexpected event happens.

It allows you to focus on the issue at hand instead of worrying about money.

It keeps you from borrowing money on higher interest rates, thus helping you to manage your cashflows effectively.

In UAE; credit cards providers charge an interest of 3.00% to 3.50% in addition to the annual fees and other fees, which is about 36% to 42% interest per annum,

In other words if you borrowed AED 10,000 to pay for the tickets to your home country in the event of an emergency and if you pay AED 1,000 every month, you would have paid a total of AED 12,067.55 including an interest of AED 2,067.55.

If you had an emergency savings funds you could have saved the AED 2,067, which you paid as interest to the credit card provider.

Click the following link to access the credit card payment calculator to identity how long it will take to pay off your card or to find out how much you will pay as interest in your card balance.

**Credit Karma**



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## STEP 5

### INVEST

An Opportunity to save more than what is possible in their home countries and achieve financial goals much earlier, is perhaps the biggest motivator for expats for working in UAE.

When people want to save money, they usually put their net disposable income into a bank account, so that it grows into a sizable capital, that can be used to achieve financial goals like; property investment, funding for children's college education and retirement, etc... .

While their money is relatively safe, the bank only pays a very low rate of interest. Not only the returns are limited, they never keep pace with the prevailing inflation, decreasing the purchasing power of your money saved.

In order to beat inflation and help achieving financial goals faster, it is very important to invest your savings.

## What is Inflation?

Inflation is the general rise in the prices of goods and services.

The following video will explain better;



Investing can be much more rewarding, than just beating inflation, if a long term view is taken. One can use a wide range of investment solutions to put his money at work

Investing in a portfolio of multiple asset classes like; Equities, Bonds, Mutual Funds, ETFs, Commodities and Real Estate can potentially grow your investment by 10% – 12% average, helping you beat inflation.

## **How to Invest?**

For some people starting an Investment is more complicated than rocket science, as they continue to be perturbed, by complex investment jargon and unscrupulous investment advisers and bankers.

Beginners in particular find the investments very confusing, having to choose from various options like Stock market, Bonds, Mutual funds, ETFs, IPOs, Commodities, Insurance, Saving Plans, Money back policies, and Alternative Investments...

The Internet and the Media are making things more difficult for the beginners, literally drowning them with information, without the essential supply of oxygen, which in this case would be the unbiased ideas of practical application.

For a novice investor, investing can be very intimidating.

Having said that I' am not discouraging you, because everyone who is doing great with his investments now, was once struggling, everyone who is now a top investor, was once naive and perturbed.

Quoting Brian Tracy, one of my favorite success gurus;

“Everybody who is at the front of the buffet line of life started at the back of the line.

Now here is the question:

How do you get to the front of the buffet line of life, where all the good stuff is waiting for you?

The answer is simple.



It consists of two key steps:

First, get in line!

Second, stay in line!

It is absolutely amazing the number of people who want to get to the front of the buffet line of life, who admire or envy the people who are already up there enjoying the best that life has to offer, but they don't get up and get in line themselves.

They don't realize that life, like a buffet, is self-serve."

So the key learning is to take the first step, as the Nike slogan says;

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*"Just do it"*

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## **How do I start?**

The best thing you can do when you are starting to invest is to develop a habit of disciplined saving and regular investment, instead of waiting for the right time, or brooding over for ever on the perfect investment strategy.

Your savings however small does not matter, what matters the most is the decision to save regularly and invest the savings.

I am not saying here, that you should start an investment, completely oblivious or ignorant, to the facts and figures, but be careful and take an informed decision on your investment.

An Offshore investment plan offering access to a variety of asset classes like equity, bonds, property, commodities is a good place to start investing.

There are many such plans available in UAE offered by leading insurance companies like Zurich International Life, Generali, Friends Provident and Salama.

Talk to your financial adviser to help you choose the best option suitable for your financial goals.

### **Make time your best buddy..**

The longer your funds are invested, the bigger your investment grows into. The long term return on Mutual Funds, Stocks and Bonds, have always been positive, hence you don't have to worry too much, on the inherent market risks.

### **Investing for Short Term and Long Term Financial Goals.**

Financial goals can be classified as short term goals and long term goals.

Short Term goals are for financial needs or events occurring within 2 - 3 years; like;

- Marriage
- Child birth
- Car purchase
- Home down payment
- Home alteration or redesigning
- Fancy vacation
- Starting a business
- Business expansion
- Children's Education

Saving for such goals is challenging because one is always split between the choices of growth and liquidity.

In order to achieve a higher growth your investment usually requires a longer gestation period allowing your money to grow and multiply, hence compromising the liquidity, while a liquid investment may not offer a higher growth rate.

The following are some of the options which can be used in UAE to invest for short term goals;

**Gold** in the form of coins or Bars, Gold Certificates, Gold ETFs and Funds

**Trading in DFM, Nasdaq and ADX stocks...**( Emaar, Arabtec, Air Arabia etc....). This is a good option if you have more than AED 10,000 to invest in a single transaction, as the minimum transaction fees is AED 75. For investments less than AED 10,000 it is better to use other options.

**Investing in International Markets:** UAE residents can invest in international markets by opening an E-Brokerage account with Citibank.

With this account you can buy and sell securities in the US, UK, Japan, Canada, France, Germany and Switzerland markets and invest in a diversified range of mutual funds, covering major asset classes globally.

Adequate care should be taken while choosing to invest in the international markets, if necessary professional advice should be availed, due to the inherent market risks, currency exchange and tax liabilities.

NRI's can invest in **Indian stock markets** via Demat account online. If you do not have a Demat account, you can open a DEMAT account with Indian Banks like Axis Bank, ICICI Bank, and HDFC from UAE itself, as they have representative offices here.

One has to bear in mind the currency risk and market risk, while investing in Indian stocks or Mutual Funds. If you are a beginner, it is advised to start investing in Blue Chips stocks or mutual funds investing in Large cap or Mid Cap funds, with a time horizon of 2-4 years.

**Initial Public Offer (IPO's) in UAE:** UAE is maturing as a financial market, and many family businesses are considering going public. While IPO's are an attractive investment option, it is also risky, proper assessment of the industry and company prospects is required before investing.

One can also invest in **Sukuks** issued by various companies in UAE, and some of them provide good returns as well.

**Fixed Deposit in India for NRI's:** NRE / NRO fixed deposits are not risky in term of capital, but are susceptible to currency risks. FD's are ideal when saving for settling a mortgage in India, or when buying property in India, as the funds will be required in INR only.

It is not a good idea to save in FD's if the funds are required in UAE or else where, because of currency risk due to falling rupee and the less than 9.00% returns may not be attractive enough, if the money has to be repatriated back to UAE.

Choose the options best suiting your short term goals, your risk appetite and liquidity options.

In the following sections we will endeavor to understand investing for long term financial goals like;

- Investing for Retirement / Financial Independence
- Investing for Children's Higher Education

# INVESTING FOR RETIREMENT



## **What retirement means to you?**

The first step of retirement planning is defining, what retirement means to you?

Although retirement is a very common word, each of us have our own unique definition to retirement.”

According to [www.merriam-webster.com](http://www.merriam-webster.com), the definition of retirement is as follows;

- The act of ending your working or professional career

- The act of retiring
- The state of being retired
- The period after you have permanently stopped your job or profession

In the practical sense, retirement is the period, when working for money is no longer a necessity, while your money and your assets are working for you to provide a regular and dependable stream of income.

It is basically having enough passive income (Income from sources other than salary, fees, profit), to pay for all your expenses.

It is a period everyone looks forward to do things they always wanted to but were unable to do them because they were tied with work and family.

While some adventurous souls might want to travel to the most exotic places on earth, a few may want to lead a nomadic life hopping from city to city or from a village to village.



Most of us would want to spend time with their family, friends and relatives during retirement.

Start with visualizing yourself in retirement.

Think about the activities that you would want to do like;

- Engaging in Volunteer work
- Enjoying hobbies
- Spending time with your spouse, children and grandchildren



- Catching up with old friends, while you make new..
- Travel
- Reading all the books you wanted to
- Write a Book in the area of your expertise or passion ( why not?)
- Learn a new language(s)

Waking up every morning and not having to go to work may be fun initially, but slowly it could be frustrating, hence it is important to identify how you can engage yourself in fulfilling activities during retirement

Think about it, when you are in a party, or in a social gathering, how do you introduce yourself.

My guess is, “I am so and so with xyz company”, when you retire, how would you want to introduce yourself?

Planning how you will spend your time in retirement will also provide important pointers as to how much money you'll need to support your desired lifestyle.

Whatever retirement means to you write it down. Define it in your own words. Give it meaning and purpose.

# PLAN WHEN YOU WANT TO RETIRE?

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*“Knowing when to walk away is wisdom. Being able is courage. Walking away, with your head held high is dignity.” - Unknown*

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Deciding when you want to retire, helps you set a time bound goal.

It gives you more focus to understand where you are and where you want to be in a certain number of years.

Be practical, when deciding when you want to retire, do not set a goal too difficult to achieve nor set a goal to retire too late.

This is the step 2 in the retirement planning process.

As a financial adviser, I have asked this question to every client I have met, and the following are some of the answers I typically get;

- The usual retirement age, I think it is 60 or 65...
- Haven't thought of it yet...
- I don't know
- It is too early to think about retirement..

Some of them knew exactly when they wanted to retire.

They had in fact started visualizing how and when their retirement would be.

For most, the decision of when to retire is not so easy, because it could involve complex financial, emotional, social and family considerations.

**What about you?**

Have you decided?

Do you know when you can practically retire?

If not; the following can help you in deciding;

If you want to retire early remember that retiring early means fewer earning years and therefore a smaller retirement kitty.

Also consider that the earlier you retire, the more number of years you will spend in retirement, if you do not have adequate savings, it could be a challenge then.

Consider the increasing life expectancy. The average life expectancy in UAE as of 2012 is 76.96 years. The following table provides you the average life expectancy in some of the countries as of 2012;

COUNTRY	AGE
UAE	76.96
India	66.21
UK	81.50
USA	78.74
Philippines	68.55
Pakistan	66.44
France	82.57
Germany	80.89
Saudi Arabia	75.50
Kuwait	74.36
Egypt	70.91
Iran	73.76
Japan	83.10
Singapore	82.14

“If your country is not listed here, ask google..

Now that you know your average life expectancy add 10 years to it, to approximately predict how many years you would be in retirement, before you kick the bucket...

The following example will show you how?

Ramesh is an Indian National, desiring to retire at age 60

Average Life Expectancy of Indians	66.21
Add 10 years to his average life expectancy	76.21
Desired retirement age	60.00
Approximate number of years Ramesh will spend in retirement	16.21

Bear in mind, that the average life expectancy around the world is increasing thanks to medical advancements and health awareness, so you may end-up spending more time in retirement than you actually planned for.

Delaying retirement provides you with more time to build your nest egg;

For example, if you decide to retire at age 60 instead of age 50, and you manage to save AED20,000 per year, growing at 8% rate of return during the additional 10 years, you can approximately add an AED 312,909 to your retirement fund.

While delaying retirement may give you more time to save, it also may lead to procrastination.

Do consider health implications; while deciding when to retire, as health plays an important role in determining how many years you can actively work.

We will discuss in detail about aspects which can affect your retirement, like Inflation, Rate of return on your investment etc.,in the forthcoming chapters.

## “WHERE YOU WANT TO RETIRE?”

It is most likely that you would be more at home during retirement, it would be wise to choose the best possible, country, city, locality and house for your retirement, keeping in mind the following factors;

Consider how important it is for you and your spouse to live close to family and friends. If it is important, then you have limited your choices already to the places where your immediate family and or close friends are living.

If your spouse will continue to work for some years after you retire, then you may have to consider living longer in UAE with less income, and may also have to look out for consulting or freelance income opportunities in the area of your expertise to complement his or her income.

Another important consideration would be to take care of aging parents. it could be really difficult to decide to stay close to your children, or close to your aging parents and or in-laws.

Cost of living in a particular city or town is an important factor to be considered, in order to determine how much money you would need every month during retirement.

“Climate is an important factor to be considered while choosing a favorable retirement destination, harsh winters and sweaty summers are better avoided during old age.

Choosing a city or town with favorable climate throughout the year will help you remain healthy and cheerful.

Availability of good and affordable health care facilities should be considered, before deciding on your retirement destination.

Having lived in UAE for a considerable amount of time; we get used to the safety, infrastructure and the facilities available here, although it is difficult to get similar facilities

in our home countries, thanks to rapid global development, infrastructure in many countries is getting better.

Safety and Crime rate in a particular country, city or town should not be overlooked, even if it is your home country.

Remember you are out of your home country for a considerable period of time, during when rapid changes could have happened.

It would be difficult to digest after settling in your hometown, when you realize that you are a stranger there, as people and things have changed a lot.

Availability of affordable and dependable Public Transportation is important and more crucial if you are unable to drive on your own due to old age.”

Staying active in your old age will keep you healthy and independent, so identify if you can live an active lifestyle in the place you are thinking to retire.

Taxes like Wealth Tax, Inheritance Tax, Income Tax and other taxes should be considered while deciding where to retire. Do not shy from obtaining professional help regarding taxation.

Another good factor to consider would be retirement communities, Senior Living or Assisted Living.

Investing in an apartment or independent house can be a prudent investment.



# “HOW MUCH YOU NEED TO RETIRE?”

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*“Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair. Sam Ewing”*

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Now that you know what you want to do during retirement, when you want to retire and where you want to retire, the next logical step is to understand how much you would need to lead the retired life you desire?

The general thumb rule is that you will need at-least 60-70% of your current income in future money.

Future money is the value of today's money after taking into account the inflation.

For Eg : John is 35 years old and his current income is AED 20,000. He expects to retire in UAE, when he reaches age 60.

John would need at least 60-70 % of his current income to retire in UAE today, which would be AED 12,000 to AED 14,000, depending on the lifestyle he wants to lead during retirement.

The projected inflation for UAE is about 5.00%, hence we will assume that John's retirement expenses will increase at a rate of 5.00% every year.

Hence he would need AED12,000 multiplied by 3.386( refer next page for the table showing future value of money) at age 60 for his retirement expenses.

Chart showing future value of one unit of currency (Dollar, AED, Rupee, etc..)

TABLE 1 Future Value of \$1																		
FV = \$1 (1 + i) <sup>n</sup>																		
n/i	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	20.0%
1	1.01000	1.01500	1.02000	1.02500	1.03000	1.03500	1.04000	1.04500	1.05000	1.05500	1.06000	1.07000	1.08000	1.09000	1.10000	1.11000	1.12000	1.20000
2	1.02010	1.03022	1.04040	1.05063	1.06090	1.07123	1.08160	1.09203	1.10250	1.11303	1.12360	1.14490	1.16640	1.18810	1.21000	1.23210	1.25440	1.44000
3	1.03030	1.04568	1.06121	1.07689	1.09273	1.10872	1.12486	1.14117	1.15763	1.17424	1.19102	1.22504	1.25971	1.29503	1.33100	1.36763	1.40493	1.72800
4	1.04060	1.06136	1.08243	1.10381	1.12551	1.14752	1.16986	1.19252	1.21551	1.23882	1.26248	1.31080	1.36049	1.41158	1.46410	1.51807	1.57352	2.07360
5	1.05101	1.07728	1.10408	1.13141	1.15927	1.18769	1.21665	1.24618	1.27628	1.30696	1.33823	1.40255	1.46933	1.53862	1.61051	1.68506	1.76234	2.48832
6	1.06152	1.09344	1.12616	1.15969	1.19405	1.22926	1.26532	1.30226	1.34010	1.37884	1.41852	1.50073	1.58687	1.67710	1.77156	1.87041	1.97382	2.98598
7	1.07214	1.10984	1.14869	1.18869	1.22987	1.27228	1.31593	1.36086	1.40710	1.45468	1.50363	1.60578	1.71382	1.82804	1.94872	2.07616	2.21068	3.58318
8	1.08286	1.12649	1.17166	1.21840	1.26677	1.31681	1.36857	1.42210	1.47746	1.53469	1.59385	1.71819	1.85093	1.99256	2.14359	2.30454	2.47596	4.29982
9	1.09369	1.14339	1.19509	1.24886	1.30477	1.36290	1.42331	1.48610	1.55133	1.61909	1.68948	1.83846	1.99900	2.17189	2.35795	2.55804	2.77308	5.15978
10	1.10462	1.16054	1.21899	1.28008	1.34392	1.41060	1.48024	1.55297	1.62889	1.70814	1.79085	1.96715	2.15892	2.36736	2.59374	2.83942	3.10585	6.19174
11	1.11567	1.17795	1.24337	1.31209	1.38423	1.45997	1.53945	1.62285	1.71034	1.80209	1.89830	2.10485	2.33164	2.58043	2.85312	3.15176	3.47855	7.43008
12	1.12683	1.19562	1.26824	1.34489	1.42576	1.51107	1.60103	1.69588	1.79586	1.90121	2.01220	2.25219	2.51817	2.81266	3.13843	3.49845	3.89598	8.91610
13	1.13809	1.21355	1.29361	1.37851	1.46853	1.56396	1.66507	1.77220	1.88565	2.00577	2.13293	2.40985	2.71962	3.06580	3.45227	3.88328	4.36349	10.69932
14	1.14947	1.23176	1.31948	1.41297	1.51259	1.61869	1.73168	1.85194	1.97993	2.11609	2.26090	2.57853	2.93719	3.34173	3.79750	4.31044	4.88711	12.83918
15	1.16097	1.25023	1.34587	1.44830	1.55797	1.67535	1.80094	1.93528	2.07893	2.23248	2.39656	2.75903	3.17217	3.64248	4.17725	4.78459	5.47357	15.40702
16	1.17258	1.26899	1.37279	1.48451	1.60471	1.73399	1.87298	2.02237	2.18287	2.35526	2.54035	2.95216	3.42594	3.97031	4.59497	5.31089	6.13039	18.48843
17	1.18430	1.28802	1.40024	1.52162	1.65285	1.79468	1.94790	2.11338	2.29202	2.48480	2.69277	3.15882	3.70002	4.32763	5.05447	5.89509	6.86604	22.18611
18	1.19615	1.30734	1.42825	1.55966	1.70243	1.85749	2.02582	2.20848	2.40662	2.62147	2.85434	3.37993	3.99602	4.71712	5.55992	6.54355	7.68997	26.62333
19	1.20811	1.32695	1.45681	1.59865	1.75351	1.92250	2.10685	2.30786	2.52695	2.76565	3.02560	3.61653	4.31570	5.14166	6.11591	7.26334	8.61276	31.94800
20	1.22019	1.34686	1.48595	1.63862	1.80611	1.98979	2.19112	2.41171	2.65330	2.91776	3.20714	3.86968	4.66096	5.60441	6.72750	8.06231	9.64629	38.33760
21	1.23239	1.36706	1.51567	1.67958	1.86029	2.05943	2.27877	2.52024	2.78596	3.07823	3.39956	4.14056	5.03383	6.10881	7.40025	8.94917	10.80385	46.00512
25	1.28243	1.45095	1.64061	1.85394	2.09378	2.36324	2.66584	3.00543	3.38635	3.81339	4.29187	5.42743	6.84848	8.62308	10.83471	13.58546	17.00006	95.39622
30	1.34785	1.56308	1.81136	2.09757	2.42726	2.80679	3.24340	3.74532	4.32194	4.98395	5.74349	7.61226	10.06266	13.26768	17.44940	22.89230	29.95992	237.37631
40	1.48886	1.81402	2.20804	2.68506	3.26204	3.95926	4.80102	5.81636	7.03999	8.51331	10.28572	14.97446	21.72452	31.40942	45.25926	65.00087	93.05097	1469.77160

UAE is predominantly an expat oriented country, hence many would prefer in their home countries or other countries where the cost of living is lesser in comparison.

It would be wise to estimate the current cost of living in the particular country you want to settle down during retirement, and use the above table to ascertain the future value of money to figure out how much you would need.

Also consider the following factors; while ascertaining how much you would need for retirement if you prefer to retire outside UAE.

Factors to be considered when ascertaining retirement costs outside UAE

**Basic cost of housing** - Include cost of housing; according to the country you intend to retire. Ideally you should have invested in a house in your retirement destination and paid off the mortgage, before you actually retired, if not please include the rent you will pay as of today and other maintenance charges you may have to pay.

When investing in a home for retirement, please keep in mind about safety and availability of quality health care, clean air, water and activities which would keep you engaged during retirement.

**Utilities** - Most of us expect the utilities to be far less than today, please remember; that you would have got accustomed to a comfortable lifestyle in UAE, which you may find difficult to compromise, hence be generous when budgeting for utilities in retirement.

**Food Expenses** - Include food expenses for you and your partner, a domestic help and occasional friends and guests in today's money.

**Medical Expenses** - Unplanned Medical expenses can drain out retirement savings very quickly, hence it is important to plan and allocate funds for medical expenses.

If medical insurance is easily available and affordable in the country you intend to retire, include medical insurance premiums in your retirement budget. International medical insurance providers like Aetna, Bupa, AXA, Now Health, Neuron etc, provide global and reliable medical coverage.

“While you are working in UAE, you can consider buying Whole of Life Insurance with a critical illness rider, to help you pay for major medical expenses and other bills, after retirement.

These plans will pay out an agreed sum of money on diagnosis of one of 30-36 critical illnesses, so that you do not have to withdraw money from your retirement savings for your treatment.

Zurich International Life, Metlife and Salama - Islamic Insurance, offer globally portable Whole of Life insurance with optional critical illness rider.

Subscribing to such insurance from one of these companies will help you protect your hard earned retirement savings from being spent on unexpected medical expenses of major illness like Cancer, Health Attack, Stroke, Kidney Failure, Liver Failure etc.,

Life and critical illness insurance is discussed in detail in the earlier chapters in detail.

**Transportation** - Budget for a fully paid car, and for fuel expenses to help you move around during retirement, also include car maintenance expenses.

If your retirement destination offers comfortable and reliable public transportation you can budget the expenses in today's money in lieu of a car.

**Travel** - Depending on how much you would want to travel during your retirement, allocate funds for travel expenses for you and your spouse. Even if you are not a big fan of traveling, please provide for occasional traveling to meet family and friends.

**Entertainment** - During our working lives, we are expected to at-least work for 8 hours a day if not more, while most of us endup workin more than 8 hours a day

Ideally we should be sleeping 8 hours a day, and the balance 6 - 8 hours is what we get to spend for traveling, grooming, eating, exercise, entertainment and all other activities on which spend the money we earned during the 8 hours of work.

When retired; assuming you would sleep for 8 hours in a day, you would have twice the time you now have at your disposal. If you do not plan to keep yourself engaged with activities, retirement could be a nightmare.

Budget a certain amount of money for entertainment or social activities to keep yourself engaged in retirement.

**Miscellaneous** - Allocate 10% of your budget towards miscellaneous expenses, which you might have during retirement.

The world is rapidly changing, what was luxury ( Car, Smart Phone etc...) few years back, now is a necessity, similarly what you consider as luxury now could be a need in future!

## “WHEN SHOULD I START SAVING FOR RETIREMENT?”

*Did you know that people spend more time planning for their annual vacation, than planning for their retirement...*

Ideally one should start saving for retirement at age 25 or when he or she starts employment. When thinking about retirement or some long term financial need, we always tend to think in terms of years.

**For Example:** If you are salaried and of 25 years of age and you would like to retire at age 60. How much time you reckon you have to save for your retirement?

If your answer is 35 years, it is mathematically correct, but practically do you really have 35 years...

Think about it, if you are salaried, and you are paid once in a month, 12 times in a year; and 420 times in 35 years, you have 420 salaries from which you can save for your retirement and not 35 years.

So you actually have 420 months or 420 chances to save for your retirement... The earlier you start the more opportunities you give your self the later you start the lesser the number of opportunities. Also if you start early you are giving enough time for your money to compound and grow.

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*“Compound interest is the eighth wonder of the world. He who understands, earns it ... he who doesn't ... pays it.” - Albert Einstein*

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To be able to take advantage of the power of compounding, you should give your investment more time, the longer you remain invested in, larger the number of compounding effect on your investment.

The power of compounding does not care if you are rich or poor, it helps all of us in the same way, because it depends on time, the unique and common resource we all have...

The earlier we put it to work, better the results.

If you ask anyone who is retired or is expecting to retire, he will surely tell you that he would have had more money if he had started saving for retirement earlier than he did.

The following audio-clip of Anthony Robbins from youtube, wonderfully explains the power of compounding and the importance of starting early.

<https://youtu.be/N2hmfHFODOg>

Now let's compare the following investment choices of Susan, Bill and Chris towards their Retirement;



Susan is 25 years old, and she invests \$5,000 for 10 years towards her retirement and remains invested till her retirement age of 65 (Total Investment \$50,000)

Bill is 35 years old and he invests \$5,000 for 35 years till his retirement age of 65 (Total Investment \$150,000)



Chris is 25 years old, and he invests \$5,000 for 40 years till his retirement age of 65 (Total investment \$200,000)

Susan in spite of investing the least, has largely benefited by the Power of Compounding, retiring with a bigger retirement kitty than Bill, who although invested a higher amount had to retire with lesser money than Susan.

Chris on the other hand, has the biggest retirement savings, as he started early, and continued to save and invest throughout his earning life, enabling him to afford a better retirement than Susan and Bill.

The difference between Susan and Bill is a staggering \$189,000, in spite of Susan, having invested \$100,000 less than Bill. By starting 10 years earlier than Bill, Susan gave her investment more time to grow, more compounding cycles. The lesson learnt is “Starting late on investing is very costly”

Getting started is what is important. If you sit around forever waiting to perfect your investment style, you’ll never get started and miss out on the power of compounding over the years.

Click [The Power of Compounding – Learn how it multiplies your Money](#) to view an amazing video.

## THE LONGER YOU DELAY THE LESS LIKELY YOU WILL START

Each year that you delay in getting your investment started, puts you behind your retirement run rate.

As in One-day Cricket if you are chasing a steep target, you cannot wait for the slog overs to start scoring, you have to keep the score board ticking with the ones and twos, and an occasional boundary.

Every year which goes past without investing, will put more pressure on you and at some point you are more likely to give up the chase.

Even if you are playing from behind, getting started to invest at any time is a wise decision.

So what are you waiting for, talk to your financial coach / advisor to start investing for your retirement.

# HOW TO INVEST FOR RETIREMENT?

Choosing an ideal retirement savings plan can be challenging and a wrong choice could wipe out years of hard earned savings.

The following are the features of an ideal retirement plan;

## **Low Premium Payment Term**

The premium payment period should be between 5 years to 10 years and no more. A plan with longer premium payment term comes with higher surrender charges, if the plan has to be stopped earlier than planned.

## **Security**

When you are looking for a company to protect and grow your wealth over a number of years, do all the due diligence necessary and choose the company which has solid foundations, giving you the confidence that your money is in safe hands.

## **Favorable Currency**

As an Expat in UAE, your retirement plan has to take into account the currency exchange risk, particularly Expats from Europe, India, and other South East Asian countries, whose currencies are falling down in value.

Although Indian expats prefer investing in Pension plans in India with Life Insurance Corporation (LIC), HDFC Life, SBI Life, Mutual funds and other pension plans, they would be better off, investing in Retirement or Pension plans in UAE in US Dollar denomination, protecting them from currency depreciation risk.

[Click here to know Why NRIs should invest in a Dollar based Life Insurance and Investment Plan in UAE.](#)

## **Diversified**

The investment has to be diversified into various asset classes, industries and geographies to ensure that the portfolio is balanced and is not exposed to extreme volatility

## **Flexibility**

The retirement plan should be flexible enough to adapt to the possible changes in your financial situation, allowing increase or decrease of the premiums, premium holidays, and allowing partial or premature withdrawal if you have to stop the plan due to loss of job, decrease in income, or due to health reasons.

## **Tax Efficient**

It is always advised to choose an Offshore plan protecting your income earned as an Expat in UAE, shielding you from the tax implications in your home country and allowing you to decide where and how the proceeds from the maturity of the plan are paid.

## **Transparent**

All savings and retirement plans have charges and other important caveats, it is extremely important to read the terms and conditions of the plan with your financial adviser, and demand satisfying answers to all the conditions before signing up for the plan.

Your financial adviser plays a crucial role in helping you decide how to save for retirement by recommending and managing your retirement plan, so be very careful when choosing your financial adviser.

Obtain as much as information as possible about his back ground, his experience, qualification and seek testimonials of his past clients and other relevant information.

Do the necessary due diligence to if he or she is qualified to provide Financial Advice.

# REAL ESTATE INVESTMENT



Every retirement plan portfolio should have real estate investment, and the following are the 5 reasons why...

**Inflation Proof Asset:** Real estate investment is an ideal hedge against inflation, because its value appreciates with inflation.

**Tax Efficient:** Many countries across the globe offer attractive tax benefits for property investment

**Cash cow:** Real estate investment, particularly commercial can fetch a regular and dependable income during retirement, and the best part is that the income from the property also increases along with inflation.

**Asset Appreciation:** Mark Twain once said; *“Buy land. They’re not making it any more.”*, and it is still valid today.

Globally the demand for land is increasing day by day thanks to the growing population and the supply cannot be increased without causing huge damage to the environment.

**Leverage:** Property investment is one such asset class which allows you to leverage your capital to buy an assets worth 3 to 10 times its value.

For example if you want to buy a villa in the springs for AED 2,000,000; banks would happily lend you 80% of the property cost; so you would only need AED 500,000 for downpayment and other expenses to buy the property.

In this real example you can buy an asset 4 times your capital through leveraging.

While it is advisable to have a certain portion of your retirement savings in real estate, it is not without liquidity, legal and other risks, hence it is important to diversify your retirement portfolio in 4 to 5 asset classes

An ideal retirement portfolio can be as follows;

ASSET CLASS	PERCENTAGE
Cash	10%
Regular income providing pension plan / Annuity / Bank Deposit	50%
Rent fetching Real Estate	30%
Stocks and Mutual Funds	10%



# INVESTING FOR CHILDREN'S EDUCATION



We teach our children to talk, walk, run, play and everything we can...

We encourage them to dream, aspire, pursue and achieve...

As they grow, they dream about many things and quality higher education of their choice is one of their cherished dreams.

They expect adequate financial support from us to be able to pursue their dream.

The question is that as parents are we financially prepared to support our child's dream?

In a recent report by HSBC called “Value of Education” the following were the highlights pertaining to UAE;

92% of parents see an undergraduate degree or higher qualification as essential to their child achieving important goals in their life, and 80% think a postgraduate degree (master’s or higher) is necessary.

89% of parents have a specific occupation in mind for their child, with medicine (33%), engineering (16%) and computer science (11%) the most popular.

81% of parents would consider sending their child to study at university abroad and, of these, 74% would be willing to pay more than it would cost to educate their child in the UAE.

For parents who would not consider sending their child to study at university abroad, the main barriers are that they do not want their child to be so far away from home (29%), they think the UAE offers a superior university education (27%) or that they would like to but cannot afford it (25%).



Nearly three in 10 (29%) parents of pre-primary school children who are expecting their children to go to university think they will have to take out a loan, while a similar proportion (31%) of parents whose children are currently at university have taken out a loan or expect to have to do so.

Parents who expect to borrow, or are currently borrowing, to pay for university costs recognize the implications, expecting to spend on average 4.4 years repaying the debt after their children have finished their education.

This borrowing consists primarily of specific student loans (23%); however, other general borrowing, such as personal loans or credit cards, also plays a role (13%).

Parents expect their children to be repaying their own university debt on average for 3.6 years after they finish their university education.

### **Why Saving for Children's Education is important?**

The report also highlights that Parents in UAE do recognize the need to save for their child's university education – but many do not put this into action.

Nearly two thirds (66%) of parents of pre-primary school children think they will fund their children's future university costs through savings, and only around one in 10 (11%) think they will rely entirely on day-to-day income.

However, among parents whose children are currently at university, only two in five (40%) are using or plan to use saved funds, and over a third (34%) are reliant or expect to rely entirely on day-to-day income.

This clearly shows that more parents are not focussing on savings for children's education despite the fact they believe that University education will provide better opportunities for their children.

The following 5 steps which can help parents to save for their children's higher education;

**Plan for your child's aspirations:** Spend time, research and plan for your child's education costs. Understand the effect of inflation and currency exchange if you want to send your child abroad for education.

The following are some of the articles highlighting the impact of depreciating rupee on parents and children in India aspiring to study abroad;

<http://www.thehindu.com/news/cities/Hyderabad/plummeting-rupee-worries-students-keen-to-study-abroad/article3449747.ece>

<http://www.bbc.com/news/world-asia-india-23894651>

<http://www.ndtv.com/chennai-news/rupee-at-2-year-low-indian-students-abroad-hit-hard-1209780>

**Start early:** The best time to start an education savings plan for the child is when he or she is born, and the next best time is now, do not wait for a good day, right opportunity, increment or bonus to start your saving for your child's education.

Start today; start however small you can start but start now.

**Be Consistent:** It is very important to save regularly to be able to reach your goal.

**Invest your savings:** Investing your savings in a good offshore and well diversified investment plan will help you beat inflation; making your money work for you instead you having to work for money.

**Seek professional Advice:** According to the HSBC report "Around seven in 10 parents who sought advice about their children's university education say that they learned about possibilities and options they had not considered (72%) or became aware of barriers and complications they had overlooked (65%).

Although it might be tempting to do it on your own, it is advisable to hire a professional, who can help you choose the right plan to avoid losses or wrong university choices.





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## STEP 6

### Review Investments regularly

While your work and family takes away most of your time, it is also essential to set aside time to fully understand the investment / insurance plan, before signing up.

Demand for the terms and conditions of the plan, read, clarify and fully understand the implications of the various clauses stated on the terms and conditions.

When fully satisfied with the answers and you are confident that the plan recommended will help you achieve your financial goals, then only sign on the dotted line.

Once you have setup the investment plan, the due diligence should not stop there; review your investment performance at least once in 3 months to ascertain if it is progressing as desired.

For term insurance plans, which do not have an investment options, an annual review will suffice.

Today communication has become very easy thanks to the latest technology, if a face to face meeting is not possible, you can ask your financial consultant to chat over skype to review your plan.

When using skype for review you can actually share your screens, so that both of you can not only see each other, but also see what you are referring to on your computer.

While setting up your investment plan, agree to a review schedule, with your financial adviser and if you are unable to meet personally, have your financial adviser email you the statements and at least, have a telephonic review of your account.

If you can't take time to track your investment, then you are encouraging your adviser to ignore your account.

### **Why investments need regular reviews?**

Agreed, Investments could be for a long term, but that doesn't mean you should ignore them for years.

Markets may go up markets may go down, and nobody can control them, but if you review you investment regularly; you can act according to the market conditions and make necessary changes protecting your loses or increasing the chances of your growth.





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## STEP 7

### Eliminate Debt

Debt is like cancer eating away your hard earned money and keeping you away from financial goals.

If you have played the cashflow 101 game recommended in the earlier chapter you would have by now realized the importance of living a debt free life.

In reality almost all of us want to be debt free and we also make resolutions to eliminate debt as early as possible, but our consumerism prevails over common sense and keeps us chained to debt.

## **Step One - Emergency Funds**

The first step towards debt elimination is to have sufficient emergency funds, without which it will be impossible to clear off debt.

In chapter 5; we discussed in detail about the importance of emergency funds. If you do not have reserve funds the first step would be to set a goal of saving at least AED 10,000 toward emergency.

You may be thinking that I am crazy to encourage you to save instead of paying off debt. The reason why I am recommending to save first for the emergency is because it will keep you from borrowing further in an emergency situation.

Please bear in mind that attractive hotel, flight and room offers or DSF sale is not emergency and you should not spend your emergency savings on such things.

It is better to keep the emergency savings in a e-saver account, savings account or invested in National bonds.

Once you have saved at least AED 10,000 for emergency, then you should look at clearing debt. There are 2 major methods of debt clearance and we will discuss about the benefits of each.

## **Step 2 - Stop Further Borrowing**

If you keep spending on the card after making the monthly payment, you can never pay it off. It is very important that you start using cash or debit cards for all your purchases and bills. Leave the credit card at home and do not avail a new personal loan or

top up your personal loan. Try and resist the temptation, even when you receive a call from a bank for a new loan or top-up of your existing loan.

### Step 3 - Select a Debt repayment method

The following 2 are the widely used debt elimination methods, you can select the one which you feel is easy to apply and most applicable to your personal situation.

#### Snowball Method

The snowball method of debt elimination is highly prescribed by Dave Ramsey, the famous personal finance guru. It works on the basis of amount of outstanding balance on each loan.

For Example if the outstanding balance on various debts is as follows;

TYPE OF DEBT	OUTSTANDING	MINIMUM DUE / INSTALLMENT
Credit Card 01	AED 10,000	AED 500
Credit card 02	AED 15,000	AED 750
Personal Loan	AED 50,000	AED 1,268.13 * 48 months
Car Loan	AED 70,000	AED 1,643.95 for 48 months
Mortgage	AED 1,000,000	AED 5,278 for 300 months

The idea is to start with the lowest amount of Debt. In this case it will be credit card with AED10,000 o/s. The minimum due for all loans / cards except Credit card 01. For this card pay whatever more possible over and above the minimum due.

Even if it is AED 100 it will help. In 23 months you will be able to Pay Off the credit card 01 by not using it further and paying AED 100 more than the minimum due.

When card 01 is closed, then add the AED 600 to the monthly payments of card 02, and now make a monthly payment of AED 1,350/-, and it will take 14 months to pay off the 2nd card.

By this time the outstanding on the personal loan would be AED13,276/-. Banks in UAE do not allow part repayment of personal loans hence you will have to keep aside the excess cashflow of AED 1,350 in a e-saver or savings account for 5 months.

After 5 months the outstanding balance on the personal loan would be AED 7,391/-.  $\text{AED}1,350 \times 5 \text{ months}$  is AED 6,750. At this point you can pay off the personal loan by paying only AED 641 extra.

By using the same strategy for the car loan; clear it in the next 2 months, ie at the end of month 44. When your car loan is cleared, talk to your mortgage provider to reschedule the term of the mortgage to suit a monthly repayment of AED 9,540/- ( $600 + 750 + 1,268 + 1644 + 5278$ ).

At the end of month 44 your mortgage outstanding would be AED 905,737/-, with 21 years and 4 months still left to pay.

When you reschedule your mortgage with a monthly repayment of AED 9,540, you can pay it off in 116 months or a little less than 10 years. Saving more than 10 years of installment payments, amounting to AED 754,754/-

This model replicates the rolling of a snow ball from a hill top, at the beginning it starts as a small ball of snow, but as it rolls down it keeps collecting snow from the hill; growing larger and gathering further momentum as it rolls further down.

By the time it reaches the foot of the hill it would have become enormous in size...

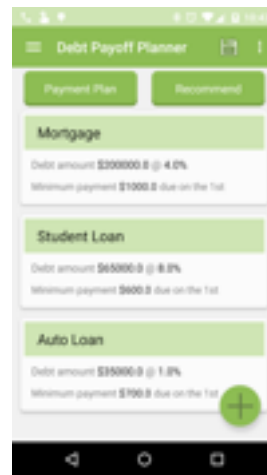
[Click here to use an online snowball debt pay off calculator.](#)

You can also use the following iPhone or android applications to simulate debt pay off using snowball method of debt elimination.

Apple



Android



## Highest Interest Rate Method

In this method the priority is given to a debt with highest interest rate. Using the same example with a small difference we will try and understand this method.

TYPE OF DEBT	OUTSTANDING	MINIMUM DUE / INSTALLMENT	INTEREST RATE, REDUCING BALANCE
Credit Card 01	AED 10,000	AED 500	3.00% monthly
Credit card 02	AED 15,000	AED 750	3.30% monthly
Personal Loan	AED 50,000	AED 1,268.13 * 48 months	10.00%
Car Loan	AED 70,000	AED 1,643.95 for 48 months	6.00%
Mortgage	AED 1,000,000	AED 5,278 for 300 months	4.00%

In this case we will apply the extra payment of AED 100 towards credit card 02, to pay it off completely while making minimum payments on other card and loans.

Once card 02 is paid off, then the excess cashflow to allocated for the repayment of the card with the highest interest rate.

Using the same strategy you can pay off all your liabilities till you are debt free.



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## STEP 8

### Financial Independence

Achieving Financial Independence is the last step and the most rewarding phase.

It is the stage when you have achieved or have enough money saved and invested to achieve your short and long term financial goals.



Most importantly it is when your assets are working for you to supply a regular and dependable stream of passive income.

Now let us see the different sources of passive income.

## **Rent**

Rental income can be derived from a number of sources including:

- the letting of property, e.g. houses, flats, apartments, offices and farmland,
- Rent or lease from letting out advertising signs, communication transmitters
- the granting of sporting rights and royalty

## **Dividend**

Income from employment or business has been the major source of income for most people. This is okay to begin with, but over a period of time, you may want to build another source of income, supporting your salary or profits

If all of your income comes from a single source, and if that source gets shut off, then what happens?

You will be happy to learn that you can build an alternate source of income via dividends by owning equity of financially strong and profitable organizations.

Dividend income isn't just for retirees, although it does work wonders in retirement.

By diligently putting away an extra grand or so each month in good dividend stocks you can create a portfolio of dividend yielding stocks.

## **Interest / Coupon**

Interest can be earned from short term or long term deposits with banks. Banks in UAE do not offer a good rate, but UAE residents can invest in Sukuks, offering yields as high as 6.00%, offered by leading government and private entities.

# Annuity / Pension

An Annuity or Pension is a plan offered by an Insurance company that pays out a regular income. Annuities are a popular choice for investors who want to receive a steady income stream in retirement.

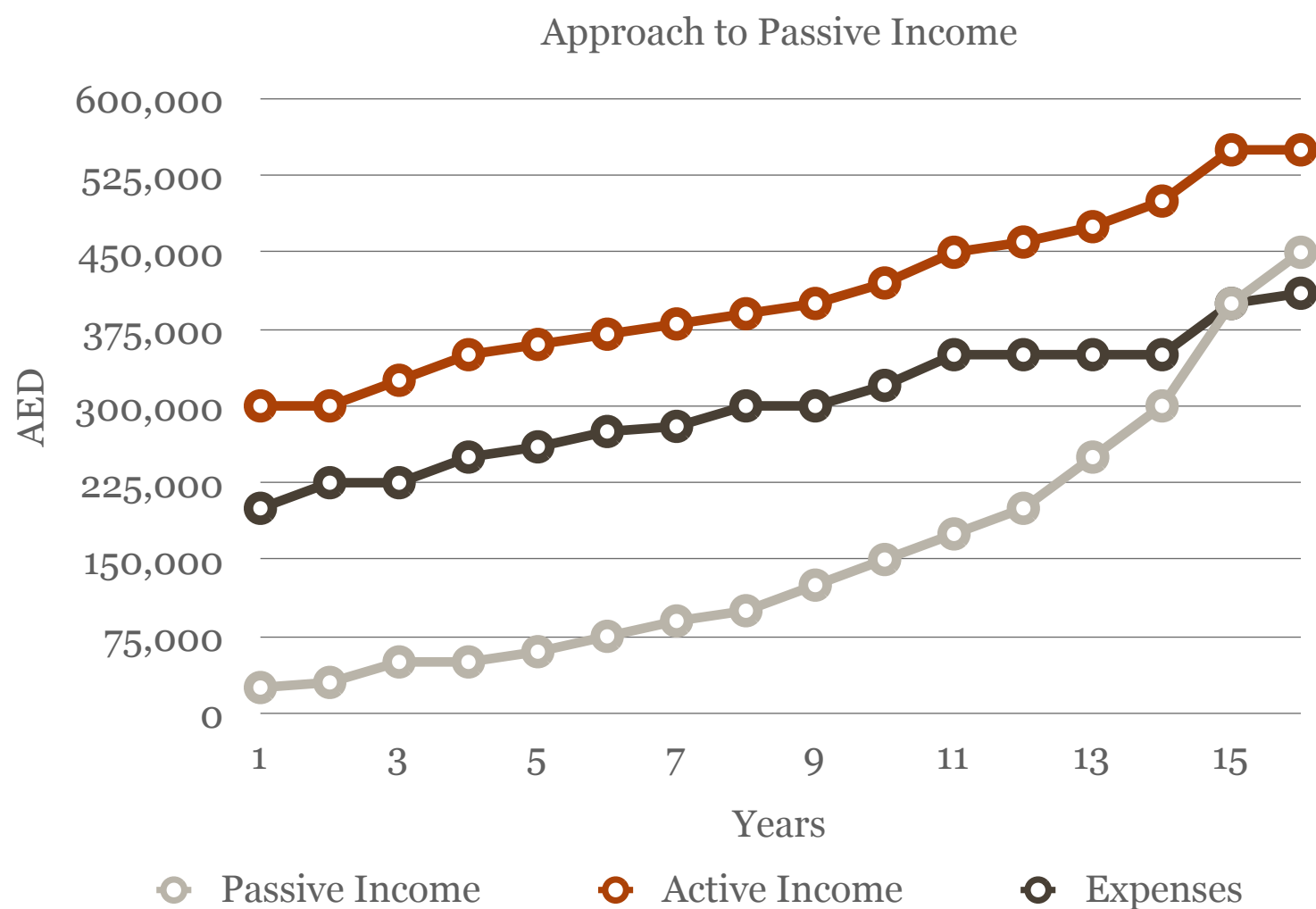
## How to invest in an Annuity / Pension Plan?

You can invest in an Annuity / Pension plan with a life insurance company either by contributing a regular monthly premium or via a lump sum investment.

Your premiums are determined by your age and desired annuity and the number of year you want to receive pension payments

You can choose to receive payments for the rest of your life, or for a set number of years.

Talk to your financial adviser to understand the most suitable or a combination of asset classes which can fetch you a regular and dependable stream of passive income.



When your passive income from various sources exceeds your expenses, you become **financially INDEPENDENT**.

Once you have achieved financial independence; active work can be optional giving you more choices to live life the way you want...

Congratulations and Thank you for completing this journey of 8 steps to Financial Independence with me.

I hope and pray that you achieve all your goals to live a happy and fulfilled life.

Best regards,

Damodhar Mata