KT For Good: Five common money mistakes UAE expats make

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(Alamy)

Many expats do not have adequate funds to secure their sunset years.

It didn't surprise many when the HSBC Expat Explorer survey recently noted the UAE ranks ninth globally in terms of opportunities and a good quality of life for expatriates. The UAE is the only country in the Middle East to feature among the top 10 nations, and rightly so. The country scores well in terms of career opportunities, financial security, and is a great place to raise a family. Yet, there are sob stories galore of expatriates laden with unsustainable debt. We read a fair share of such stories last year when the UAE ran its amnesty campaign to offer succor to violators. Even today we know of many around who might be living their life in style but can't really rely on their bank accounts if a need arises.

What's worrisome is that despite staying in the UAE for decades, many expatriates do not have adequate funds to secure their sunset years. Understandably, the biggest challenge expatriates face is the complexity of managing finances in a new country. In the second part of the #BeMoneyWise campaign, we are highlighting five common mistakes that expats make:

1-Fil wise dirham foolish: Money in most cases is spent emotionally rather than rationally. Think of the three biggest expenses while living here - it includes, housing, schooling and vacations. While many of us are prudent about our small spends, which could be in malls, grocery stores, etc, finances often get off-balance because of the choice of schools we make, houses we rent, and the vacations we take. "The UAE has good accessibility to much of the world, which allows residents to explore more places. But we have seen people overshooting their budgets on holidays, and it affects other plans.

Depending on the income of the couples, families should stay focused on these three big expenses. Renegotiate rents when markets are down, or better still, relocate to locations that offer more affordable rents," says Vishal Dhawan, a financial advisor providing services in India and the UAE.

2-Attitude towards money: Inability of couples to reconcile spending behaviour is another reason why some households are unable to take a grip on their finances. It doesn't help when one person is a spend thrift and the other cares little before opening the purse strings. "Couple should agree on what are good spends and bad spends, and it pays to stay true to each other," explains Dhawan. It won't do the household any good if the earning member(s) do not share the same philosophy when it comes to earning and spending the hard-earned money.

3-Lack of savings plan: The golden rule to a happy financial life is start saving and investing as soon as you are paid the first cheque for your labour. "Whatever may be the income, every individual must save at least 25 per cent of the monthly income, and should systematically invest it," says K V Shamsudheen, founder director of Barjeel Geojit, and a life-long financial campaigner in the UAE. "Saving is an attitude. Expatriates should remember that they cannot stay here all their life. They should save and build up regularly to serve them and their families well when they move back," he adds.

4-Beliefs and reality: Sometimes what we think of one-off expenses simply keep appearing in one form or the other every month. You could be buying jewellery one month, or paying for your child's music lessons for six months in advance. Next month it could be some other similar expense.

"Even though we might think of these as one-off expenses, many such expenditures tend to appear with the same regularity under different headers, and that affects saving opportunities for individuals and households," explains Dhawan. The solution here is to have a tracking mechanism, write major expenses, and also plan it for unforeseen expenses.

5-Don't just stash cash, invest it wisely: Never underestimate the power of compounding. Even small amounts of money saved regularly and invested gradually every month can lead to a windfall. Take this for instance: Investment of Dh1,000 every month for 10 years, at an interest rate of eight per cent compounded annually, will fetch you more than Dh185,000 at the end of the tenure, against the saving of Dh120,000.

The same amount invested for 20 years will fetch around Dh600,000 and if done for 30 years, your prudent money habits will easily build a financial cushion of over Dh1.5 million.

"Even if you earn Dh5,000, save at least 500 and invest. Unfortunately, many expatriates even after working in the UAE for three decades don't have even three million at the time of their return," says Shamsudheen.

If you identify with any of these behaviour, it is time to take corrective steps and change the course of your money life. It pays to be wise, #bemoneywise.

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