

## **Cost of delaying savings**

Most of us are in the habit of putting off joining a pension plan until we are well into a later stage of our working lives. We live in the hope that each passing year will see a raise in our earnings or an additional bonus which will leave us with some extra income to save. Unfortunately, time does not wait for any of us. The more the delay, the more it becomes difficult to save as laws of the land keep changing with new governments.

People prefer living life in the fast and expensive lane while in Dubai. Despite tax free salaries and benefits, the expenses attached is also a factor that is open to all who believe in spending lavishly for every pound they earn. None of us knows what the future has in store for us. It's all fine until you realize your day of retirement has arrived and it is too late.

Dubai may offer causes to lose sight of your long term goals but it also has an abundance of opportunities to save. In spite of 25-30% of your monthly income likely to be soaked up by fixed expenses like rent and utility bills, the tax free remuneration also leaves quite a surplus for you to save.

The question that arises is how much does one save with factors like inflation and changes in income tax regulations may see an alteration to saving plans as well. An early and proper [retirement planning UAE](#) can help you make some realistic plans to save for retirement. Let's look at an example

### **Example 1**

Jonathan would need to set aside \$262 a month of his gross income assuming he starts out at the age of 25. If starts saving right now, and assuming he plans to retire 68, then by the time he is 35 he would need to save \$437, going further a decade, at the age of 45, he would need to save \$794 and so on and so forth. This is if you need to save anywhere close to \$27000 a year to have a retirement income.

A general belief that a 6 to 12 months delay in the systematic investment plan (SIP) will not make any big difference, especially since they want to invest for a longer time period of 20 to 30 years. Some eye-opening examples for you will change your perspective.

### **Example 2**

Assuming that you want to invest Rs 12500 per month for 25 years in tax-saving funds with the use of Section 80C limit but you delay it by 12 months. The cost of delay for Rs 12500 monthly SIP(systematic investment plan) for 12 months (i.e. Rs 1.5 lakh) will lead to a loss of Rs 28 lakh even if you invested for next 25 years and got 12% returns annually. Going further a 15-month delay will cost you Rs 34 lakh, and an 18-month delay will lead to a staggering Rs 40 lakh loss.

Life insurance is certainly one way of the preparation for tomorrow. However, Critical illness cover or insurance is another way to meet the living expenses without digging your savings. CIs can be customized to pay off your mortgage, debts, more importantly to provide you income while you are recovering from your illness. It is vital to know the things included in your policy and extremely essential to take a note of things not covered under the policy as well. You must at an average cover yourself for an income replacement for at least two years..

For eg: If your monthly expense is **\$6806.05**. Yearly requirement will be **\$81672.65** and for two years it is **\$163345.31** CI sum assured requirement = **\$163345.31**

**Ideally CI cover should be calculated as below:**

Sum assured required = two years of income **\$163345.31** + mortgage outstanding **\$108896.87**+ personal loan outstanding **\$ 54448.43**+ misc liabilities **\$ 27,229.41**

Total sum assured required = **\$353937.00**. Fortunately, the maximum cover that most of the international companies allow is \$1.25 million.

The conclusion is the delay to save enough for retirement or sudden ill health, with each passing year will only bring regret. We need to see the impact on your current standard of living that will only get bigger if you don't start right now. The longer you delay, the bigger the need to increase your needed monthly savings.