

Retiring abroad

The lure of an affordable cost of living and temperate climates is leading a growing number of Americans to retire abroad. Many others are looking at the financial aspects of the idea. In some cases it may be a return to one's native country or that of one's forebears. Perhaps it's to a place where one once worked or studied.

Are you considering the possibility of retiring overseas? The following considerations should be examined carefully prior to any decision to have a foreign retirement.

Your place of destination

If you are not completely familiar with the strength of the foreign country's government or its financial institutions, make that task your starting point. Stability is the key, says John Briley, senior managing editor for iJet Intelligent Risk Systems, an organization that monitors security around the world. Briley recommends that retirees should consider issues such as racism, police corruption, organized crime and terrorism.

With regard to real estate, Briley notes that although home prices may seem very attractive by comparison with the U.S. market, you should make certain that the amenities that you seek are available where you ultimately will make your home.

U.S. taxes

U.S. taxes are payable on pensions sent abroad. An exclusion does apply up to a certain limit for income earned abroad. Depending upon your state, you may not be liable for state taxes.

Foreign taxes

Foreign taxes vary enormously, depending upon the country that you choose. Tax treaties between the U.S. and other countries often determine the amount payable. You can obtain a list of treaty countries and tax rates by obtaining IRS Publication 901 (*U.S. Tax Treaties*), available at www.irs.gov/pub/irs-pdf/p901.pdf or by calling 1-800-TAX-FORM (1.800.829.3676). Provincial or local taxes also may apply.

For example, Canada's federal and provincial tax bite can be as much as 50%. Don't forget about inheritance taxes. Many countries have strict rules regarding disposal of an estate upon death.

Hint: You may be able to shelter some pension funds from foreign taxation by rolling the assets into an IRA. Check with your accountant or a foreign tax specialist to determine whether the foreign country would view a rollover as nontaxable capital.

Social Security

In most cases Social Security checks will continue to be issued. However, there are exceptions for residents of certain countries. In the past these tended to be the communist countries, but those on the government's list of terrorist hotspots also may be restricted.

Insurance

Medicare doesn't cover care outside the U.S. and its territories, except for certain Canadian and Mexican facilities. Because many employers' health-care insurance plans are tied to Medicare, such plans may change for participants who move abroad. The solution can be insuring yourself with the national insurance of your country of residence. This insurance (particularly in Europe) may be relatively inexpensive. Check with the country's embassy to find out more.

Currency fluctuations

If the local currency is low against the dollar, your pension payments (in dollars) will buy more local currency. But the opposite always can be true in a changing global money market. Protections? Invest some money in local currency, such as money market or mutual funds, as a hedge against upward swings. Or think about an interest-bearing account in the U.S. that pays interest in foreign currency. This account also may maintain the protection of FDIC insurance, which you lose overseas. In either case, you may wish to invest with a U.S. company's branches abroad or with large multinational firms.

A checklist

Still and all, for those with the will, the way and the resources, the world is your oyster at retirement. To help you plan, here's a short checklist of important practical matters:

ÉMake sure that you have revisited the country and locale at least once close to the time of your retirement.

ÉApply for a residency visa and other documents early. Be mindful of fraud if you choose a private emigration service.

ÉResearch shipping methods and firms. If duty-free entry is not so compelling, consider what you'll want to sell and repurchase abroad (washing machines, TVs, etc.).

ÉInventory in writing exactly what you are taking.

And most important: Bon voyage! Don't forget to revisit us soon.

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Any developments occurring after January 1, 2008, are not reflected in this article.