

Retiring abroad has financial implications

Vikram Barhat / August 11, 2010



Irresistible is the pull of retiring to a destination blessed with balmy climes. The proof is for all to see in the recent European survey by Aon Consulting that revealed Spain and France as the retirement destinations of choice among an increasing number of Europeans.

Escaping the harsh climate of their home country was noted as one of the leading factors that motivated the move. A reason many Canadians can easily identify with. To these Canadians, the prospect of spending their retired life in the U.S., Mexico or countries in South East Asia could be a real possibility.

But don't pack your bags just yet, say Canadian retirement planners warning there are financial implications to consider.

"It would be wise to contemplate tax, estate and cash management implications," says Jeff Young, senior manager, financial planning support with RBC. "When you leave Canada, your non-registered assets are deemed to be disposed of, but people may decide to keep real estate for occasional visits, or they may have registered investments such as RRSPs or RESPs which they choose to leave in Canada."

There could also be tax implications both at home and in a new country of residence. It is certainly worth investigating that in advance to avoid nasty surprises later on. For instance, RIFF withdrawals can have tax implications both in Canada and the new country of residence. The same goes for investment income from non-registered investments in new jurisdictions.

Another critical consideration, says Young, is taxation issues once you are gone. "You want to look forward a fair bit and ask am I entering a regime where there is a heavy taxation component upon death, and just be aware what those implications might be."

To enable the smooth transfer of assets one must consider the new legal environment of the adopted country which could impact such estate planning perspectives as wills and power of attorneys.

Young highly recommends having those reviewed by experts. "I would stress being proactive and engaging professional tax and legal advisors, because there could be planning opportunities that are only available before actually moving to the jurisdiction in question."

Cash management is another key component to look into, says Young. "There're things like the cost of living in your new environment. As part of planning your retirement you want to be very conscious of (whether) your money will last you, and in order to do that you need to understand what your cost of living is going to be."

How to access funds left in Canada then becomes an important part of the cash flow management.

It is, however, not improbable for retirees to overlook some aspects of the expat life while dealing with the complexities of relocating overseas. Access to services is the most common planning piece that is forgotten.

"You may find paradise, but as you age your need to go to the doctor or pick up prescriptions, and your daily necessities increase," says Keith Pangretitsch, director of national sales at Russell Investments Canada Limited.

Healthcare benefits can vary widely for expatriates and could become a major concern for retirees as they age.

"There is a possibility of retirees having healthcare issues as they get older," says Young. "We are really spoilt in Canada, given the stability of our healthcare programme."

Other than the cost piece, one must find out if they can receive quality healthcare. There are some countries where quality of healthcare is questionable, while it comes at a hefty price in others.

The issue of currency too goes hand in hand with living abroad. "If you're in a jurisdiction where the currency relative to Canada does vary quite a bit, then obviously it becomes an important issue," says Young. "If you leave assets in Canada that are going to be sources of income, and (if) ultimately spent in a different currency, then you've got a currency challenge."

Depending on the jurisdiction, one could possibly align their investment to hedge that currency risk. The alternative is to try and mitigate the risk by taking it out of the equation altogether.

"If you move all your assets out of Canada into the jurisdiction you live in, then the currency issue becomes irrelevant," says Young.

A similar approach is suggested by Pangretitsch, who says currency hedging a portfolio is not as easy as many may think. "The better option would be to take a portion of your assets, which would depend on the amount of time you expect to spend in a foreign country, and invest your assets in that currency or with a local advisor."

Leaving one's home country is not an easy decision, but thorough financial planning and a proactive approach can really take the sting out of retiring abroad and help retirees find their place in the sun.