Financial Planning

Do Your Clients Want to Retire Abroad?

They'll need a lot more than a passport. Here's how you can help.

By Elizabeth O'Brien

May 1, 2007- What would you do if a client asked you to help plan a retirement filled with daiquiris on the beach...in Panama? What about a move to a country cottage in Ireland?

A growing number of Americans are choosing to spend their golden years abroad.

Living overseas offers a sense of adventure and, often, a reduced cost of living. Yet most people--and their advisors--don't realize how much planning is needed to make the move a success.

Dale Walters, a U.S. and Canada cross-border planner, says none of his new clients fully understand the financial implications of living abroad. They'll often come to him with just a question or two. "It's like an iceberg--there are 40 below the surface they don't even know to ask," Walters says. The questions he asks them include how their 401(k) account will be taxed where they want to live (some countries don't recognize qualified plans), whether their estate plan will have to be modified and what they will do about health insurance.

Could you walk your clients through these considerations? Chances are you may be asked to. It's hard to say how many Americans have retired abroad. The State Department doesn't keep track of the numbers, and the U.S. Census Bureau doesn't count Americans overseas. The Social Security Administration sends checks to more than 260,000 retired workers abroad, but this represents only a fraction of the total because many overseas retirees have their Social Security checks deposited in the U.S.

Despite the lack of statistics, anecdotal evidence suggests an increase in the number of retirees overseas. Rosanne Knorr, author of *The Grown-Up's Guide to Retiring Abroad,* says she's noticed an uptick even in the past 18 months or so. That's hardly surprising, given the demographics at work: The oldest of America's 78 million baby boomers turned 60 last year.

Knorr says many U.S. citizens going abroad assume they'll encounter the same legal and tax systems as those back home. "I don't think people do their homework enough," she says. They don't realize the complications that can arise if they don't do the proper planning. "I strongly recommend that anyone doing this hire a series of experts," she says. You should be one of the experts your clients consult, even before they start house-hunting. Here are some factors to consider as you help your clients realize their retirement dream, whether it's snorkeling in Cabo San Lucas or painting in Provence.

STRETCHING THE DOLLAR

Retirement income calculations take on a new complexity when your client lives abroad. It's not enough simply to convert dollars into the local currency to see how much the client will need to live on. Dale Walters adds a stress test that factors in currency fluctuations of 10% to 20% in either direction.

Currency conversion rates can also help retirees decide whether to have their Social Security benefits sent abroad--the Federal Reserve Bank of New York is fiscal agent on transactions that convert the monthly checks into the local currency with the help of a processor bank in the host country--or deposited into a U.S. account. Local currency direct deposits are available in at least 45 countries, including Canada, Mexico, Ireland and England. (Go to the Social Security Administration website for the most updated list.) Beneficiaries do not pay a conversion fee on the international transactions, according to Social Security spokeswoman Dorothy Clark. Today, it might make sense to receive one's Social Security check in euros, for example, since the dollar has weakened substantially against that currency and typical conversion fees would further erode the value of a check sent in dollars. (Checks cannot be sent to Cuba, North Korea, Cambodia, Vietnam or some parts of the former Soviet Union.)

Planners should consider the monetary and political stability of each country when advising clients on how much of their assets to convert into the local currency. David Lesnick, an Arizona planner with many clients in Mexico, recommends that his clients there keep six months' living expenses in pesos but leave the rest of their money in dollars. The memory of the peso's plunge in 1994 remains fresh for many, and fears linger that the Mexican government could again decide to devalue the currency.

Currency conversion rates are just one factor in the cost of living overseas, which varies widely across popular destinations. Your clients may think that any place outside the U.S. will be a steal, but that's not the case. Retirees enjoy Canada for its nature, lifestyle and political climate, but the cost of living in Toronto is the same as that in Phoenix, Walters says. Panama's pensionado program, designed to attract economically self-sufficient retirees, helped earn that country the top spot in *International Living*'s 2006 Annual Global Retirement Index. Under the pensionado system, retirees who can document a monthly income of at least $500 qualify for steep discounts on everything from medical care to mortgages. No conversion calculations are necessary with Panama-the country uses the U.S. dollar as its currency. "Panama is what all the buzz is about right now," says Suzan Haskins, Latin American editorial director of the *International Living* newsletter, via email.

Often, countries prized for their low cost of living get pricier as their popularity among retirees grows. For example, housing prices skyrocketed in Guadalajara, Mexico, over the past 10 years as that country's second-largest city turned into an expat haven. "That was something absolutely driven by the gringos," Lesnick says. "They made their worst dream come true." Yet even with the added expense, the cost of living is still lower in Mexico than in the U.S., he notes. Retirees there can spend less than they would at home and get more for their money, including the service of maids and gardeners. Retirees who have become frail and need in-home assistance could particularly benefit from this kind of purchasing power.

PROPERTY, TAXES AND ESTATES

Leaving the country doesn't exempt U.S. citizens from their home-country tax obligations. Retirees may not owe any U.S. income tax while they're living abroad, but they must still file annually with the IRS. This is the case even if a U.S. citizen moves all of his or her assets to a foreign country: U.S. citizens are taxed on their worldwide income and, when they die, on their worldwide estate. This means the cute Mediterranean villa your client bought won't be beyond Uncle Sam's reach when she dies. "The U.S. eventually wants its pound of flesh," says Joel Larsen, a California planner who advises a couple who are working in Paris and considering retiring in France.

Retirees abroad must also meet the tax requirements of their host country. The U.S. has tax treaties with a number of countries that prevent double taxation, but they don't exempt residents from their obligation to file. For example, the U.S. currently has 16 treaties that cover estate taxes in various countries, including Australia, Ireland and Italy (seven of which, including those for the U.K. and France, also cover gift taxes). How these treaties will apply to a particular U.S. citizen depends on factors including the type and location of the property and whether the individual was also a citizen of the host country, according to an IRS spokesperson. Many planners recommend that their overseas clients hire CPAs and/or tax attorneys well versed in the tax laws of both countries to help them navigate these complexities.

And if expat retirees acquire any assets abroad, they will need to modify their estate plans, since those assets will be subject to local estate tax rules. California planner James F. "Buddy" Thomas has a retired client who lives in England and bought property there with her English boyfriend. "Her challenge is what happens to her part of the house if she should pass away before him," Thomas says. He suggested establishing a funded buy-sell contract to prevent the woman's heirs from fighting with her partner over the house. Under this arrangement, the couple would buy life insurance on one another, and if the woman dies before the man he would collect the proceeds and use them to buy out her heirs on her half of the house. (The couple would need an attorney in England to draw up the contract, Thomas notes.) If the couple lived in France it would be a different story: French estate law is based on the Napoleonic code, which gives the deceased's children an automatic right to a fixed percentage of the estate.

Insurance is another factor to consider with assets acquired overseas. Most U.S. umbrella liability policies don't cover international assets. Chubb offers one of the few that indemnifies customers' worldwide exposure, Walters says.

MEDICINE WITHOUT BORDERS

Healthcare tops the list of concerns for many clients who are thinking about moving abroad. Medicare, the U.S. government health plan for people 65 and over, does not cover healthcare overseas. Many countries have national health systems, but it's important to investigate access and quality beforehand. For example, in Mexico it's relatively easy to obtain IMSS, the country's social health insurance, if you have a visa (which in turn is not difficult to obtain with a passport and other application materials). However, applicants must disclose preexisting conditions and those with chronic health conditions such as diabetes may be rejected. The annual cost for IMSS is less than what most couples would pay per month in U.S. health insurance premiums, but the quality of care varies. Those with heart problems, for example, often return to the U.S. for medical attention, while those who require constant care tap Mexico's affordable home health assistance, Lesnick says.

As in Mexico, noncitizens in Canada must establish permanent residency in the country to access the national health care system. But Canada imposes more barriers to residency, making it difficult for retirees without substantial resources or close relatives in the country to establish permanent resident status. Melanie Carkner, a spokesperson for Citizenship and Immigration Canada, says prospective immigrants are evaluated on many factors. While there are no specific minimum income requirements, applicants will likely be rejected if the evaluation finds they will pose an "excessive demand" on the healthcare system, she says. A separate business immigration program welcomes those who make a $400,000 investment in the country or who will own and manage a business there. (Citizenship eligibility rules vary from country to country, but planners with clients abroad say very few obtain the citizenship of their host country.)

Those who can't access local medical care abroad have several options. U.S. citizens outside the country generally can't buy the insurance products they would at home, since the U.S. insurance industry is regulated on a state-by-state basis. But the global insurance industry is growing. Some providers of international medical insurance can be found at imglobal.com, goodhealthworldwide.com and ihi.com. Clients who hire an international insurance broker to help navigate these options should conduct due diligence on the broker beforehand, advises Peggy Creveling, an American planner who lives in Thailand. They should make sure the broker is regulated by a major market to sell the policies being offered and check with the regulator to see if there's any history of complaints. They should also make sure there are no complaints against the underwriting firm.

Some retirees retain their private U.S. health coverage and pay out-of-pocket for medical services abroad. Knorr used this option when she and her late husband lived in France for several years. He had serious health concerns, and the couple feared they would be denied new coverage if they let their existing U.S. policy lapse. But they didn't necessarily return to the U.S. for medical services. Knorr's husband once needed a heart procedure whose cost in France without insurance equaled the cost of the deductible they would have to pay in the U.S. for the same procedure--and the French treatment included a longer hospital stay. Knorr concedes the costs would not be as comparable today since the dollar has weakened against the euro.

TAKING THE PLUNGE

Clients considering an overseas move should visit their destination in different seasons to gauge its year-round desirability, planners advise. Too often, they say, people make decisions based on a week's stay in a hotel and are disappointed when they return for good. Lesnick recommends that his clients rent for a year in Mexico before making a final decision on whether to move there. Washington-based planner George Middleton has visited Mexico, Panama, Belize, Costa Rica and other Latin American countries researching his own retirement options. "Every place has its pros and cons," he says. Talking with expats who have made the move can help people sort out their priorities and determine which destination is right for them. On its website, *Transitions Abroad* magazine lists a number of online discussion forums for expats.

Planners have to work a bit harder to maintain relationships with clients who do decide to move overseas. Some planners, like Creveling in Thailand, live abroad themselves, but more remain stateside. With long-distance client relationships, "you don't have the warm and fuzzy," says Dallas-based advisor Glenda Kemple, who has a client now based in the United Arab Emirates. She's tried to replicate personal touches as best as she can, sending birthday cards to her client via email and Christmas presents via Amazon.com.

Some planners have enough clients in one country to justify trips to visit them. Lesnick prefers to have face-to-face interaction with his expat clients, so he travels three times a year to Mexico at his own expense to meet with the 25 clients he has in the country. The time difference between Mexico and his home in Arizona never exceeds two hours, but spotty phone connections can still make long-distance chats a challenge, he notes. About 90% of his clients have Internet access in Mexico, making email an easier form of regular communication. These clients can also link from Lesnick's website to a site that shows their account information.

Once abroad, a client can always change his mind and come back home. Unexpected medical concerns are a frequent reason why expat retirees return to the U.S. Other reasons include an inability to adapt to a new culture. "If you're not flexible, forget it, don't even think about it," Middleton says about a move abroad. And of course, stateside grandchildren can curb the wanderlust of even the most adventurous retiree.

With careful planning, though, clients are more likely to make a decision that sticks. For them, the biggest regret about moving abroad could be their failure to do it sooner, says *International Living*'s Haskins. "Most people will find that if they can move to a place where they can reduce their living expenses, they can actually retire earlier than they expected," Haskins says. "That's a good thing."

SIDEBAR: RETIRING SOUTH OF THE BORDER

Mexico's popularity as a retirement haven has skyrocketed among U.S. retirees over the past 10 years. The southern migration accelerated after the terrorist attacks of Sept. 11, 2001, when retirees who had considered farther-flung destinations like Spain refocused their sights closer to home. "9/11 really pushed it to the top," says Bruce Greenberg, a real estate appraiser in the Mexican market. Estimates put the total number of U.S. citizens living in Mexico at around 1 million.

The country's 6,000 miles of coastline offer something for every budget, and the cost of living varies greatly by location. (Make sure clients use an expert to help them navigate the complicated ownership rules for land within 50 kilometers of the coast and 100 kilometers of the border.) Pricey Cabo San Lucas, at the southern tip of the Baja Peninsula, has become "the international playground retiree area," Greenberg says, while farther up the peninsula Loreto offers options for those with more modest means. Most retirees buy property there instead of renting, he notes, and the average property has appreciated at an annual rate of 15% over the past five years. Not surprisingly, the presence of foreign retirees buying in a given market drives up the area's real estate values.

Americans living in Mexico can find all sorts of familiar amenities. "You can turn on the TV and find CNN, walk down to the drugstore and get *USA Today*," Greenberg says.

Guadalajara, the country's second-largest city and a popular retiree spot, boasts a Wal-Mart and a Sam's Club. One amenity you're less likely to find is an American-caliber assisted-living facility. These won't take off until U.S.-style healthcare becomes widespread, Greenberg predicts.

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