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The Challenges of Retiring Abroad

By Ben Steverman - Sep 28, 2011 11:22 AM GMT-0300

Be Aware of Pitfalls

Online banking makes it possible to control our finances from anywhere, and Skype and Internet phones let us call someone halfway around the world without racking up huge bills. So retiring abroad should be a breeze, right?

"Retiring abroad works well on paper, but the reality is different," says Milo Benningfield, head of Benningfield Financial Advisors in San Francisco. "There are lots of hidden costs." It may be cheaper to live in Costa Rica, but flights home, accountants to handle cross-border tax issues and lawyers to untangle local red tape are among less obvious costs that whittle away any cost-of-living advantage. Here are common challenges of retiring abroad and how retirees handled them.

Real Estate Restrictions

When Jane Walsh moved from Arkansas to Mexico's Baja California, she loved her "gorgeous" new home, with its white stucco walls, red tile roof, air conditioning and proximity to beautiful beaches. Yet she didn't own the land the home sat on. Like other foreigners who buy real estate near Mexico's coasts or borders, Walsh had to lease the property from a bank trust.

Government rules and regulations for buyers can vary from area to area. It might not be easy to get a mortgage, particularly if you're not working. Network with acquaintances to "get a good local lawyer who's going to understand the red tape," says *AARP The Magazine* Executive Editor Ken Budd.

Quality Medical Care

A 2010 Commonwealth Fund survey showed that 85 percent of French adults are confident they'd get the most effective treatment if seriously ill, versus 70 percent of Americans. Though Americans abroad can collect Social Security, Medicare coverage stops at the border.

Medical care in Western Europe is widely praised, but care in other areas can vary widely. Michael Weldon, a 69-year-old American in Buenos Aires, just had knee replacement surgery. "The health care's better than [in] the U.S.," he says. Hugh Leong, a 65-year-old American in Thailand, doesn't buy insurance because high-quality care is so affordable, he says. Treatment for a pinched nerve at "the best hospital in town" cost him \$77. Of course, there's a reason so many world leaders trek to the U.S. for care -- in highly complex procedures U.S. hospitals have much to offer.

Currency Risk

Overseas retirees might keep their savings in one currency, while their expenses are in another. That makes them vulnerable to the whim of currency markets. From 2000 to 2008, the U.S. dollar lost almost half its value against the euro. Movements can be sudden: In three months in early 2011, the dollar lost 11 percent against the euro.

Keep at least six months of living expenses in local currency, says Benningfield. Keeping some assets in your native country can also be smart if inflation is higher abroad, since even if currencies hold steady, inflation can radically reduce buying power. Weldon says food prices are up 40 percent in Buenos Aires over the past year.

Bureaucratic Battles

According to the World Bank, it takes 2 days to start up a business in Australia, 6 in the U.S., 60 in Costa Rica, and 694 in Suriname.

Benningfield warns that many countries have a "layer of bureaucracy you don't really know about until you're there." Getting anything done--from obtaining a driver's license to renovating a home--can be a slog.

Leong says an easygoing attitude helps him handle Thailand, a country with turbulent politics and which bans foreigners from owning property, working or volunteering, and requires they check in with authorities every 90 days. "I don't get involved in local politics," he says. "It's their country, not mine. They make the laws and I obey them."

Banking Hassles

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That law, and regulations aimed at stemming terrorism financing and money laundering, make it tougher for Americans to have bank accounts abroad, says Marylouise Serrato, executive director of American Citizens Abroad. The reporting and regulatory burdens on banks have them refusing to do business with Americans abroad, she says. Complaints have been growing about bank and investment accounts being closed on Americans without U.S. addresses, and foreign banks refusing American customers and even calling in mortgages.

Tax Twists

Americans abroad face special tax issues since, unlike many countries, the U.S. taxes all of a citizen's income, whether earned in the U.S. or not. Income earned while living overseas could be taxed by both the U.S. and a host country.

Each country has unique rules. In Argentina, there's no capital-gains tax, but there is a 0.5 percent to 1.5 percent tax on net worth, and residents are taxed on worldwide income. Because of that, the Weldons haven't become official residents of Argentina. They leave every 90 days, often for a day trip to Uruguay.

There are tax treaties and special provisions that can reduce tax burdens on expatriates. Unfortunately it takes a tax specialist to navigate them.

Culture Shock

Adjusting to a foreign culture can require patience. The Weldons are adjusting to a different pace of life in Argentina, one in which they must wait until 8:30 p.m. for many restaurants to open. In the U.S., "we're used to everything happening yesterday," says Bettye Weldon, Michael's wife. "It does not happen like that here."

After six years, the Weldons say they've made progress fitting in, and they still feel connected to friends from their previous home in Rochester, N.Y., and friends and family in California. "We have had more company in the past six years than we ever did when we lived on the East Coast," says Bettye.

Lifestyle Hitches

Jane Walsh moved from Arkansas to Mexico, then moved back 14 months later. In a small town, "there wasn't much to do and there wasn't much shopping," she says. Certain basic things bothered her. The local grocery store didn't refrigerate eggs, for example. The main north-south road in Baja California was dangerous. She couldn't speak Spanish, and summers were brutally hot.

Hugh Leong, in Thailand, advises doing "a part-time retirement abroad first," as he did in Thailand. Spend a couple of weeks, then a month, then three months, making sure you experience the seasons. "If people don't test the waters, they could be in for years of pain and difficulty," says Leong.