

September 30, 2016

Quitting Canada: How to retire in spring-like paradise in the autumn of your life

By Jason Heath, Special to Financial Post

Canada is the best country in the world to live in, but there are some seriously good opportunities to retire abroad - and even to retire much...

With memories of recent long weekends and summer vacations still fresh, it is a good time for Canadians to consider how to make that lifestyle part of a year-round retirement reality.

Although we all know that Canada is the best country in the world to live in, when you do not have ties like work or concerns such as quality education for your children to consider, things like climate and cost can become more important considerations.

In its annual Global Retirement Index for 2016, International Living named Panama, Ecuador and Mexico the top three spots for international retirement. The index does go so far as to break down rankings based on 10 separate categories for those who wish to prioritize certain criteria such as entertainment, health care, "ease of integration and so on.

But the "where" is just the end consideration. For aspiring global retirees, the bigger, more immediate question is "how?"

Like any retirement planning exercise, budgeting is important. The index provides some guidelines, but one person's "average" is another person's "excess" or "fraction of the cost."

Websites like Numbeo and Expatistan provide fluid databases of costs that are provided by locals for a wide range of goods and services in cities all over the world. This can provide a basis for determining what your cost of living might be relative to the city you live in currently and the way you spend your money.

If you really want to think seriously about retiring in another country, no doubt you need to spend some time there first. If nothing else, to figure out if you like it and where in the country you might like to live, but also to get a sense of actual cost of living firsthand.

From there, a retirement planning exercise can help you work backwards to figure out when you could actually afford to retire to such a locale.

For Canadians considering Panama as a potential retirement destination, for example, the country's coast and highlands provide for a great climate, with variations to suit different needs. Panama is affordable, has good health care and has good entertainment options with a large expat community.



Sample the local offerings before you settle down.

The Pensionado Residence Program makes it cheap and easy to become a resident of the country. It also includes a Pensionado Visa for foreign retirees that provides discounts and benefits on Panamanian goods and services. Discounts include 50 per cent off entertainment (movies, theatre, etc.), 25 per cent off restaurants and 25 per cent off plane tickets. Health care and prescriptions also qualify for the discounts.

To obtain a Pensionado Visa, retirees simply need to prove they are receiving a pension of at least US\$1,000 per month. Average Canada Pension Plan and Old Age Security benefits for a single Canadian retiree at 65 are about US\$930 per month based on 2016 Service Canada data and current exchange rates, so a couple can easily qualify without any private pensions or RRSPs.

Canadian government pensions will provide a baseline for most aspiring global retirees, since the CPP and OAS benefits can be paid to non-residents and even paid in a foreign currency into a foreign bank account.

But, leaving Canada generally means giving up subsidized Canadian health care, with a three-month waiting period for coverage upon return. So for all intents and purposes, you should plan to have health insurance or at least understand the potential subsidized and out-of-pocket costs for health care in the country you are considering.

A thorough understanding of personal income taxation in a foreign country is important, so you have a sense of what your after-tax income will be. Knowing your gross income and having a budget means nothing if you are not sure whether you will be tax-free or losing a third of your income to tax.

It is also important to consider estate planning implications when you move abroad. Does your Canadian will still apply? What are the tax and other implications of dying in that foreign country?

U.S. estate tax in particular is an important consideration for Canadian expats. Canada has an estate tax treaty with the U.S. for its residents, but many other countries do not. U.S. estate tax can result in a potentially significant tax liability on death if your U.S. assets (including U.S. stocks or ETFs in a Canadian or international brokerage account) exceed US\$60,000.

When you leave Canada, you are deemed to have sold all of your assets

Your investments can stay in Canada while you are abroad, although tax implications, securities legislation and financial institution guidelines need to be navigated. When you leave Canada, you

are deemed to have sold all of your assets and may have capital gains tax payable on certain types of investments, particularly non-registered stocks, ETFs or mutual funds. Withholding tax rates may apply on non-registered investment income, RRSP withdrawals, pension income and rental income depending on the tax treaty between Canada and your new country of residence.

Some financial institutions will not allow you to maintain an account once you become a non-resident or you may face restrictions on your investing activities. You should determine if you should be opening new accounts in Canada or abroad in advance of your departure. Additionally, you may not be able to buy certain investments, like mutual funds, after leaving Canada or contribute to certain accounts, like TFSAs, so you should be sure to do a thorough review of your investments in advance.



Rodrigo Arangua/ AFP/Getty Images For Canadians considering Panama as a potential retirement destination, for example, the country's coast and highlands provide for a great climate, with variations to suit different needs

If you are truly giving up Canadian residency for the long-run, you might want to shift your stock exposure to non-Canadian equities or your currency exposure away from the Canadian dollar.

For example, a retiree in Mexico, the no. 3 destination in the Index, may want to have Mexican stock market exposure in their portfolio, while a retiree in Panama spending U.S. dollars may want to hold U.S. dollar denominated investments.

Ecuador, no. 2 on International Living's list, has a spring-like climate year round because of its location on the equator and high elevation. There is coast land, but the country is very mountainous. It has very affordable rent and real estate, good health care and retiree benefits.



Manuel Valdes/AP Photo Retire abroad, retire early

As far as real estate, the index puts Ecuador at the top for affordability. A two-bedroom apartment might rent for US\$500 per month in cities like Cotacachi or Cuenca. In the capital city of Quito, rent can be had for under US\$1,000 per month. Beachfront properties can be purchased for around US\$100,000.

Panama is reportedly comparable, with one expat quoted by International Living as saying that a couple can live on "as little as \$750 a month, if they own their own home," but "even if you rent, a monthly budget of \$1,500" is sufficient.

For Canadians who want more information from the Government of Canada on retiring outside the country, Travel Canada has a good publication called "Living Abroad."

And for those who are considering it seriously, it is clear there are some seriously good opportunities to retire abroad and even to retire much earlier than you might otherwise call it quits here in Canada - with a little advance planning.

Financial Post

Jason Heath is a fee-only Certified Financial Planner (CFP) and income tax professional for Objective Financial Partners Inc. in Toronto.