Passport to paradise

What you need to know about planning for retirement abroad

How does a sunny beach, a new culture, and a lower cost of living sound for your retirement?

Well, more and more Irish retirees are making this dream a reality, trading the rain for warmer climates and better tax breaks. Whether it's for adventure or to try to make their pensions go further, retirees are heading to places where life is much sunnier.

In fact, research from global tech company Wise shows that 27pc of Irish people are 'very likely' to retire abroad. The survey of 1,000 adults aged 55+ in Ireland revealed that 31pc dream of retiring to a place with a better climate, while 27pc are looking for a location where their money will go further due to the rising cost of living.

The most popular retirement destinations include Portugal (11pc), the UK (10pc), Spain (8pc), the US (7pc), and Germany (6pc).

But why is retiring abroad such a popular choice?

Cost of living – A lot of retirees are heading to places where their pension can go much further than at home. According to International Living, living costs in countries like Greece, Spain and Malaysia can be up to 50pc lower than in Ireland, making retirement feel more like a holiday.

Climate – For Irish people, it's been a while since we could sit and bask in the sunshine at home. So hot, sunny weather abroad is a huge reason many want to escape Ireland's chilly winters. Spain, Portugal, and Costa Rica are favourites for their sunny, mild climates all year round, so people can have some fun in the sun!

Quality of life – A lot of different countries provide great, affordable healthcare and have big expat communities, so they're perfect for retirees looking for good care, better social connections, and a bit of peace of mind.

FINANCIAL CONSIDERATIONS

But before you pack your bags, it's important to consider your finances. Make sure your pensions, taxes, and living costs are all in line with the new life you're expecting abroad:

Eligibility for the State Pension

A common worry for retirees thinking about moving abroad is whether they'll still be eligible for the Irish State Pension.

Shane Tobin, Founder and CEO of True Financial Ltd, says, "Many people are often concerned that emigrating after retiring might affect their eligibility for the State Pension. However, this is not the case. Once you have the required number of PRSI contributions, you are entitled to the State Pension regardless of where you live."

Shane is from an award-winning financial services brokerage trading as True Wealth (truewealth.ie) and LowQuotes.ie. Based in Portlaoise, Co Laois, the company employs 40 skilled staff. Their expert financial advisors work closely with clients to understand their individual financial needs and help them achieve their goals.

Shane Tobin

Shane adds, "Those who worked in the UK between 2006 and 2016 have the option to voluntarily purchase years of service for the UK State Pension also."

This option can give Irish citizens who worked in the UK during those years an extra source of income.

Cost of living and pension contributions

You need to figure out how much of a pension you'll need to live comfortably in your new country.

Shane advises, "A practical approach is to assess your current pension and estimate the cost of living in your destination of choice. This includes healthcare, utilities, and day-to-day expenses, to ensure your pension income will provide enough for your needs.

"And of course, leaving sufficient funds for you to enjoy your retirement abroad!"

For example, if the Irish State Pension is around €14,000 annually and you require an income of €35,000 to live comfortably abroad, you would face a shortfall of approx. €22,000 per year.

"To bridge this gap, you would need an Approved Retirement Fund (ARF) of approximately €550,000.

Therefore, having a well-defined retirement plan is essential to keep your retirement savings on track to achieve your goal of retiring abroad."

Careful financial planning is so important to ensure you meet your retirement goals.

Exchange rates and currency fluctuations

One big financial factor to think about when retiring abroad is how exchange rates can affect your pension.

For example, changing currency values can significantly impact the value of your pension when converting it back to the local currency.

Shane says, "If you leave your pension in Ireland and retire to a country where overseas transfers are generally not permitted, such as Australia, New Zealand, or the US, then you must be aware of the exchange rates in your country of retirement.

"If you are planning to move to a country such as the US, for example, it is important to consider exchange rate fluctuations. In the past, you may remember getting a lot more dollars for your euro when travelling to America, but as of today that stands at approximately $1.11 for every €1. Such currency fluctuations can significantly impact your retirement income."

Shane advises retirees to shop around for banks or services with favourable rates, as international transfer fees and bank charges can eat into pension income.

Housing and property purchases

For retirees thinking about buying property abroad, you need to consider the costs of buying, including taxes and legal fees.

For example, if you're selling your current home to fund the purchase, be sure to check local property prices, the selling process, and any taxes or fees on both ends. Think about the changing exchange rates, the cost of keeping up a home abroad, and any extra insurance you might need to protect your new place.

Taxation considerations

Knowing how your pension will be taxed when you retire abroad is super important, as it can have a big impact on your income.

Shane explains, "If you receive a private-sector Irish pension and live in a country with a Double Taxation Agreement (DTA), your pension is taxed only in your country of residence."

A Double Taxation Agreement (DTA) makes sure you're not taxed twice on the same income. It helps you avoid paying taxes in both the country where you earned your income and the country where you live now.

However, Shane adds, "Public sector pensions are usually taxed in Ireland, regardless of where you live."

Similarly, Irish State Pensions and foreign State Pensions are generally taxed by the country you reside in, depending on local tax laws.

Shane suggests getting personalised financial and tax advice to handle all these tricky details. For example, pension withdrawal rules differ by country. In Malta, retirees can take out 30pc of their pension tax-free, while in Ireland, the limit is 25pc, capped at €200,000.

"Also, Malta doesn't have imputed distribution requirements, whereas in Ireland you are obligated to take 4/5pc of your Approved Retirement Fund every year whether you need it or not."

There are many other factors to consider when assessing which country has the most beneficial tax regulations suited to your retirement needs, so always speak with a financial advisor.

COMMON PITFALLS TO AVOID

Ignoring Double Taxation Agreements

It's easy to forget to check if your retirement country has a DTA with Ireland, and that can mean paying extra taxes that you don't need to! Knowing about the DTA can help avoid being taxed twice on pensions.

Poor timing of pension transfers

Shane Tobin advises retirees to pay attention to the timing of their pension transfers.

"Transferring your pension at a time when your pension fund value has decreased or currency exchange rates between countries are not in your favour can reduce the value of your pension significantly."

Timing your pension withdrawals wisely can help you get the most out of your savings.

Not thinking long-term

Some people tend to only focus on short-term gains and miss the bigger picture when transferring their pension.

"Factors like the cost of living in the destination country, private healthcare requirements, currency fluctuations, and potential future tax laws should all be considered."

Lack of professional advice

It's incredibly important to get expert financial advice before making any big financial decisions. Skipping out on consulting qualified advisors who specialise in pension transfers can lead to big mistakes with tricky tax rules, transfer regulations, and investment choices all needing a guiding hand.

The top 3 best retirement spots

Costa Rica

According to the International Living 2024 Annual Global Retirement Index, Costa Rica came out on top! Costa Rica's national saying, 'pura vida', reflects a sense of well-being, positivity, and gratitude and is perfect for retirees. With sunny beaches, lush jungles, and very affordable living, it's a tropical paradise. Add in some great healthcare, friendly locals, and a real, relaxed vibe, and Costa Rica feels like a permanent holiday!

Spain

According to Aer Lingus, Spain is the top destination for Irish travellers in 2024. Their 2024 Travel Trends report shows that 60pc of Irish travellers are choosing Spain as their favourite European spot. Spain offers a high quality of life with access to excellent healthcare too, so it's not only a great holiday, but also a great place to live. Areas like the Costa del Sol and Costa Blanca have large Irish and British expat communities too, making it easier to transition into retirement life abroad.

Portugal

Portugal came second on the Aer Lingus list with 30pc of Irish travellers preferring it. Portugal is a big favourite for retirees, thanks to its easy visa process, very affordable healthcare, mild climate, and lots of friendly locals. Not to mention the great food, beautiful landscapes, and laid-back lifestyle, so it's no wonder people flock to Portugal and want to call it home.