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Enjoy la Buena Vida in Mexico

Set up house in a tropical paradise. The lifestyle is laid-back, once you clear all the financial hurdles.

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By Elaine S. Povich

Patt Barrack, a former medical secretary, and her husband, Robert, a former firefighter, were all set to retire to Florida a couple of years ago. Then the hurricanes came, delaying construction on their dream home.

So the Barracks changed plans. They read a magazine article about retirees in Lake Chapala, Mexico, 30 miles south of Guadalajara. They found a real estate agent on the Internet and paid \$236,000 for a three-bedroom home with a swimming pool. A few months later, after selling their home in Lake Anna, Va., for \$325,000, they moved to their new community, where thousands of other American retirees live. "You can't beat the weather," Patt, 65, says. "And you don't have the hustle and bustle you have in the States."

Seeking adventure and an affordable cost of living, American retirees like the Barracks are flocking abroad. Many are looking to warm-weather destinations in Costa Rica, Panama and Belize. But Mexico remains one of the most popular retirement havens. About one million Americans, including 157,000 retirees over age 55, live in Mexico, according to a study by Cemex SA, the Mexican cement giant, and Active Living International, a Corona del Mar, Cal., company that builds retirement communities.

But expatriates who don't prepare properly can jeopardize their retirement nest egg. Complicated tax laws and unfamiliar local customs can be a minefield. Most financial and international-living advisers caution against doing what the Barracks did: making a decision, buying a home and moving, all within a few months. Instead, they say, take a vacation in the country you have in mind, and then plan a longer stay, possibly renting in the off-season, to get a flavor of routine life. Everyone loves idyllic beaches, but you may find that the seemingly perfect neighborhood near the ocean has a high crime rate.

Before packing your bags, it's essential to check with a tax lawyer, accountant or financial planner familiar with international-living issues. "People charge across the border and think everything looks the same, except it's in Mexico," says Robert Keats, a certified financial planner in Phoenix. "These people buy, and then they realize that they have these other issues—taxes and estate planning. If they don't have a plan, they could lose a substantial amount of their assets."

Many people who retire overseas are surprised to learn they must file federal tax returns. Income from Social Security, pensions, IRAs, annuities and other investments are subject to U.S. tax. In many instances, you'll have to pay income taxes in your home state, if the U.S. government decides you are still "domiciled" there.

To cut all state ties, you need to sell everything and should not return to the U.S. for more than 30 days at a time, according to Robert Barbetti, head of executive compensation at JPMorgan Private Bank. An alternative, says Bernard Fiskin, a tax consultant in Bethesda, Md., is to change your domicile to a state without income tax, such as Texas or Florida. You only need a driver's license and voter registration to prove residency.

You may also be required to pay income taxes in your new country. You'll get a break if your new home is in one of the more than

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50 countries, including Mexico, that have tax treaties with the U.S. Most countries allow you to exempt pensions and annuity income, but some require you to pay taxes on Social Security benefits or even on your tax-free bonds. The U.S. often provides a credit for taxes you pay overseas. Check IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, at www.irs.gov. Also, each country has different estate laws, so make sure your foreign property is titled correctly so heirs won't face a problem.

You can collect Social Security anywhere, but it's easier to have the check sent to a U.S. account that you can access abroad. The Social Security Administration provides details in *Your Payments While You Are Outside the United States*, at www.ssa.gov.

Factor in Medical Care

A major consideration is medical care. Medicare does not cover you overseas. The quality of medical care was a big factor for Elinor and Harvey Prawer, who lived in Scarborough, Maine, in their decision to move to Puerto Vallarta, Mexico. Before choosing that coastal community in 1995, they had stayed several times at Costa Careyes, two and a half hours south. The closest hospital was 70 miles away. Harvey, 67, a retired wholesale food company owner, had already undergone two neck surgeries before the move. "With medical issues, you don't want to be out in the middle of nowhere," he says.

Elinor, 66, describes the hospital in Puerto Vallarta as "state of the art." Cornerstone Hospital, which opened last year, was built by the Cornerstone Hospital System, based in McAllen, Tex.

Before moving, the Prawers bought a health-insurance policy from a global company that specializes in issuing policies to Americans who live abroad. If you're between 60 and 65 years old, expect to pay premiums of about \$3,000 for a plan with a \$1,000 deductible, says Derek Patterson, a broker at eGlobal Health Insurers Agency (www.eglobalhealth.com). But a man between 65 and 70 can expect to pay more than \$8,000 a year, he says.

Buying a home can be another thorny issue. Although well-trodden destinations such as Mexico are making it easier, you need an expert to help you navigate local laws. For example, in Mexico you are not allowed to own property along the coast; you actually buy the rights to the property, not the property itself, which is held in a trust. You will need to find a respected *notario* to make sure you are following the terms of the trust.

To find a real estate agent, visit www.realtor.org/international, which provides a list of 1,500 agents worldwide who have agreed to follow standards set by the National Association of Realtors. The agents' Web sites include photos and prices of properties.

Housing prices in Mexico are rising along with the booming numbers of American retirees. In Puerto Vallarta, a search on one real estate agent's site found three- and four-bedroom houses selling from \$995,000 to \$2.9 million. "When we bought in 1995, you could count on one hand anything over \$1 million," says Elinor Prawer. Prices are cheaper in Lake Chapala. On one agent's Web site, homes were selling from \$57,000 for a one-bedroom condo to \$420,000 for a three-bedroom villa with a lakeside terrace.

A Change of Pace

Many retirees in Mexico say the pace of life is slower than in the United States. The leisurely tempo can be frustrating when it comes to getting your house repaired or mail delivered. Most Americans have their mail sent to a U.S. address, then trucked to Mexico and delivered to a local Mail Boxes Etc. "People generally don't show up the day they say they will, and they don't call," Harvey Prawer says. Patt Barrack recalls ordering light fixtures from the U.S.; they got stuck at the border for four months.

"There is still a bit of a *mañana* attitude here," says Bill Fisher, 63, formerly of Austin, Tex., who lives in San Miguel de Allende in central Mexico. "To pay a phone bill, you have to stand in line."

Bill and his wife, Judy, rented in San Miguel for two years before buying. "Wherever you're going to retire, you need to be in love with the place," says Bill. The Fishers love living in San Miguel, which is a designated historic landmark and arts center that reminds him of what Santa Fe was like a decade ago.

Household help is cheap, so the Fishers can afford a maid and a gardener. The Prawers have a maid, a gardener and a houseboy. Modern communications make it a breeze to keep up with stateside friends and family. Internet phone service is cheap, and Internet providers are invading Mexico and other countries. Big-box stores, such as Wal-Mart and Costco, show up in enclaves where Americans live, but you can buy food at less expensive local markets. "There's no way we could afford to go back to the States," says Patt Barrack.

There are things that expat retirees give up. Although Robert Barrack, 64, misses American-style ice cream, when he sits on his terrace overlooking the glistening Lake Chapala, it's a sacrifice he's willing to make.