World's five best places to retire

With the cost of living in Britain escalating, an increasing number of pensioners are thinking of making a permanent move overseas. **Alexandra Goss** examines their options

ECONOMIC turmoil, tax rises and unpredictable weather are leading record numbers of Britons to consider emigrating.

Some 42% of over-55s would consider retiring overseas, according to research for the Foreign Office, with 38% contemplating doing so within the next five years.

One Sunday Times reader summed up the mood. "We've had enough of Britain," he said. "We need to move somewhere else to enjoy whatever time is left to us and we're looking for suggestions.

"My wife and I are in our 50s and could raise £600,000. So where can we go that is cheap, with low taxes, nice weather, cheap wine and property, where they speak at least some English and £20,000 a year makes for a comfortable life?"

About 134,000 Britons took the plunge and emigrated for good last year, the Office for National Statistics said, with a large proportion thought to be retirees.

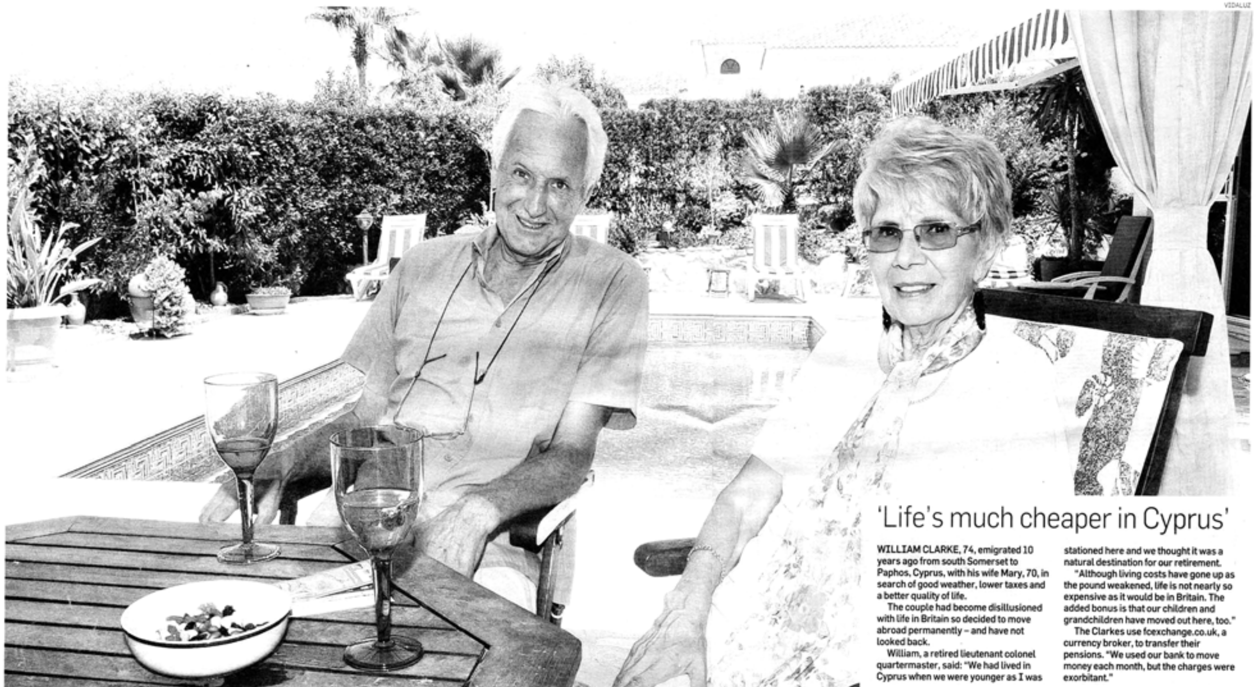
Stephen Hughes at Foreign Currency Direct, the currency broker, said: "With house prices considerably lower than they have been in many popular retirement locations overseas thanks to the global recession, and sterling's recent resurgence against the euro, now may be a good time for pensioners to consider moving abroad."

But where to go? Tax regimes vary enormously, as do property prices and residency rules. While Australia and New Zealand are traditionally popular with expats, they have stringent visa requirements. Exotic locations such as the Philippines offer an attractive package for retirees but Jason Butler at Bloomsbury Financial Planning, the adviser, said most clients still chose to go to western Europe.

"Countries such as France, Italy and Spain are known entities. They are close to Britain and have similar healthcare systems," he said. "Although the state pension can be paid abroad, only those who emigrate to countries within the European Economic Area, and where Britain has a reciprocal agreement, receive the annual state pension increase."

We asked Shelter Offshore, which helps Britons decide where to emigrate, to rank the most popular retirement countries according to nine key indicators: income tax, inheritance tax, property tax, property costs, living costs, ease of gaining residency, healthcare, climate and culture. A mark out of 10 was given in each category, giving a maximum score of 90.

Cyprus topped the list because pensioners pay only 5% tax and property prices are down significantly. Belize was second thanks to a tax-free retirement incentive programme. Here we look at the top five.



VIDALUZ

'Life's much cheaper in Cyprus'

WILLIAM CLARKE, 74, emigrated 10 years ago from south Somerset to Paphos, Cyprus, with his wife Mary, 70, in search of good weather, lower taxes and a better quality of life.

The couple had become disillusioned with life in Britain so decided to move abroad permanently – and have not looked back.

William, a retired lieutenant colonel quartermaster, said: "We had lived in Cyprus when we were younger as I was stationed here and we thought it was a natural destination for our retirement.

"Although living costs have gone up as the pound weakened, life is not nearly so expensive as it would be in Britain. The added bonus is that our children and grandchildren have moved out here, too."

The Clarkes use fcexchange.co.uk, a currency broker, to transfer their pensions. "We used our bank to move money each month, but the charges were exorbitant."

CYPRUS

Although not as hard hit by the recession as nearby Greece, the European Union added Cyprus to its watch list last week, telling it to lower its budget deficit.

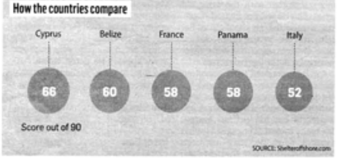
The flipside is that property costs have come down dramatically. Southern Cyprus is only a 4½-hour flight from Britain and English is the second language. Mark Bodega at HiFX, the currency broker, said: "As well as the climate and lower cost of living relative to the UK, the banking and legal systems are derived from British systems and will thus be familiar."

Tax: Retired residents from overseas can choose to pay a flat rate of 5% above a personal allowance of €3,420 (£2,855) a year on their global income. To qualify, you must have lived in the country for at least 183 days in one calendar year.

Alternatively, you can choose a larger tax-free allowance of €19,500 and then pay tiered rates up to a maximum of 30% on incomes above €36,300. So, the smaller your income, the better off you are under the first system. Note, though, that if you continue to have assets such as bank accounts or an investment portfolio in Britain, you will still be liable for UK income tax, even if you are a resident of Cyprus. Many retirees, therefore, move their assets offshore before emigrating and then bring the income into Cyprus, in which case there would be no tax to pay assuming there are no distributions from the offshore assets while tax resident in Cyprus, said Costas Markides, head of international executive services at KPMG, the accountant.

There is no wealth tax and no headline inheritance tax, although to benefit from the latter expats have to prove that they have severed all links with Britain.

How the countries compare



Property costs: Prices have dropped 28% since 2008, according to data compiled for The Sunday Times by findaproperty.com. A two-bedroom flat in Paphos will cost about €80,000 (£66,940), and a four-bedroom villa near the beach about €250,000.

Stamp duty is levied at 0.15% for properties worth up to €170,800 and 0.2% above. There is also property transfer tax of 3%-8%.

Healthcare: As southern Cyprus is a member of the EU, pensioners from Britain are entitled to use the public health system, which is of a high standard as most doctors studied and practised in Britain or America.

Ease of gaining residency: Retired EU nationals do not need a visa, but to become a permanent resident you must apply for a residence permit at the migration department on arrival. You must be able to show you have the means to support yourself, such as investment or pension income.

BELIZE

As the only country in Central America where English is the official language, Belize has long been popular with US retirees but it is an increasingly attractive destination for Britons.

Rhiannon Davies at Shelter Offshore said: "Belize's retired persons incentive programme can allow qualifying individuals to live there tax-free. However, you may have to move fast as there is a buzz that this programme could soon stop because its popularity has proved overwhelming."

The climate is subtropical, with an average temperature of 26C and a rainy season between June and November, with the risk of hurricanes.

Tax: To qualify for the incentive programme, which means all pension income is untaxed, you must be over 45 and have monthly income of at least $2,000 (£1,329) from a pension or annuity outside Belize.

Once you have qualified, you have a year in which to bring your personal belongings and means of transportation — car, light aircraft or boat — to Belize free of all import duties and taxes.

There is no capital gains tax or inheritance tax for anyone retiring to Belize.

Property costs: There are some stunning properties, including private islands. A two-bedroom flat costs about $150,000 (£99,781), while a beachfront villa is typically $750,000 (£498,906), according to propertyfrontiers.com. There is stamp duty of 5% and other property taxes acccording to location, Stanley Ermeav at Horwath Belize, the adviser, said.

Healthcare: Most Belizeans get free or low-cost care at government-run hospitals and clinics, but quality varies. There are also private practices, charging about $15 for a consultation. A hospital stay would cost $20-$50 a day. For a serious illness, wealthy residents often travel to America for treatment.

Ease of gaining residency: The incentive programme requires proof of income, a medical check and a background check by the Ministry of National Security. You would have to pay fees of about $2,000.

FRANCE

Alongside Spain, France is the most popular destination for people leaving Britain. Although taxes can be high and living costs in popular areas have soared in recent years, expats are attracted by the quality of life and proximity to Britain.

Bodega said: "The tiresome bureaucracy and high taxes are outweighed by an unsurpassed quality of life, including the world's best healthcare, and low-cost airline routes mean visits to Britain to see the grandchildren are relatively inexpensive."

Tax: The top rate is 40% on incomes of €69,783 and above. It is likely to increase to 41% next year. You will pay tax in France on your pension income at your marginal tax rate, so if you are on a modest pension, your tax rate will therefore be lower.

You also benefit if you are married, as the French system taxes you as a household rather than an individual. There is also a wealth tax of 0.5% to 1.8% on net assets worth more than €760,000 per household a year, although there is a five-year exemption for people who transfer their tax residence to France.

Inheritance tax between spouses has been abolished but the rules are complex and tax can be levied at up to 60% between unrelated individuals, such as stepchildren and unmarried partners.

Property costs: Although the market is picking up, prices have dropped 22% since 2008, according to Findaproperty. A two-bedroom flat on the Côte d'Azur would cost about €300,000, while a four-bedroom house near the beach would be €1.5m. Tax on purchases is levied at about 5% of the value, said KPMG.

Ease of gaining residency: Retired EU nationals do not need a visa and are automatically classed as a French resident for tax purposes if they spend more time there than in any other jurisdiction in one tax year.

KPMG said: "EU citizens moving to France with no income from employment, such as retired people, have the right to live in France, but they need to show that they have the financial resources to be self-supporting and not dependent on the state."

Healthcare: Britons with a European health insurance card are entitled to free basic care. However, any retired EU national who has reached state pension age in their country of origin will need to fill in form S1 from the social security authority in their home country to avoid paying contributions to the French system.

Davies said: "The form does not mean you get free healthcare in France. It means, simply, that you will not need to pay into France's social security system to obtain health cover.

"As the French system covers only about 70% of basic health charges, most people are advised to take out some form of extra health insurance."

PANAMA

Although a left-field choice, Panama makes the shortlist because of its benign tax regime and attractive climate — temperatures range between 21C and 30C. English is widely spoken, which helps account for its popularity with Americans. The retiree benefits scheme provides discounts on services such as healthcare, travel and leisure. Banks must have a special "express" queue for retirees, and the cost of hiring domestic help is low.

Tax: Income from assets outside Panama, such as pension, bank deposits or investments, is free from tax. There is no inheritance tax but capital gains is levied at 10% on immovable property located in Panama.

Property costs: Rhiannon Davies said: "The cost of buying in Panama is cheaper than it was because it went pop when America's real estate bubble burst. It is now much easier to bag a bargain."

An apartment in Panama City costs about $200,000 and a four-bed house near the coast is about $750,000. There is no property tax payable on your sole residence.

Healthcare: Under the retiree scheme, pensioners get discounts of 20% on consultations with doctors, 15% on dental and eye care and 10% on prescription medicines.

Ease of gaining residency: The Panamanian government issues special visas to retirees who can demonstrate that sufficient income will be generated from their foreign-earned pensions. All foreigners, not just retirees, who purchase a home costing more than $200,000 have the right to a residency visa.

ITALY

What Italians don't know about la dolce vita isn't worth knowing. The country has culture in spades, a temperate climate and a healthcare system rated second globally by the World Health Organisation, behind France.

Tax: Anyone moving to Italy is not doing it for cut-price taxes, although they are lower than in Britain. Income tax starts at 23% on incomes up to €15,000, rising to a top rate of 43% on earnings of more than €75,000. Pensions are generally taxed as ordinary income at your marginal rate of tax.

The inheritance tax rate ranges between 4% and 8%, depending on the beneficiary, and there is an exemption on capital gains from the disposal of immovable property if the seller has held the property for more than five years, according to KPMG.

Property: The economic downturn has hit the market hard, with prices down 16% since 2008. A flat by Lake Como, for example, would cost €300,000, while a four-bedroom villa would cost about €1.5m. Property taxes of 0.4%-0.7% are applied, depending on the municipality. Stamp duty and registry tax are levied at a fixed amount of €168 and an indirect tax of 3% must also be paid.

Healthcare: The system is similar to France, requiring you to complete form S1.