The ‘silver dollar’ opportunity: Competing for retirement capital

What do governments need to do to attract and retain expatriates after their working lives?

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Introduction: Attracting and retaining expatriate 'silver dollars'

The quick take

This paper explores how countries with high-earning expatriate communities could establish and optimize pension systems to help retain these workers into retirement – achieving expatriate to retiree conversion.

- Increasing the number of expatriates retaining their wealth onshore into retirement has the potential to bring significant long-term benefits to local economies.
- In the context of broader incentives that governments and policymakers need to consider, we look at the specific levers that can help to optimize retirement and long-term savings models in both established and emerging expatriate jurisdictions.
- We examine foreign worker populations in a range of global markets and assess approaches being adopted by countries to attract expatriate workers and retirees.

As advances in medicine and improvements in public health continue, humans are living longer than ever before;[1] between 1900 and 2020, the average life expectancy in the US rose by 30 years. Over the next 100 years, research suggests that life expectancy will rise by another 23 years.[2]

Against this backdrop, the changes across OECD retirement systems have fallen far short of expected increases in life expectancy; 'normal' retirement ages are set to increase in just 23 of the 38 member countries and then only rising to an average of 66.6 for men and 65.8 for women.[3] These increases are insufficient relative to current and future jumps in life expectancy, and will not meet the demands of people living longer in retirement.

As a result, many employees are working for longer to accumulate adequate savings for an extended life expectancy. Also, many of those nearing retirement may also be assessing the opportunity to retire overseas in a bid to secure a better quality of life through their later years.

Of course, expatriates must decide whether to repatriate to their home country when they finish working abroad or extend their stay overseas into retirement.

Retaining expatriates into retirement is a major opportunity for emerging and established retirement destinations alike, and we expect the competition for retirement capital to evolve rapidly in the next decade.

Established and emerging retirement destinations have a distinct head start through existing and fast- growing expatriate populations. By adopting policies specifically designed to incentivize expatriate workers to remain in a jurisdiction through retirement – converting expatriate workers into expatriate retirees – countries can capitalize on this head start in the competition for 'silver dollars'.

The question facing many governments is how to effectively combine a range of levers to achieve consistent expatriate to retiree conversions.

Between 2013 and 2017, the total number of expatriates globally grew by nearly 6% annually to 66.2 million[4], a rapid growth trajectory set to continue as workforces become more mobile and exert greater freedom of choice over where they live, work and retire.

Gulf Cooperation Council (GCC) nations have some of the largest expatriate populations (as a proportion of the total population) globally. They also feature prominently in the top 20 countries benefiting from wealthy retiring expatriates choosing to extend their residence – alongside Switzerland, Luxembourg, Singapore and Australia.[5]

The underlying drivers of large expatriate populations vary by country and are often impacted by the structural nuances or strengths within an economy. For example, Singapore and Luxembourg have large financial services sectors acting as regional hubs for Asia and Europe, respectively; for expatriates in these markets, this translates to high salaries, extensive scope for career progression and international experience.

For countries building – and growing – a strong expatriate component within their workforce, the 'silver dollar' opportunity to retain these workers up to and during retirement should not be overlooked, particularly given the high-earning status of many expatriates. While expat retirees may pay little or no tax locally, the potential for indirect economic benefits through spending in the private sector is significant.

Attracting and retaining expatriates up to and through retirement

The perennial considerations around climate, location, quality of life and ease of retirement visas remain paramount to expatriates' decisions on where to reside through retirement. Even so, a range of broader factors – including ease of access to capital, investment opportunity and the favorability of local savings vehicles and tax regimes – all add up, and are therefore important levers for governments to consider in structuring policy.

This paper looks to support collaboration between policymakers and corporates to optimize retirement regimes for expatriates seeking to build and extend a brighter future overseas.

Executive Summary

Section 1: Building a better understanding of the expatriate population and its needs

- Expatriate populations are growing internationally, as more countries seek to attract talent and expertise from foreign jurisdictions to aid growth and boost local industries.
- These workers are attracted by employment or education opportunities that promise higher salaries and a better quality of life.
- Countries accrue significant direct and indirect economic benefits from attracting expatriates, including knowledge transfer, growth in the economy and addressing demographic challenges. However, there is an opportunity for jurisdictions to adopt a longer-term approach to attracting and retaining expatriates up to and through retirement.
- Markets with a high and/or growing expatriate community have a head start on the 'silver dollar' opportunity. They have an advantage in being able to encourage the 'captive audience' of workers already living in their jurisdiction to stay through retirement.

Section 2: Challenges to overcome in building a compelling long- term savings proposition for expatriates

- The Middle East has taken a leading role in creating expatriate-friendly policy frameworks, with many countries adopting innovative methods for attracting and retaining foreign workers.
- Expatriate jurisdictions should consider how a long-term savings vehicle could support wider policy efforts to encourage expatriate workers to remain until and through retirement.
- However, countries must overcome several complex policy design challenges to ensure that the vehicle provides the scale, flexibility and investment outcomes required as part of a compelling proposition for expatriates, particularly relative to the merits afforded by returning to their home nation or elsewhere.

Section 3: The relative merits of existing levers for attracting and retaining expatriates

- Many countries have experience of, and expertise in, meeting similar challenges and have already put in place policies that address some of the obstacles to attracting expatriate workers and retirees, including specialized visas and tax policies.
- Analysis of existing retirement destinations suggests that a whole-of-economy policy framework that includes strong retirement provisions could help support significant long-term economic benefits.

Section 4: Learnings to be drawn from existing frameworks built to support retirees

- Design of a novel defined contribution pension scheme for expatriates with clear benefits during the accumulation and decumulation phases can contribute as part of a broader policy package designed to support and attract expatriates up to and through retirement.

Section 1

1.1 Building a better understanding of the expatriate population and its needs

Data on expatriate populations varies widely in quality depending on country and jurisdiction. It rarely drills down into income or age demographics – which are key inputs for building more effective, targeted retirement solutions.

For the purposes of this paper, which focuses on the ways in which long-term savings vehicles and mechanisms could support expatriate 'retiree conversion', we define an expatriate as a skilled, affluent worker who has moved away from their country of birth in pursuit of attractive employment and/or education opportunities, or a better quality of life more broadly.

Age and motivation behind becoming an 'expat'

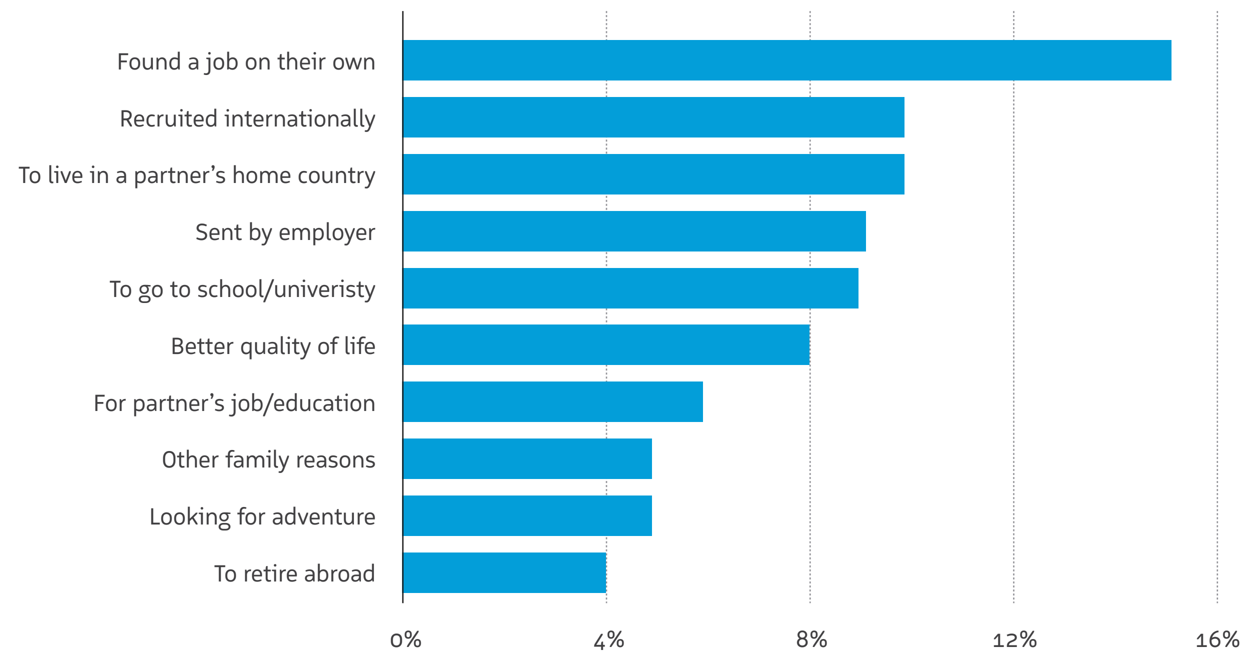
The average age of expatriate communities differs widely by market, from under 40 in the United Arab Emirates and 44 in Bahrain,[7] to 51 in Switzerland[8] – all far below the average retirement age of around 66 for men and women across the OECD.

Retirement may therefore seem a distant prospect for many expatriates, for whom retiring abroad remains low on the list of motivations for moving overseas. According to the Expat Insider 2023 survey commissioned by InterNations, just 4% of expatriates cite retiring abroad as the leading factor behind their move.[6]

However, countries with a high and/or growing expatriate community have an advantage in appealing to a captive audience and encouraging workers already living in their jurisdiction to stay, rather than needing to convince someone to move overseas after they retire.

According to the Expat Insider 2023 survey commissioned by InterNations, just 4% of expatriates cite retiring abroad as the leading factor behind their move.

LEADING MOTIVATIONS OF EXPATRIATES FOR MOVING ABROAD IN 2023



Source: InterNations - Expat Insider 2023. Link: https://cms.in-cdn.net/cdn/file/cms-media/public/2023-07/Expat-Insider-2023-Survey-Report.pdf

Not detailed above, but still an important factor, is the greater earning potential to be derived through a move overseas. For example, a UK middle-management professional could earn a substantially higher net salary in an equivalent role in the UAE, Singapore or Hong Kong, according to data from iExpats. An average wage after tax for this kind of role in the UK is approximately

£47,200, compared to £96,000 after tax in the UAE.[9] Insurance broker TFG estimates that more than half of expatriates have greater disposable income than locals, and are therefore contributing to domestic spending.[10]

As of 2019, an estimated 169 million workers of all income levels were employed outside of their home country, according to the International Labour Organization. Of these, more than two-thirds (67.4%) had moved to high-income countries, with a further 19.5% living and working in upper- middle income countries.[11] While these figures include all foreign workers regardless of income - beyond our narrower definition of expatriates - the data suggests that the wealth of host countries is a determinant in an individual's choice of where to work overseas.

Long-term wealth – and health

Wealth is typically a strong indicator of good health, reflected in higher average life expectancies in developed economies versus emerging countries,[12] which is an important consideration for governments seeking to attract expatriate wealth through retirement. People moving overseas for a better quality of life will reasonably expect to enjoy access to better healthcare and live longer. As a result, governments seeking to attract expatriates and encourage them to spend their retirement

in-country must be prepared to support a more elderly population through services such as life and health insurance.

Moreover, by working abroad, individuals may miss out on their home country's social security benefits, increasing the relative importance of local savings options as well as the cost of healthcare in old age. For example, British expatriates living in the UAE are not automatically entitled to use the UK's National Health Service (NHS) without charge. The NHS is a residency-based healthcare system, and hospital treatment is only available without charge to those who live in the UK on a settled basis.[13]

As people live longer, the chance of illness increases and the cost of care alongside it. This presents a risk that defined contribution pension plans and other non-guaranteed savings may be outlived. In such circumstances, individuals must focus on robust, accessible savings, supportive healthcare systems and a lifestyle that matches their accumulated capital for as long as possible. These considerations present an opportunity for governments to appeal to expatriates to save for retirement and encourage them to put their money to work in their host country, and indeed to plan to stay where it could support them during their eventual retirement.

Key takeaways

- While retiring abroad is the leading factor behind moving abroad for just a small minority of expatriates, a larger proportion may be willing to consider remaining in a country for retirement if they are already living there for work.
- Work and educational opportunities are key drivers of expatriate migration, including the potential for higher earnings, making this group a valuable driver of domestic spending both during their working life and, potentially, into retirement.
- Healthcare infrastructure is a critical factor to consider in designing a system to encourage expatriates to retire in an overseas jurisdiction.

1.2 Understanding the benefits of expatriates for the local economy

Attracting skilled workers can boost a country's economy in many ways, including:

- **Knowledge transfer:** One of the key objectives in attracting expatriate workers is to bring in expertise that does not already exist in-country or to supplement loca l expertise. International experience and diverse viewpoints can bring economic and social benefits to an economy.
- **Encouraging economic growth:** Expatriates can contribute to a country's economic growth by filling gaps in the labor market, particularly in areas that require specific skills such as healthcare, technology, engineering, and science. They often possess specialized skills, education, and experience that are in demand, which can lead to increased productivity, innovation and overall economic development.
- **Driving innovation and entrepreneurship:** Expatriates can bring fresh perspectives, new ideas and entrepreneurial ambitions to their host countries. They may start businesses, invest in research and development and contribute to technological advancements, fostering innovation and competitiveness.
- **Addressing demographic challenges:** Many countries – particularly in Europe – are grappling with aging populations and declining birth rates. Attracting expatriates can help offset demographic imbalances by bringing in younger, working-age individuals who can support the social welfare system and contribute to a more balanced age distribution. Retaining expatriate workers as retirees within an economy may increase the average income among the elderly population.
- **Capturing spending power:** Expatriates will spend money in the host country on living costs – such as rent, utilities and food – and leisure activities, contributing to the local economy, with a multiplier effect across their wider family network.
- **Sourcing new foreign investment:** Many expatriates may have accumulated wealth prior to moving overseas. While it may be prohibitive to transfer this into local vehicles or unlock it prior to retirement, when it does become available, capital values will benefit the local economy, whether through a private or a state pension, direct investment and/or spending in local businesses, on property or on other assets.

Together, these benefits present a range of indirect economic advantages, many of which cannot be easily controlled or measured. By encouraging expatriates to invest directly in their host country's economy through a long-term savings vehicle during their working lives, governments can gain access to an important source of capital, while encouraging long-term investment.

Such an approach also brings potential benefits for the local population. Purpose-built savings vehicles could be made available to locals as well as expatriates and be used to direct capital towards infrastructure development. In Malta, foreign nationals can purchase residency permission by paying into the government-run National Development and Social Fund, albeit treated as a non-refundable fee rather than an investment.[14]

Increasing the expatriate population is central to the growth and economic development and diversification plans of multiple markets across the Middle East. In the recent past, Saudi Arabia, Oman and the UAE have adopted a range of measures to make it easier to move to the countries for work.[15]

Concurrently, Middle Eastern governments are adopting new policies to benefit the local population to ensure that communities are not disadvantaged by the influx of expatriates. In the UAE, the government has increased spending on social welfare initiatives such as housing, health and education.[16]

Key takeaways

- Governments can gain a host of economic benefits from attracting expatriates, including encouraging economic growth, driving innovation and entrepreneurship and capturing spending power.
- Benefits can pass on to local populations as the economy grows.
- Many Middle Eastern countries are already applying policies designed to attract expatriates.

Across markets, adopting a longer-term approach to attracting and retaining expatriates until and through retirement can have mutual benefits for individuals and jurisdictions. In the next section, we explore the challenges to implementing a longer-term approach.

Section 2

Challenges to overcome in building a compelling long-term savings proposition for expatriates

There are significant potential benefits for countries in creating a savings vehicle for expatriates, whether this vehicle invests on behalf of these workers as an attractive benefit of working in-country or retains a portion of these funds as capital to spend on onshore investments.

However, meeting the saving needs of the expat population comes with important considerations and some big challenges.

For the purposes of this paper, we assume that a hypothetical government would want to establish a long-term savings vehicle, potentially a retirement plan, for its expatriate population. Such a plan would seek to encourage expatriates to stay for longer and to invest in the local economy.

Scale

For a savings vehicle to achieve its goals – encouraging investment and making a meaningful contribution to the economy – it needs to reach a sufficient scale.

With increasing size comes a greater ability to negotiate lower prices from service providers, which can be passed on to plan participants. In a defined contribution (DC) savings vehicle, these providers may include plan administrators, trustees, investment advisors and investment managers. DC plan provider charges are often quoted as a percentage of assets under management, and savings can be substantial in both percentage and monetary terms with increasing scale.[17] In addition, the larger the pool of capital, the more money may potentially be invested in the local economy.

However, achieving this scale is not a quick or easy endeavor. While it would take several years for a plan to become established and grow its membership, it would need to present an affordable and reliable offering to potential participants from day one.

Governments need to carefully consider the potential benefits of subsidizing costs in the early years while the vehicle grows towards sufficient scale. Automatic enrolment into the plan could help increase scale quicker. Making the vehicle available to local workers as well as expatriates could also help achieve scale faster.

Flexibility

The accessibility and flexibility of savings is an important part of the design of any investment or pension plan. This is particularly the case for expatriates, who may have embraced the expatriate lifestyle in search of greater flexibility in other aspects of their lives.

Some key issues to consider include whether a participant's capital would be locked away for a set period, such as 10 years, or until they reach a certain age. If there is a 'lock-in' period, governments should consider if there are any circumstances in which a participant would be allowed to redeem early. For some retirement or savings products, there are exit penalties if money is withdrawn early.

Policymakers also need to account for what happens to an individual's savings if they change jobs or are made redundant. Should they be able to transfer their savings elsewhere, or would they still be subject to a minimum investment period?

Options for redemption should also be carefully considered, such as whether money would be paid out in one lump sum or in stages. The currency of payouts should be considered too, as expatriates may want money to be paid in their home currency or want payments made into a bank account outside of either host or home country. The question of who shoulders the currency risk is an important consideration, given the risk of loss and the potential cost of hedging.

Tax position

Many countries already use tax incentives to attract overseas workers, but it is particularly important for policymakers to consider how the tax regime would treat or respond to support a more favorable regime for expatriates in retirement.

Deciding upon the appropriate tax treatment of a proposed long-term savings vehicle for expatriates is a key challenge and will vary by country. It can also be affected by international and bilateral tax treaties and how an expat's home country deals with the taxation of overseas citizens.

The US, for example, is particularly strict when it comes to taxation. US citizens, even those who have never lived or worked in their home country, must still file tax returns known as FBARs. There are also strict limitations on the kinds of overseas investments they can hold. The Foreign Account Tax Compliance Act, introduced in 2014, has restricted access to banking and other financial services abroad for US expatriates, as some foreign institutions stopped accepting US clients.[18, 19]

Tax treaties between countries often have exemptions or provisions for retirees, such as lower tax rates or special visas. If they have been enticed to a country by a low-or no-tax regime, expatriates may require a tax incentive to extend their stay into retirement and be unwilling to invest in any vehicle that could increase their tax bill.

Investment

Governments interested in setting up an expatriate investment vehicle may be doing so to funnel money into the local economy. However, they must think carefully about how investment portfolios are structured.

A suitable retirement vehicle should be broadly diversified by asset class, sector and geography. While allocating a proportion of assets to local investments could be suitable for many investors, depending on the nature of the local market, it may not suit all.

Equally, allocating too much capital to one host-country market can expose investors to concentration risk. Without knowledge of their other financial assets, this could put their wealth and financial well-being at risk.

A multi-asset, diversified solution is most likely to be suitable for most participants. See page 23 to find out how Mercer has helped to design a long-term savings solution for the Dubai International Finance Centre.

Liquidity is also an important consideration, particularly if participants expect to be able to withdraw their money at a particular point in time in their life. Ensuring that individual investors can do so promptly requires balancing long-term investments with those that are able to be sold quickly if needed.

Cost of living

One important consideration for workers at all stages of life is the cost of living in their host country – in other words, how far will their expatriate dollars go? The cost of living can vary significantly between markets and over time, and it can have a significant impact on the savings needed to maintain a comfortable lifestyle.

By incorporating variations in cost of living into the design of a savings scheme, individuals can better prepare to ensure that their savings will be sufficient to maintain their desired standard of living in their chosen retirement destination. This could include regular reviews and adjustments to contribution rates, inflation protection and/or investment strategies to ensure that it remains in-step with changing economic conditions.

Healthcare

With expatriates often moving abroad in search of a better quality of life (see chart on expatriate motivation on page 8), governments must take a holistic view on what this may mean. If expatriates stay in-country into their retirement, they will need access to quality healthcare infrastructure.

Access to health insurance services from the retiree's home country may be limited depending on the country to which they have moved. Therefore, having appropriate insurance coverage ensures retirees are well-prepared for potential healthcare cost fluctuations and unforeseen medical costs, granting them peace of mind and financial stability throughout their retirement journey.

That said, securing appropriate insurance cover may present a significant financial burden to retiring expatriates, as the cost of healthcare will in general be expected to increase due to inflation and growing medical needs of aging retirees. Governments could look at personal healthcare requirements that retiring expatriates need, as in the case of Dubai.20 Governments could also look at insurance structures to ensure that local health services can cater for an active older expatriate population. This could be in the form of a pooled insurance fund just for retirees in which the higher costs of the less healthy can be offset by the lower costs of the healthy, either in a plan overall or within a premium rating category. In general, the larger the risk pool, the more predictable and stable the premiums can be.[21]

Key takeaways

- Building a retirement savings plan to meet the needs of expatriate retirees requires a model that can achieve sufficient scale.
- The savings vehicle would need to account for the tax position of expatriates so as not to cause undesirable complexity or higher tax burdens.
- Governments will also need to consider the degree to which a long-term expatriate savings vehicle could provide access to investment in local infrastructure as part of a diversified portfolio.
- Flexibility is a core consideration of any long-term vehicle to account for workers moving jobs, with consideration of how the plan will ultimately be redeemed by savers.

There are many challenges to overcome and factors to consider in order to establish an investment or pensions regime for expatriates. However, these challenges can be navigated. In the next section, we explore how some policymakers and governments are doing so.

Section 3

3.1 The relative merits of existing levers for attracting and retaining expatriates

While the concept of an expatriate investment vehicle is novel, many governments and policymakers have already built strategies to counter some of the challenges explored in the previous section.

A wide array of vehicles, tax rate adjustments and regime changes could be implemented to incentivize different forms of expatriate saving and spending in-country. These could target expatriates' historical capital, current earnings and future savings through delayed, reduced or voided penalties or levies.

These could also be in the form of concessions in other areas to offset incurred costs from moving money in or out of a state's financial system.

Tax or no tax?

Some countries (or states – see the Florida example on page 20) do not levy an income tax, making them attractive destinations for expatriates.

Where countries typically tax retirement income, the incentive of reduced rates or concessions on retirement income taxes for expatriates may help attract and retain these retirees. Expatriate

retirement programs may also feature non-tax incentives for retirees such as discounts on utility bills, medical bills or mortgages. The Panama Pensionado retirement program is one example, offering a range of non-tax incentives.[22]

Benefits to local economies can also result from pre- and/or post-retirement savings from expatriates being held in vehicles that include a component of investment in the local economy. One example of the DIFC Employee Workplace Savings (DEWS) Plan in Dubai, which offers a high-quality, globally diversified range of investment options to its members, while allowing for up to 10% of plan assets (or a higher percentage as may be agreed between its supervisory board and trustees from time to time) to be invested in local markets.[23]

Currency risk and payout options

The outcome and timing of benefits received through an expatriate savings plan are key factors in the success of any investment or pension initiative.

The specific timing and structure around when beneficiaries receive payments can vary depending on the country and the plan. For example, in the case of DEWS, participants receive their lump sum payment when they exit the workforce.[24] In some other countries, all savings are typically received at retirement age.

In South Africa, a two-pot structure savings plan has been proposed for implementation in 2024 that divides savings into two separate accounts, one for short-term needs and one for long-term

retirement savings. The short-term pot allows access to funds before retirement, while the long-term pot is inaccessible until retirement age. This structure provides flexibility for immediate financial needs while ensuring savings for retirement.[25]

The key consideration in any investment or pension initiative is to ensure that the retirement pot is sufficient to support the individual throughout their retirement years. It is important that retirement plans are designed in such a way as to manage the savings effectively to avoid retirees outliving the pot.

Policymakers may also choose to restrict payouts to their own currency or offer major currency options, such as the US dollar or euro. Some multinational organizations go further. Members of the World Bank Group's Staff Retirement Plan, for example, have the option of taking their pension in US dollars or their home currency, a framework that could prove particularly appealing to expatriate members. There is also an option to change the currency once every 12 months, with plan members shouldering the currency risk in this case.[26]

Key takeaways

- One of the main levers for attracting expatriates to work in a jurisdiction is favorable tax treatment, including no income tax treatments for expatriates in some jurisdictions.
- Organizations have designed policies to minimize risks of currency fluctuations for foreign workers, which could be a particularly appealing feature for expatriate retirees.

3.2 Citizenship or residence by investment

Several countries have taken a direct approach to attracting wealthy or high-earning foreigners to live, invest and spend onshore, by introducing 'citizenship by investment' or 'residence by investment' programs. These typically involve high earners – usually in the high-net-worth or ultra-high-net- worth categories – paying a fee or donation or purchasing specific assets such as property and, in return, the individual receives citizenship or residence of the country.

For governments, offering these visas (known as Golden Visas) or paths to citizenship (known as Golden Passports) can increase foreign direct investment, diversify sources of economic growth and help fund investment into vital infrastructure.

Examples of citizenship or residence by investment programs include:

- **Canada:** Several provinces and the Canadian government offer visas for small business owners. The central government, for example, runs a Start-up Visa Program that helps entrepreneurs secure citizenship if they meet certain criteria, including investment from Canadian sources.[27]
- **Malta:** Foreign nationals can purchase residency permission through investment in Malta's National Development and Social Fund, run by the government. This fund finances local infrastructure and invests in Maltese businesses. Individuals must invest €750,000 for a one-year residency, plus additional fees for other immediate family members. There is also a property investment route.[28]
- **Portugal:** The rules for Portugal's Golden Visa were revised with effect from October 2023 with real- estate no longer part of the suite of available investment options. Since then, the investment route to citizenship has been restricted to a minimum investment of €500,000 into local businesses or investment funds with at least a 60% allocation to Portuguese companies.[29]
- **Turkey:** Foreign nationals who buy real estate worth at least USD 400,000 are eligible to apply for Turkish citizenship.30 This is anticipated to increase in 2024 to USD 600,000.[31]
- **UAE:** The UAE government is seeking to entice expatriates to stay for longer by enhancing its attractiveness to retirees. Retired residents over the age of 55 are eligible to apply for a five-year retirement visa, provided they meet certain income and savings requirements. The eligibility criteria set out by the UAE government stipulates the following (this may vary across individual Emirates):

1. have worked for not less than 15 years inside or outside the UAE, or be 55 years old or more at the time of retirement.
2. own a property/properties of no less than AED 1 million, have financial savings of no less than AED 1 million or have a monthly income of AED 20,000 (AED 15,000 a month for Dubai), and provide bank statements for the last six months.

The alternate route is the 5-or 10-year Golden Visa30 – a long-term residence visa without the need for a sponsor. This scheme is designed to attract high-net-worth individuals, skilled workers, outstanding students and investors to the country. One option under this route is to invest in real-estate property with equity no less than AED 2 million.[30]

Under both routes, individuals will be required to have medical insurance and the visa will be renewable, as long as the eligibility criteria is still met. Both routes will also enable family members, including spouses and children, to be sponsored.

Golden Visas and Golden Passports have in recent years come under fire as critics argue that they allow controversial groups to access the EU freely.

Key takeaways

- Some countries have created investment visas, known as Golden Visas, which grant residency to expatriates investing a certain amount of capital in either cash or in assets such as property within a jurisdiction.
- Other jurisdictions have similar processes, known as Golden Passports that grant citizenship for expatriates who invest in a country and meet certain criteria.
- In recent years, these investment visas and passports have come under fire as controversial individuals including Russian oligarchs have used them.

3.3 The competition for retirement capital

Attracting expatriates to live, work or retire in a host country requires much more than just an attractive savings or pension plan. Governments are competing in a wide range of areas to enhance the attractiveness of their countries as a long-term destination.

Job opportunities

While the majority of expatriates will have a job – most countries require evidence of employment before granting visas – policymakers should consider their country's job market when looking at the long term. If they want to encourage expatriates to remain in the country for longer, governments will have to support workers when they change employer, and indeed to offer attractive employment prospects for family members joining them overseas.

In addition, expatriates may need access to unemployment benefits if they are made redundant. This can encourage them to remain in the country while seeking a new job, rather than losing their visa status.

In 2022, the UAE announced an unemployment insurance program, open to both locals and expatriates, to provide a support system in case of redundancy regardless of income level.[32] It aims to provide a safety net for individuals who lose their jobs to ensure continued decent living and financial stability during the job search process.

Workers with a basic monthly salary of AED 16,000 are required to pay AED 60 annually, giving eligibility to maximum monthly compensation of AED 10,000 for three months. Those with a monthly basic salary exceeding AED 16,000 are required to pay AED 120 annually with eligibility to maximum monthly compensation of AED 20,000 for three months.[33] Oman has also recently revamped its social security benefits to include coverage for expatriates.[34]

Infrastructure

A country with a rapidly growing population needs strong infrastructure to thrive. Roads and public transport need to be able to support an expanding workforce, for example.

Expatriates with younger families need access to good schools and/or higher education. Childcare options and family-friendly entertainment and leisure facilities are a priority.

For older expatriates, particularly retirees, a key consideration when deciding where to live is access to quality healthcare. Public transport is important for this population too, as part of a broader consideration of mobility for older people.

Investment in these aspects of mobility and social infrastructure will also benefit the local population, create jobs, and support economic growth.

Cost of living and quality of life

As mentioned earlier in this report, the cost of living can vary significantly over time and from one country to another, which can have a significant impact on the savings needed to maintain acomfortable lifestyle. Governments should consider appropriate measures to help workers manage costs, for example through subsidizing relocation costs – although this could also be offered by employers.

Affordability is also linked to quality of life. However, there are multiple other factors, including some that are less tangible, that can affect the quality of life for workers.

Mercer's Quality of Living City Ranking assesses not only cost of living but also taxes, housing costs, diversity data, transportation, infrastructure and healthcare standards – all of which are important factors in raising the overall quality of life for residents, whether they are expatriates or locals.

Key takeaways

- As countries compete for the retirement capital of expatriates working in their jurisdiction, they will need to ensure there is a robust job market to support a worker remaining in-country.
- Policymakers should consider using a social security safety net to encourage workers to stay in country while they look for new positions.
- Broader life, community and environment factors are key to expanding expatriate communities. Governments need to ensure that there is modern, well-functioning infrastructure, including roads, schools and hospitals to meet the expectations of expatriate workers.
- Governments should also consider expatriates' main cost of living requirements and the requisite policies to ensure these needs are supported.

Section 4

4.1 Case study: Why Florida appeals to so many retirees

Between 1960 and 2010, Florida's over-65 population grew from just over 555,000 – 11.2% of the state's population – to 3.3 million, according to official statistics. It is projected to reach 7.1 million by 2050, making up more than a quarter of Florida's residents.[35]

Year	Total Population	65+ population	Over 65s as a % of total population
1960	4,951,560	555,118	11.2%
1970	6,789,447	989,359	14.6%
1980	9,746,961	1,687,705	17.3%
1990	12,938,071	2,355,938	18.2%
2000	15,982,824	2,807,650	17.6%
2010	18,801,310	3,259,602	17.3%
2030 Projected	24,471,129	5,970,637	24.4%
2040 Projected	26,405,472	6,737,550	25.5%
2050 Projected	27,877,707	7,111,248	25.5%

Source: Florida Office of Economic and Demographic Research

Florida's growing population is driven by net migration and more than compensates for a negative 'natural increase' (excess births over deaths).[36] It is one of the few US states that does not levy income tax, estate tax or inheritance tax. The state also offers older citizens tax-free retirement benefits, not to mention generally attractive weather and a wide range of leisure activities appealing to both tourists and retirees.

Florida has benefited from older residents' spending for many years. In 2014, a report showed that those aged over 50 were responsible for more than half of the state's economic output and two-thirds of state and local tax revenue, despite the state's low-tax approach.[37] Florida's over- 50s contributed an estimated USD 505.5 billion to the state's GDP in 2018, according to AARP, the third-highest state total behind California and Texas. This figure is expected to increase more than threefold by 2050.[38]

In 2022, Florida registered one of the highest GDP growth rates among the US states at 10.6%,[39] and has seen average annual growth of 3% a year over the decade to the end of 2022,[40] with sectors including real estate, healthcare and retail particularly benefiting from an increase in the number of older residents with disposable income.

Retirees in Florida make distinct contributions to the economy and revenue through their lower expenses and specific consumption patterns.[41] While they tend to spend less on taxable goods, resulting in less sales and gross receipt tax revenue, they contribute more property tax revenue due to the higher value of their homes. Although retirees may require more medical attention, their reduced use of other services – including education and the justice system – helps to offset this.

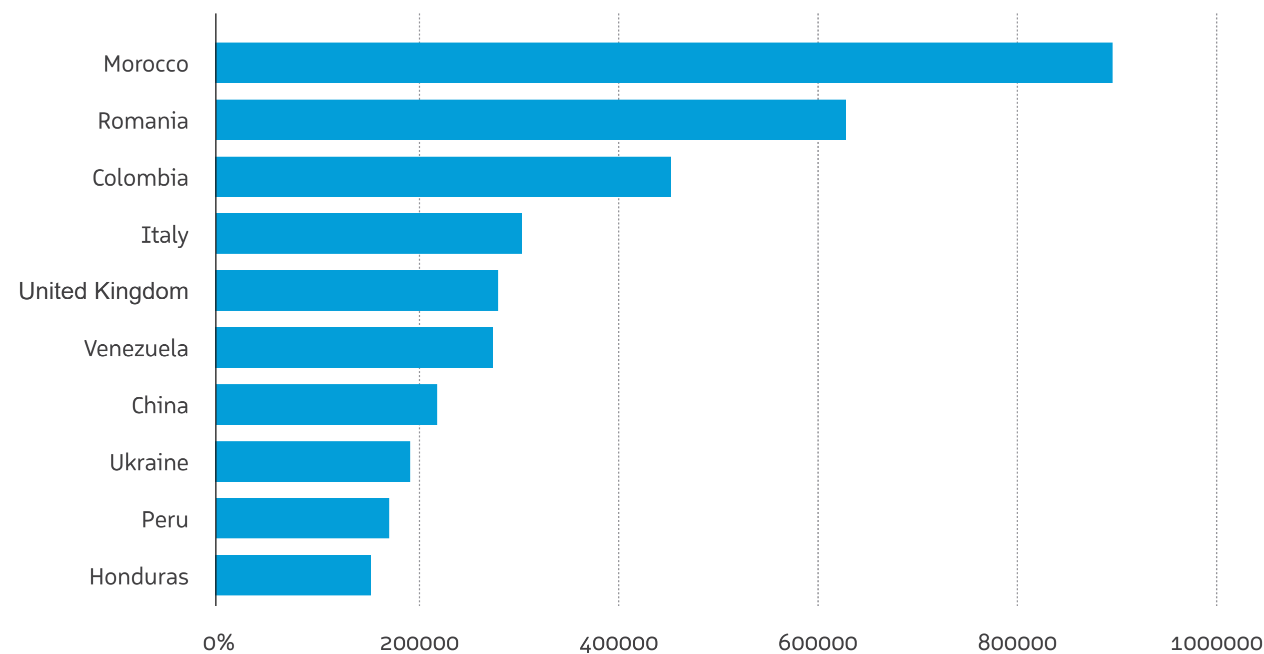
Within the state, cities have begun to compete to attract retirees so they can enjoy the same benefits as established retirement hubs in the state. In 2018, the city of Tallahassee launched 'Choose Tallahassee', a campaign to attract older, wealthy permanent residents to balance the economic dominance of its short-term student populations.[42, 43]

4.2 Case study: The impact of foreign residence on Spain and Portugal

Foreign citizens, including expatriate workers, make up 12.7% of Spain's population, led by Moroccan, Romanian and Colombian people.44 In neighboring Portugal, there were nearly 700,000 foreign-born residents in the country at the end of 2021, approximately 6.8% of the overall population. [45]

Both Spain and Portugal have experienced a range of benefits from this relatively high proportion of foreign residents living and working in their markets.

FOREIGN POPULATION IN SPAIN AS OF 1 JANUARY 2023, BY NATIONALITY



Source: Instituto Nacional de Estadistica

In the two countries, foreign workers contribute significantly more to social security through taxes than they receive in benefits.[46] In 2020, Portugal's foreign residents contributed more than €1 billion while receiving €273 million in payments[47] – a significant positive financial impact despite the effects of the Covid-19 pandemic.

Spain and Portugal were among the fastest-growing EU countries in the 12 months to the end of June 2023, according to European Commission data,[48] recovering well from both the pandemic and, a decade before, the eurozone debt crisis. That said, both markets face nuanced challenges among their older demographic.

Spain has also been a particularly popular retirement destination among British people, resulting in a concentration in the source of foreign capital: in 2016 – pre-Brexit – more than 108,000 people living in Spain were in receipt of a UK state pension.[49]

The Mediterranean weather is a big pull for retiring expatriates, but Spain has struggled to bring in foreign workers to offset its ageing population, both nationals and foreign residents.[50]

Like many other developed market economies, the Spanish and Portuguese populations are gradually aging. By 2050, one in three Spanish people will be aged over 65, up from one in five in 2019. In Portugal, this figure is just over one in five, although CaixaBank forecasts it to hit 35% in 2050.[51]

At the end of 2022, in an effort to attract younger expatriate workers and address the country's low productivity rate, the Spanish government introduced tax incentives aimed at enticing entrepreneurs and start-ups to establish themselves in the country.[52] Portugal's government introduced similar measures in May 2023.[53] While not aimed exclusively at expatriates, these law changes could serve to bring in more overseas entrepreneurs and skilled workers. The challenge will be to retain them into retirement through the support of an effective long-term savings vehicle.

4.3 Case study: The Dubai International Finance Centre

Established in 2004, the Dubai International Finance Centre (DIFC) has become one of the premier financial services hubs in the Middle East and Asia. It is home to more than 4,300 active companies that employ more than 36,000 professionals.[54]

In common with the rest of the UAE, DIFC employees are eligible for an 'end-of-service' benefit. This is traditionally a guaranteed sum based on an individual's final salary and their length of service. It was initially designed to help people with the costs of moving back to their home countries and was usually accessed after just a few years.

However, expatriates are increasingly staying longer in the UAE, and the country's government is taking a longer-term approach to attracting expatriates to live and stay. To reflect this, the DIFC – which has power over its own employment regulations – overhauled its end-of-service benefit in 2019.

In 2020, the system was relaunched as the DIFC Employee Workplace Savings, or DEWS.[55] Mercer provides investment advisory services to DEWS and has been involved in the design of the system since the start of discussions in 2019.

DEWS is a defined contribution system with employers paying into it monthly, so employees automatically have a savings pot. Employer contributions start at a minimum 5.83% of the monthly salary for employees with fewer than five years of service, with a minimum of 8.33% for those with more than five years. Participation is mandatory for all companies registered in the DIFC.

For expatriates, and indeed all employees, DEWS contributions are voluntary. In the first year of its operation there were very few employee contributions, but this is gradually increasing. Through 2022, despite the volatility in financial markets, contributions rose slightly – an encouraging development for the nascent savings plan.

Employees benefit from more certainty and ownership over their savings. Previously, they were reliant on the employer to pay the benefit from its own balance sheet, presenting problems if a company got into financial difficulty.

Meanwhile, companies in the DIFC can attract skilled workers with a workplace savings plan that can mitigate the impact of missing out on social security benefits in their home country. They also have greater certainty over cash flows, as payments to employees are made regularly rather than in one large lump sum. Employees can choose from a range of multi-asset funds, a global bond fund and a passive equity fund, as well as Islamic money market and equity funds and a sukuk bond fund.[56]

The new system has also been adopted by the Dubai government for its expatriate workers.

With effect from November 2023, the UAE government introduced a new workplace savings option, similar to the DEWS pension scheme, for employers in the UAE as a voluntary initiative. This sits alongside the existing end-of-service benefit regime, and is designed to promote a culture of savings and provide employees with various investment options for their end-of-service benefits.

This initiative marks a significant move towards fostering long-term financial security for private-sector employees and free-zone workers.

Under this scheme, employers now have the option to enroll their employees, regardless of their role or seniority, in the new system and make monthly contributions. By replacing the future build- up of benefits under the existing end-of-service regime with a workplace savings plan, employees can enjoy financial security when leaving employment and cultivate a culture of long-term savings, particularly for retirement.

This initiative not only benefits employees but plays a crucial role in helping employers attract and retain skilled workers and talent. It enhances the UAE's international competitiveness, making

it more appealing to global investors and businesses, ultimately contributing to the country's economic strength on the global stage.

4.4 Case study: The Pan-European Personal Pension

The EU has been developing its Capital Markets Union (CMU) since 2015 with the aim of improving the bloc's competitiveness globally. One element, introduced into the EU's legislative process in 2017, is the Pan-European Personal Pension, or PEPP. The legal framework for this innovative initiative came into force in March 2022.

The PEPP is a voluntary system designed to provide EU citizens with a standardized retirement savings option that can be used across EU member states. It was created to offer individuals greater flexibility and portability in saving for their retirement, particularly for those who may work in different EU countries during their careers or who want to take advantage of cross-border retirement opportunities. As of August 2023, there were six PEPP products available in the EU and registered with the bloc's pension regulator EIOPA, offered by providers in Slovakia, Croatia and Czechia.[57]

Key features[58]

- **Portability:** The PEPP is designed to be portable, meaning that individuals can continue contributing to the same pension product even if they move or change their country of residence within the EU.
- **Standardization:** The PEPP aims to provide a standardized and easily understandable pension product with clear information on costs and fees.
- **Flexibility:** The product offers flexibility by allowing individuals to switch providers every five years, with costs capped to ensure that switching is affordable.
- **Capital protection:** Some PEPP options offer capital protection, which means that the capital invested is safeguarded to ensure that the individual's retirement savings are not eroded by investment risks.
- **Provider options:** The PEPP can be offered by various financial institutions, including banks, insurers, pension providers and asset managers.
- **Supervision:** PEPP products are subject to regulation and supervision by relevant national regulators.

Potential drawbacks

- Lack of flexibility: The ability to switch providers every five years may limit choices and disrupt long-term retirement planning.
- Limited investment options: The standardized nature of the PEPP may result in a narrow range of investment options, potentially affecting returns and growth.
- Regulatory complexity: National regulation and supervision add complexity and administrative burdens for providers and individuals.
- High management fees: High management fees could reduce the growth and value of retirement savings over time.
- Lack of inflation indexing: The PEPP may not be indexed to inflation, potentially impacting the purchasing power of retirement savings over time.

The goal of the PEPP is to provide individuals with a retirement savings option that transcends national borders within the EU, making it easier for them to plan for their retirement, regardless of which of the member states they live or work in. It also seeks to promote competition among pension providers, potentially leading to lower costs and better services for consumers.

Concluding remarks and recommendations

Attracting expatriate workers and retirees can bring a wide range of benefits to countries seeking to boost growth or diversify their economies. From increasing spending within the local economy and improving the range of skills available to a country's workforce, to countering demographic and competitiveness challenges, it is understandable that so many countries are opening their doors to expatriates.

As this population category grows, there is a clear opportunity for governments to offer access to a long-term investment or savings vehicle to enable expatriates to grow their wealth while retaining it in-country through retirement.

Critical to the success of a robust pensions and retirement framework is the design of the system. Initiatives such as the introduction of mandatory defined contribution savings schemes that are designed to deliver benefits to employers, employees and local economies are a starting point – with the focus currently primarily on savers in the accumulation phase of their retirement journey. Time will tell whether the evolution of such plans, along with other initiatives such as retirement visas, Golden Visas, Golden Passports, property purchase and other incentives will entice expatriate retirees to come, stay and contribute to the local economies of countries that are positioning themselves as attractive retirement destinations.[59]

OECD data[60] shows pension and retirement savings systems are important suppliers of capital in many countries around the world (with assets in retirement vehicles exceeding 100% of GDP in a number of countries).

Adapting a system designed for attracting expatriate workers into one that retains expatriate retirees requires a whole-of-economy plan that considers how the major drivers of moves overseas evolve throughout a career and into retirement abroad, including:

- work and educational opportunities;
- the potential for higher earnings;
- strong infrastructure including healthcare; and
- a sound economy that can meet expatriates' economic goals.

When designing a long-term savings proposition for expatriates, countries should consider how the framework supports and achieves:

- capital market development and the promotion of corporate governance, stability and innovation in financial markets;
- growth in income and national wealth;
- job creation and improved productive capacity;
- sources of long-term funding for local projects that can withstand short-term volatility; and
- enhanced access to assets for savers and retirees beyond housing and bank accounts.

Governments can seek to kickstart these benefits by retaining existing expatriates along with their associated savings for longer i.e. to and through their retirement years.

Attracting new expatriates approaching retirement with existing built-up capital in their countries could be critical in helping developing countries grow, as a robust retirement ecosystem that caters to the needs (financial and non-financial) of expatriates could help boost inward investment.

We contend that governments seeking to design a first-class, robust and sustainable long-term savings system that delivers optimal benefits should consider that:

- In the UAE, for example, existing expatriates are staying three times longer than before, making it even more important that retirement and savings structures not only attract talent in the first place but seek to retain expatriates until and through their retirement years.
- As the global trend away from defined benefit (DB) towards defined contribution (DC) savings arrangements continues apace, the development of mandatory DC savings systems designed to deliver benefits to employers, employees and local economies is crucial.
- As expatriate populations remain in-country for longer and as governments seek to attract older expatriates with existing savings, these DC arrangements should increase their focus on decumulation strategies as participants approach and enter retirement, as well as accumulation strategies for savers in the growth phase, which tend to be the initial focus.

Looking ahead: Structuring a holistic ecosystem for the future

To supplement a robust savings environment, governments should consider adopting a systems approach to attracting and retaining expatriates up to and through retirement. These additional incentives may encompass:

- tax incentives;
- non-tax incentives such as discount schemes;
- property purchase incentives;
- retirement visas;
- infrastructure for older expatriates – including healthcare and mobility infrastructure; and
- quality of life considerations.

The ‘best’ system for a particular country at a particular time must also consider that country’s economic, social, cultural, political and historical context. In addition, regulatory philosophies vary over time and between countries. No single system will be perfect for every country positioning itself as an attractive retirement destination. However, a well-considered design will be key to attracting desired capital from older expatriates while also delivering significant benefits to local economies.

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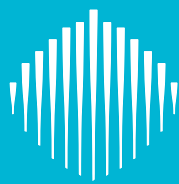

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