

Worked abroad? Here's what to consider about moving your pension savings to Canada

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Many Canadians have built retirement savings outside the country.
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The calls have been coming in weekly.

Shiraz Ahmed, the founder and CEO of Sartorial Wealth in Mississauga, Ont., says inquiries about how to move pensions across the border – usually to and from the United States and Canada – have increased lately.

“Sometimes there’s periods of time where it can be even more frequent due to the political climate,” he said. Now is one of those times, and people want to bring their money with them.

Many Canadians have built retirement savings outside the country after years spent working in the U.S., the U.K. or elsewhere. Others arrived in Canada mid-career, bringing with them pensions they’d earned abroad, and are now navigating retirement across two or more financial systems.

While there are no hard numbers on how much money Canadians and permanent residents hold in foreign pensions, Canada has social security agreements with more than 50 countries that have programs similar to the Canada Pension Plan.

Unions warn federal budget proposal could lead to pension cuts for government workers

John Ring, the operations director at Xtrapension in Ireland, which helps people who have lived and worked in the U.K. access their benefits, says about a million pensions are paid to people outside the U.K., including those in Canada.

The desire to bring pensions over is natural, said Carson Hamill, an associate portfolio manager with Raymond James in B.C., specializing in Canada and U.S. cross-border portfolios.

“They think, ‘I’m moving to Canada. I want everything to come with me,’” he said, pointing out that moving a pension to this country isn’t always necessary, depending on the withholding taxes and the person’s financial situation.

Moving your pension

If you worked in the U.S. and are thinking of moving pensions such as an individual retirement account (IRA) or a 401(k), usually you have to collapse them and retribute those funds to a Canadian registered retirement savings plan. This is done by using the provision in [paragraph 60\(j\) of the Income Tax Act](#), Mr. Ahmed said. The money must be in a lump sum but doesn’t eat up any contribution room in your RRSP.

“The 60(j) contribution basically allows them [to contribute] even if you didn’t have the room in your Canadian account because it was a foreign retirement account,” he said. “It allows individuals to be able to bring the money into a Canadian-based retirement plan.”

Mr. Hamill said that if you decide to collapse a U.S. retirement account, you may have to pay 15 per cent in withdrawal taxes (due to the U.S.-Canada tax treaty) on it, as a 60(j) transfer isn’t a tax-deferred rollover. He also points out that if you are less than 59½ years old, you may also incur an additional early withdrawal penalty of 10 per cent.

From there, you have to contribute the money to your RRSP within the calendar year or within 60 days of the end of the year, if it’s done in November or December.

Both Mr. Ahmed and Mr. Hamill say the withholding tax can be used as a foreign tax credit in Canada but it isn’t equivalent. “It is a messy transaction on a good day,” Mr. Ahmed said.

“In the worst-case scenario, you’re out 10 per cent and the variance in whatever cannot be offset by your foreign tax credits,” he said. “There are lots of CPAs who will run sort of mathematical projections to see what that will look like, generally speaking.”

Using a QROPS from the U.K. to Canada

Barry Hughes, who was born in and worked in the U.K. for 29 years, moved to Canada in 2005 for work and has pensions in both countries. He decided to move his pension from the U.K. to Canada.

“We sold [everything] when we came to Canada, so we have really no ties to England apart from family and when we go back for holidays and things,” he said.

When Mr. Hughes started looking into accessing his U.K. pension, he realized it would be difficult to manage the process himself. “I downloaded the paperwork but had no idea how to do it,” he said.

Mr. Ring said that’s pretty common.

“[You] can end up paying a lot more, because the systems are built for people within the U.K.,” he said, adding that people who live outside the country can buy extra pension years for about a fifth of the cost charged to people in the U.K., based on the type of employment and time living aboard. (As of the publication of this article, the British government has updated the guidelines around buying extra pension years; starting in April, anyone with less than 10 years of working history in the U.K. won’t qualify for a state pension.)

When transferring a U.K. pension to Canada, you have to move it to what’s known as a qualifying recognized overseas pension scheme (QROPS) in Canada, one approved by His Majesty’s Revenue and Customs.

One advantage of having a QROPS in Canada is that you may not pay any taxes on the transfer. The U.K. imposes a 25-per-cent overseas transfer charge if the person and the QROPS are not both resident or based in Canada.

Apart from the paperwork between multiple countries, the potential tax penalties and the months it can take for the money to move across borders, there are other reasons to leave it as is.

Both Mr. Ahmed and Mr. Hamill point out the money lost during the transfer to withholding taxes, even if some is offset by the foreign tax credit. Instead, they advise leaving the money in the U.S. or U.K. or wherever it is and taking periodic distributions starting at the required age, which is 73 for IRAs.

This way, the tax is deferred, and you pay tax solely on the distributions you take, which go to either a U.S. or Canadian bank account.

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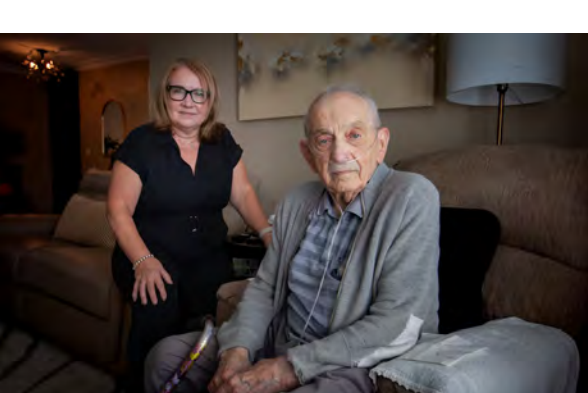


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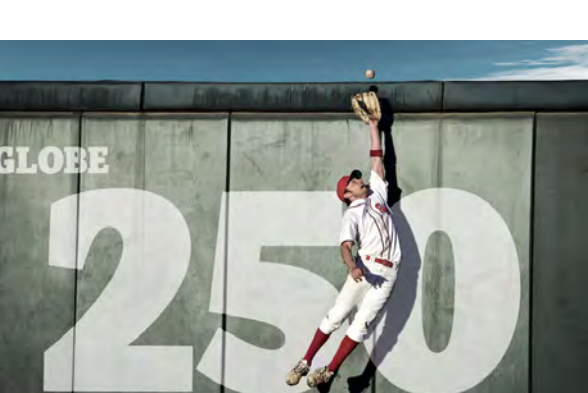
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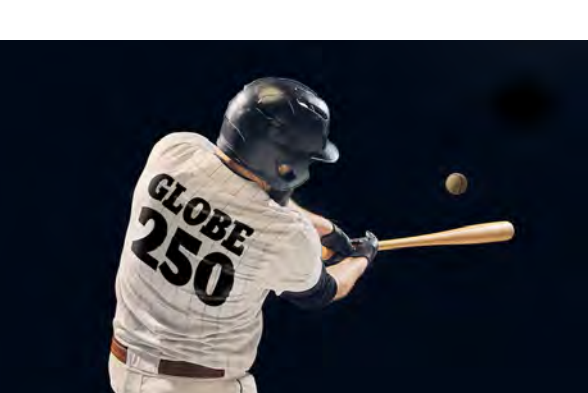
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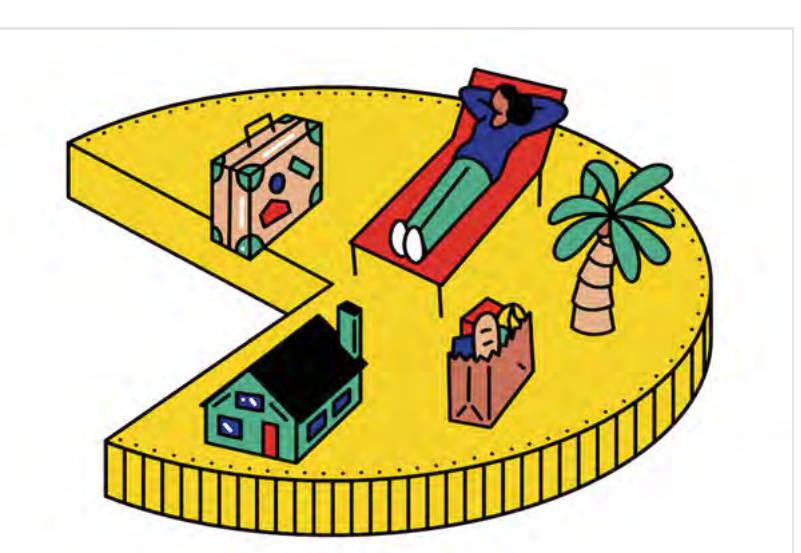
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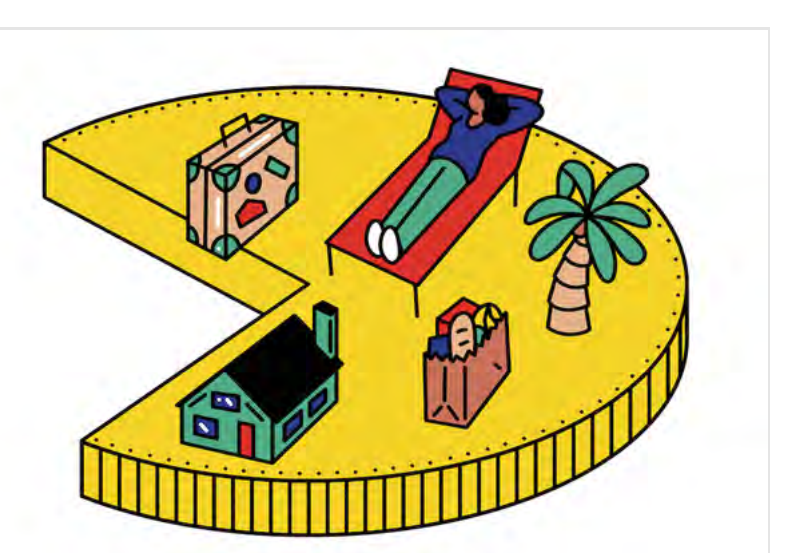
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