Dealing with debt before (or during) retirement

Strategies to help reduce debt and keep your financial goals on track.

BABY BOOMERS – one of the wealthiest generations in history[1] – are heading into retirement. They're ready to kick back and finally enjoy the fruits of their labours. Yet despite the lure of an early and active retirement, for many, the picture isn't as rosy as expected. In fact, a record number of retired or soon-to-be-retired Canadians owe more than ever before.

According to Statistics Canada, 70 per cent of people aged 55 to 64 were carrying debt in 2012, an increase from 61 per cent in 1999. In the over-65 crowd, debt rates climbed to 42 from 27 per cent over the same period, with the average debt load increasing by 94 per cent.[2]

How did this happen? One contributing factor is that we're living longer; the average life expectancy of Canadians has grown by 24.6 years since 1921.[3] There are simply more years of retirement to fund. The economic environment has also changed over the last few decades, leading many baby boomers to offer their children or grandchildren financial assistance, such as helping out with down payments on a home or university tuition. On top of these changes, the 2008 financial crisis was tough on most investment portfolios.

Debt can be a source of stress during retirement, but there are ways to manage it. If you or someone you know is worried about debt, here are just a few strategies to consider.

Consolidating debt

Consolidation is often a feasible option, particularly if your debt is in the form of high-interest credit cards rather than a mortgage. Consolidating debt means using a lower-interest-rate option, such as a line of credit or personal loan, to pay off a higher-interest debt. A loan's regular payment schedule means you could repay debt much faster than by making minimum payments on your credit card.

[1] www.mckinsey.com/global-themes/employment-and-growth/talkin-bout-my-generation, and Doug Owram, Born at the Right Time (Toronto: University of Toronto Press, 1997).

[2] Statistics Canada, February 25, 2014, "Survey of Financial Security, 2012," The Daily, www.statcan.gc.ca/daily-quotidien/140225/dq140225b-eng.htm (accessed May 5, 2016).

[3] Statistics Canada, Ninety years of change in life expectancy, catalogue no. 82-624-X, last updated November 27, 2015, www.statcan.gc.ca/pub/82-624-x/2014001/article/14009-eng.htm (accessed June 6, 2016).

Using home equity

A home equity line of credit could be a good way to help reduce the interest cost of your debt, assuming its interest rate is lower than the rate on your current loans. A home equity line of credit can also offer you access to money to manage unexpected expenses, helping you avoid having to sell long-term investments to meet a short-term need.

Home downsizing or relocating

Consider whether you need the size and space of your existing home in retirement. Can you afford to stay in an expensive urban centre? A smaller, less expensive property or something in a less costly neighbourhood may suit your needs just as well. Why not take a look at listings in other neighbourhoods, or attend open houses for smaller properties near you? You might be surprised by what you find!

Taking on a tenant

If your heart is set on staying in your current home, but you still have mortgage payments to make, you might want to consider the potential for rental income. Many urban areas have low rental vacancy rates, which could mean good rental income for you. But becoming a landlord is not as simple as just renting out a spare room or a basement apartment – you must adhere to zoning bylaws and consider tenant rights. It's a good idea to consult with a legal advisor to help you understand all you need to know.

Working part-time or delaying retirement

If you are already retired, why not consider working part-time? It can be an excellent way to supplement your retirement income. Plus, work has the added bonus of keeping you engaged – you could learn new skills, gain a new sense of purpose and deepen your connection to your community. If you're still working, you could think about delaying retirement by a few years, or "easing" into retirement by reducing hours or shifting to contract work.

Helping protect assets from creditors

While you are striving to pay off debts, you will want to ensure that your assets are protected. In the case of bankruptcy, as long as assets remain in a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), they may be protected from creditors.[1] That protection applies to locked-in plans as well, such as Locked-in Retirement Accounts (LIRAs), Life Income Funds (LIFs) and Locked-in Retirement Income Funds (LRIFs). Consult a tax or legal advisor about your individual circumstances.

It's never too late to start

If you've got concerns about debt and retirement, speak to your advisor. He or she can recommend solutions and strategies to help you reduce or eliminate your debt while protecting your assets. ■

[1] The federal government provides protection to RRSPs and RRIFs in the event of bankruptcy with the exception of contributions made within 12 months of declaring bankruptcy which are not protected. Other protection may be available under provincial legislation.

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Karen Roy
339 Huronia Rd
Barrie, ON, L4N 8Z1
705-725-0562
karen@spectrumfinancial.ca