Canadians carrying debt into retirement

Experts suggest ways to help retirees manage debt

By Tom McFeat, CBC News
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We've all heard the warning. Don't retire with debt. It's a four-letter word — especially for those who've left the workforce.

But many of us aren't listening, it seems.

Statistics Canada says it's found that about one-third of retirees have debt. Among those 55 and over who are not yet retired, two-thirds are in debt. While half of retirees with debt owe less than $25,000, about one-sixth of them say they're in hock to the tune of more than $100,000.

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A 2012 study by BMO found that more than half of Canadian homeowners expect they'll have a mortgage in retirement. And a recent CIBC poll found that 59 per cent of retired Canadians were carrying some kind of debt.

Personal finance author Gordon Pape labels that scenario "pretty scary."

"I have always maintained that one of the things that people should be aiming for when they go into retirement is to be debt-free," he told CBC Radio.

But what if you've already pulled the plug on that 9-to-5 job and still owe money?

Restructuring debt can help. Consolidating all one's debts can succeed in lowering the overall monthly payment and can see that 19.5 per cent credit card debt folded into something more manageable. But consolidation won't cut the total amount owed and it may stretch out the payback period.

Amount it costs to service a $100,000 line of credit at 4%	$333.33/mo.
Amount it costs when the interest rate is 7%	$583.33/mo.

There's also the option of **refinancing** one's current higher-rate mortgage. At today's low rates — a fixed-rate 10-year mortgage can now be had for slightly less than four per cent — the savings can be huge. A decade of stable, low payments can be a real stress-reducer for someone on a fixed income.

Reverse mortgages may be appropriate for some low-income retirees who want to stay in their homes for a few more years. But by deferring repayment of the money borrowed — sometimes for decades — the remaining equity in the home can be entirely eaten away.

We asked several financial experts for some other strategies to deal with debt in retirement.

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- **Have a realistic financial plan.** All of our experts agreed on this. "People need to have a budget built out for retirement, not so much for today, but for the next 20 years," says Jason Heath, a certified financial planner at Objective Financial Partners Inc. in Toronto. "If things are tight right now, things are only going to get worse once interest rates rise." Retirees also need to account for replacing their car or getting a new roof and new appliances for the house. "People have to be realistic about what the future holds."
- **Don't be lulled by interest-only debt payments.** Home equity lines of credit typically require borrowers to pay only the interest. At four per cent, a $100,000 debt can be serviced for less than $350 a month. But you'll never pay it off. That may be fine for some people. But Marc Lamontagne, a certified financial planner at Ryan Lamontagne in Ottawa, suggests you take advantage of today's low-rate environment to pay down that debt. "If you have a four per cent line of credit and can still handle payments at seven per cent, structure the payment as though [the interest charged] was seven per cent,' he advises. That way, when interest rates eventually do rise, the debt will be smaller.

Tip

Depending on the municipality where they live, lower-income seniors may be able to defer property taxes until they sell.

- **Consider renting.** "It's psychologically difficult for some people not to be homeowners, but sometimes it makes more financial sense to rent rather than own," says Lamontagne. "If they were to sell their home, they could have a big pool of money to generate income." Downsizing to a smaller home is also an option, although Lamontagne warns that forecast savings are often nibbled away by transaction costs and spending on the new home. Moving to a cheaper city or town may also make sense, but any benefit must be weighed against the loss of a familiar neighbourhood and more distant friends and family.
- **Convert non-deductible debt to deductible debt.** "Tax deductible debt is not as great a problem as non-deductible debt," says Warren MacKenzie, founder of Weigh House Investor Services in Toronto. "In some situations, non-deductible debt can be transformed into tax-deductible debt." He points out that if someone has a mortgage as well as a portfolio of non-registered investments, it can sometimes make good sense to sell the investments, pay off the mortgage, then buy back similar investments using a line of credit. That way, the interest on the line of credit would become a tax deductible expense.

Laurie Campbell, CEO of Credit Canada Debt Solutions, a Toronto-based, not-for-profit financial counselling organization, regularly sees retirees who've run into debt trouble. Sometimes, it's a result of bad planning. Sometimes, it's because unplanned expenses have come up, and there's no emergency fund in place.

Your view

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Adult children might need financial help or health problems might make it impossible to continue working part-time in retirement.

"Unexpected expenses due to health are huge issues for people," she said. "There's no guarantee that you can keep your job or that your health will allow you to."

Campbell also worries about the dramatic rise in debt through home equity lines of credit.

"It's so easy to dip into that," she said. "This is going to be very problematic when interest rates rise."

Keep working

Campbell also warns that carrying debt into retirement on the assumption that it will be easy to get part-time work is "dangerous." There are no assurances that someone's health will stay good or that it will be easy for them to re-enter the job market, she says. "It's very hard for someone in their 60s to get back into the workplace."

That's another reason why many experts say the seriously indebted are often well advised to hang on to their job.

"A high level of debt can ruin an otherwise good retirement," said MacKenzie.

"So, as a general rule, if you can work a few years longer, during which time you could significantly reduce the debt, retirement should be delayed."

Low mortgage rates have allowed Canadians to take out increasingly large mortgages, and soaring house values in many cities have allowed people to use their homes as bank machines. And those credit cards that require minimum monthly payments of just one per cent of the balance have proven to be irresistible.

The figures show that, as a nation, we've already borrowed our way to record levels of debt. Many of us are comfortable with that.

But once retired, with incomes fixed and with interest rates poised to rise, the wiggle room begins to narrow.

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