

Enjoy your retirement debt-free

Don't let debt haunt your retirement. Follow these tips to optimize your finances before you retire.

By [Gordon Powers](#), August 21, 2010



According to a recent study from RBC, more than 40 per cent of retired Canadians were still in debt when they left work. Most of this was a mortgage on a principal residence or a vacation home, although 17 per cent admitted to also carrying significant credit card balances.

What's most surprising, however, is that more than a quarter of respondents had also applied for additional credit of some kind since retiring.

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"More and more, Canadians are carrying debt into retirement, which is not necessarily a bad thing," says [Lee Anne Davies](#), head of retirement strategies at RBC. "Having access to credit in retirement can be beneficial to managing income and cash flow and provide additional flexibility."

In some cases, maybe, but for most people carrying debt in retirement isn't a great idea. Do you really want another brick on your back as you get older?

It's really pretty simple: If you're still in debt, you have no business retiring - if your finances are that shaky, just keep working until they're not.

Worse still, if you've already said goodbye to full-time work, ignoring your debt on the theory that you're simply spending your kids' inheritance for them is foolhardy.

Most retirement plans are calculated on the assumption you'll live on 60 to 70 per cent of pre-retirement income. That's easily done for prudent spenders who are used to living within their means. But it's a tough adjustment if you're used to spending every dollar you earn — and then some.

In retirement, since your income is typically less than during your working years, steady cash flow is what you're looking for. And one of the best ways to boost your retirement cash flow is to reduce — or eliminate — high interest expenses such as mortgages, home equity loans and credit cards.

It's pretty simple arithmetic. Most retirees invest in safe, highly taxed, income-producing deposits. But with returns on these products likely to stay in the low single digits, it makes little sense to pay five or six per cent on a mortgage or more than three times that on a credit card, year after year, in retirement.

A recent study from Boston College's Center for Retirement Research found that, rather than continuing to build up retirement assets late in life, most households would be better off using the money to pay off their loans.

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And, remember, unlike the United States where you'd enjoy a dollar-for-dollar reduction in your taxes, there's no tax relief available here in Canada on mortgage interest when it comes to your principal residence.

That's why, for most retirees, a paid-up home is the key to financial independence. Retired couples with no mortgage can, in effect, live rent-free.

Sure, you've still got to account for property taxes and maintenance costs, but it's reasonable to assume that your house will appreciate modestly over time, offsetting some of the inflation costs that plague pensioners learning to live on a fixed income.

The concern with leaving debt in place with no plan in sight during retirement is that you're just too exposed, suggests Stephanie Holmes-Winton, a Halifax-based advisor and author of "Defusing the Debt Bomb" a guide written for advisors interested in helping clients manage debt.

"We can't accurately predict what the interest costs will be going forward or how long they'll be paying on the debt. You also can't discount the possibility that the value of their home could fluctuate the wrong way at the wrong time."

"At least if the client has been paying it down, the effect of that occurrence will be far less extreme. We can't assume they may not need any equity accrued to pay rent later in life," she adds.

If you can work even part-time or manage on just your pension and RRIF income, consider redirecting CPP and/or OAS directly towards your debt, Holmes-Winton recommends.

The important part isn't which type of income you use, she maintains, it's the mental ease of diverting one specific source to pay down debt. Have an advisor do a projection showing how quickly you could eradicate that pesky balance by using money you weren't used to getting anyway, she suggests.

All of which means that reducing your debt before you retire is clearly the way to go. Sure, finding the cash to do this can be tough, particularly if you're still raising a family. Still, as retirement approaches, try to:

- **Spend smarter.** Make a detailed budget of your current spending and look for ways to accelerate debt payments.
- **Live moderately.** Shifting priorities, and perhaps even locations, can help rightsize your lifestyle.
- **Reassess vices.** Losing that pack-a-day habit could save you as much as \$2,000 a year.
- **Stick with cash.** If you can't afford it, don't buy it. Consider gently used cars rather than new ones, for instance.
- **Double up.** Figure out how much mortgage principal you're paying monthly, and make an equivalent bonus payment once a year.
- **Pay on time.** Stay clear of "no payments this month" credit offers. Interest still compounds and if you're a day late with your subsequent payment, you'll get charged interest from the date of your purchase.
- **Postpone retirement.** If you can, work a couple of years longer and accelerate your debt payments as retirement approaches.