



of San Diego

HOME

PLANNER RESOURCES

8 TIPS TO HELP SENIORS BATTLE DEBT

Silver-haired debt is ruining a lot of retirements these days. And while staying out or getting out of debt is often more difficult for seniors than for younger age groups, it can be done with some careful planning.

According to SRI Consulting Business Intelligence in Princeton, New Jersey, today's seniors are relying on credit cards, running up record debt and filing for bankruptcy much more than they did a decade ago. None of this is surprising. The bear market and low interest rates for fixed-income investments have crippled the investment portfolios many seniors draw on for living expenses.

Adding to their woes are skyrocketing medical expenses, coming at the same time employer retiree health benefits have been reduced or eliminated. And debt problems are tougher to avoid or solve for seniors because they typically don't have employment income to bail them out.

If you're retired (or soon will be), here are eight tips for helping you battle potentially devastating debt.

Overcome your pride. Many seniors are too proud or embarrassed to admit they have debt problems or to ask for help in getting out of them. At the very least, talk to someone close to you who understands personal finances. Better yet, consult with a competent financial planner, or perhaps see a credit counselor if you're in serious debt.

Quit giving money to your children and grandchildren. Sure, you love them, but they'll understand if you can't afford to loan them money or pay their way through college. Otherwise, you could end up being a financial burden on them.

Budget. Workers commonly believe they'll spend 20 to 30 percent less in retirement than they did while on the job. But many retirees find they spend as much or more, especially during their early years of retirement. On top of that, they may incur heavy medical expenses or may not have sufficient retirement income (four in ten rely primarily on Social Security). A budget can help you align your expenses with your income, and if you're already in debt, help you free up extra dollars to pay down that debt.

Easy on the credit cards. Seniors are piling up debt on their credit cards, often to pay for prescriptions and other medical expenses they can't otherwise afford. At the least, ask your credit card company for a lower interest rate, or transfer the balance to a cheaper credit card. Better yet, stop using the card, and if you must borrow, try to find less expensive ways to borrow, such as against the equity in your home.

Tap the equity in your home. Seniors typically have significant equity built up in their home, and they can tap it with a home equity loan or a home equity line of credit (but watch out for predatory lenders charging high rates). The interest rates on a \$10,000 fixed-rate home equity loan was around 6.7 percent in late July, according to BankRate.com, and around 3.9 percent for a \$10,000 equity line of credit—well below the 14 percent the average credit card was running. In addition, you may be able to take a tax deduction for the interest you pay on the equity loans.

Go in reverse. The downside of home equity loans is that you risk losing your house if you can't pay back the loan. You can avoid this risk by borrowing against the equity with a reverse mortgage, taken out in a lump sum, as a line of credit or in monthly payments. The advantage is that you don't have to repay what you borrow (plus interest and fees) until you sell the house, move or the surviving spouse dies. The caution here, say financial planners, is that reverse mortgages are complex, fees and interest rates can be steep, and you probably shouldn't use this method unless you plan to remain in the house for a long time.

Ask for a property tax reduction. Low-income seniors, and in some places anyone 65 or older, may qualify for a property tax reduction.

Work. Returning to work—or not leaving work if you're on the cusp of retirement—may not be a desirable option, but even a part-time job can help alleviate debt. And many retirees are finding that a little work in retirement is psychologically as well as financially beneficial.

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