Your financial well-being

Retiring with debt?
What you need to know

Americans are nearing retirement or living in retirement while carrying greater amounts of mortgage debt, student loans or credit card balances.

The average debt level for families headed by individuals age 75 or older more than doubled to $27,409 in 2010 from $13,665 in 2007, according to the Employee Benefit Research Institute (EBRI). The statistics show that older Americans are taking on more debt at a time in their lives when many are living on fixed incomes.

At the same time, the families carrying the highest levels of debt were those with heads ages 55-64, with an average debt level of $107,060 in 2010. Those high debt levels pose problems for an age group that is nearing retirement, according to EBRI.

If you’re nearing retirement and still paying down debt, how should you plan to juggle both? How can you avoid racking up more debt after you stop working, when generally you can’t count on a salary increase to help pay down your obligations?

A critical part of readying to leave the workforce is sitting down with an advisor to build a retirement plan. An advisor can build your expected debt payments into your overall plan, which will also include anticipated sources of retirement income and fixed expenses.

This article provides an overview of the most common kinds of debt and how you can handle paying each down or eliminating them all together.

Mortgage debt

Should you retire while still paying a mortgage? Having the mortgage paid off before retirement is less common than in years past. Among all families with a head age 55 or older, almost three-quarters of debt payments were going toward housing-related debt, according to EBRI.

Your monthly mortgage payment can be viewed the same as any other fixed expense when planning for retirement. Will your expected income sources in retirement cover your mortgage and other expected costs? You can figure this out with the help of an advisor as part of your overall retirement plan.

Should you pay your mortgage off early? Some who are approaching retirement wish to pay off a mortgage early. For many, there is an emotional component behind the desire to live in a home that is owned free and clear, especially with retirement looming. But if you have a fixed rate mortgage and are receiving a tax break through the mortgage interest deduction, there may be value in continuing to pay the mortgage down on a monthly basis, at least in the near term. There may also be value in paying off a mortgage if you have savings earning little to no interest, given the current low interest rates.
### Retiring with debt

Another option in paying down your mortgage, given today’s low interest rates, is to refinance your loan to a shorter term. You can also pay slightly more on the principal balance or add one extra payment per year, which can reduce your loan term and your interest costs.

Some people look to pull money out of their workplace retirement plan to pay off a mortgage. Be aware that there may be tax penalties for pulling money out of a retirement account, such as a 401(k) or 403(b), before age 59½. Also, taking large distributions from a qualified plan in a single year could potentially push you into a higher tax bracket. Consult an advisor or tax professional before you take that step.

What if your mortgage payment is too high to support with your retirement sources, yet you wish to stop working? Consider downsizing or moving to a less expensive area, either by using the sale proceeds to either buy a smaller house or to rent your next residence if you wish to live without a mortgage.

For more information on handling mortgage debt near retirement, read our article on the topic, [What you need to know before paying off your mortgage early](#).

### Student loan debt

Older Americans are shouldering bigger student loan balances, whether as a result of helping their children afford college or because they funded their own education expenses later in life. Student loan debt held by people age 60 and older totaled $43 billion at the end of 2012, according to the Federal Reserve Bank of New York, with an average debt level of $19,521. That’s up from a total of $16 billion at the end of 2007, or $14,930 per person.

There are steps you can take to make paying down student debt more manageable. You may be able to lengthen the time you have to pay the debt back, or consolidate your loans. To learn what repayment options are available to you, contact your lender or the current holder of your student loans.

If your children are older and established in their careers, ask if they can help assume all or some of the debt payments for their education.

What if you're nearing retirement with a college-age child? Be sure to keep borrowing and spending for higher education in check. Your child can borrow or pay for his or her own college, but you can’t borrow for retirement. It’s noble to want to help your adult children with higher education and other expenses, but if you’re elderly, destitute and relying on them for support, you haven’t done them any favors.

For more information, read our article, [Seven steps to tackling student loans](#).

### Credit card debt

Consumers often turn to credit cards to pay for large or unexpected expenses, such as replacing the roof on a house or buying new appliances.

It’s fine to use credit for every day or one-time purchases. But, if every unforeseen expense ends up on a credit card that you can’t pay off at the end of the month, then consider using cash for purchases.

To do that, build a cash management plan to see where your money goes. To free up money, you may be able to make cuts in areas you won’t miss, such as dropping cable channels or downsizing to one car if you no longer need two vehicles. And build an emergency or cash reserve fund, even in retirement. Such a fund can help you pay for large expenditures without turning to credit. Keep the funds in a liquid account, such as a bank savings account, so you can access the money easily.
Retiring with debt

What if your level of credit card debt has already spiraled to a level you cannot manage? You may need to turn to others for help. One avenue of help is the National Foundation for Credit Counseling, which provides financial counseling and education to consumers.

Postpone retirement

If you’re still working and juggling debt with retirement on the horizon, it may be worth working a few more years, especially if your expected income from Social Security, pensions and savings won’t cover debt payments and other fixed expenses. If you’re struggling with credit card use, you may want to wait until you have a cash management plan you can stick to before leaving work.

The benefits to pushing out retirement can include gaining time to winnow your debt levels, delaying claiming Social Security by a few years, which can increase your monthly benefit, and giving your retirement savings additional time to compound, and having fewer years that your savings will need to support you in retirement.

A trusted financial planner, as well as managing your debt level, can help you decide whether you need more time or if you have enough saved to live in retirement.

Explore further

Visit here for broader financial education, including a variety of resources to help you improve your financial well-being. You can also schedule a session with an advisor or find an educational event near you.