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'Money $ense': Debt versus retirement

By Marc Hebert
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WE HAVE ALL probably read about the debt recent college graduates have incurred to get through school. What many may not have heard about is the growing debt of older Americans.

Studies by the Center for Retirement Research and the Employee Benefit Research Institute have shown that older people are carrying their highest level of debt in 30 years. Even more troubling is that the levels of all types of debt are increasing.

From 1998 to 2019, households led by individuals age 55 and older increased their debt. Interestingly, the largest increase has been among households with individuals age 75 and older. In 2010, only 38.5% of those age 75 and older held debt. As of 2019, that number has shot up to 51.4%. This is the largest percentage since 1992.

Most of this debt is made up of mortgage debt, which represents 80% of the total debt load. The average mortgage debt has increased from $61,000 in 2010 up to $82,000 in 2019. One cause for this among baby boomers is a tendency to purchase expensive homes with small down payments.

Since mortgage payments are such a big part of the debt picture, factors affecting the housing market may impact the financial situation of people with this type of debt. Home prices rise and fall, interest rates change, and tax changes related to mortgage deductions could have future impacts.

The second form of debt seniors frequently have is credit card debt. For those age 75 and older, this form of debt represents 28% of the debt load. The average balance rose from $2,100 in 2010 to $2,700 in 2019. Considering that the interest rate on credit cards can vary, having high credit card debt can potentially be problematic for older Americans trying to pay off their cards while on a fixed budget.

Medical debt is also a factor. This debt is often unexpected. Emergencies happen. Baby boomers have an average balance of $1,200.

The last category may come as a big surprise as it relates to education. Grandparents are helping children and grandchildren pay for school. Some retirees are going back to school in later years. This means more older folks have student debt.

While we often think of accumulating assets for retirement, the opposite side of a net worth statement has to be considered as well — the level of debt a family holds. A large debt level may simply be unsustainable for the duration of retirement.

Different types of debt affect retirees in different ways. On one hand, mortgage debt is (hopefully) building equity in a home. On the other hand, having too much debt may cause stress and exacerbate health issues. A downward spiral may result with more health problems leading to more debt taken on to deal with them. Unexpected financial shocks may further complicate the picture.

Another impact debt could have is on the ability to retire. Postponing retirement or tapping into retirement savings early to pay off loans will all have an impact.

Given this, the best course of action is to evaluate the existing debt picture. Is there cash flow to support the debt load now and during retirement? If there are years to go before retirement, is there a plan to deal with the debt?

Individuals might want to get reputable debt consulting.

To help deal with expenses during retirement, there may be government benefits available. Examples are property tax relief or help with utility bills. Taking advantage of such programs may mean less is put on a credit card to pay for them.

The same goes for working with hospitals and medical providers to set up a payment plan for medical bills instead of using credit cards. Working part-time during retirement may help with debt reductions and get the debt down to a manageable level.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at **mhebert@harborgroup.com**. Your question and his response might appear in a future column.