The Long Dance With Debt

By David M. Cieslowski

Retiring debt-free was once considered a badge of honour and mortgage-burning parties were milestone celebrations. Handed-down stories of the Great Depression struck a chord of financial fear in next generations. I do not know if those were the good old days, but one thing is clear, things are different now. Last year, Statistics Canada reported that as of 2012, 42.5% of people aged 65+ had debt. That is over a 50% increase since 1999 and the trend shows no sign of abating.[1] Some of the reasons behind this shift include:

- Easy access to credit has grown exponentially.[2]
- Low interest rates (cheap money) have also made spending and debt seem easier.
- Two-thirds of Canadian parents say adult children are cutting into their retirement savings.[3]
- Cultural and lifestyle expectations have evolved. Our view of retirement has started shifting, debt tolerance has increased, and so have expectations for the good life in later years.[4]

From our vantage point, we believe there are some short- and longer-term reasons to be mindful of your debt picture in retirement. For instance:

- People are living longer. Borrowing now may mean having to liquidate investments to repay loans at an inopportune time in the future. For example, unexpected and/or significant health issues can be costly and directly affect your financial picture. Hefty debt adds another dimension of concern. Perhaps the retirement home where you planned to live eventually will no longer be affordable.

- Reverse mortgages seem to be a popular backup plan for deferring the realities of debt. If considering using that approach, we recommend talking to an impartial advisor. Remember the power of compound interest when saving? Well, it works against you in the same way with a reverse mortgage. Reverse mortgage rates are typically a lot higher than conventional mortgage rates.[5]
- Debt can affect carefully laid out estate plans. Here is a scenario where parents believe their wills treat their two sons equally. As a named beneficiary, the eldest child, Bill, is to get their RRSP/RRIF. Jack is to get the family house as part of the estate. Bill will receive the RRSP/RRIF proceeds upon his parents' death and the estate becomes responsible for any related tax liability. Jack and the house are another matter. He will receive what is left from the proceeds of the house sale once the realtors have taken their fees and the bank recoups any outstanding balances on any existing loans, credit cards and reverse or conventional mortgage. Also, the government will collect the tax owing on the RRSP/RRIF, etc.
  This scenario sparks many possible outcomes. If the parents live a long time, they could significantly deplete the RRIF; alternatively, the home could appreciate considerably more than expected; or any home-secured debt could grow faster than the home's value. With so many moving parts and possible outcomes, what seemed like an equitable distribution when the most recent will was drafted at age 60 might be anything but by age 95.

While life's surprises can prompt "must do" reasons for carrying debt into retirement, it is a shame to think historically low interest rates and easily accessible funds can derail lives well-lived for so many years. In whatever shape or form, borrowing money comes with some risk and you need to be prepared for those risks. Taking a step back, perhaps the best strategy is to proceed with caution and ask yourself: "What would grandma have done?"

1. Sharanjit Uppal and Sébastien LaRochelle-Côté, "Changes in debt and assets of Canadian families, 1999 to 2012," *Insights on Canadian Society*, 75-006-x, Statistics Canada, April 29, 2015, http://www.statcan.gc.ca.
2. Ben Woolsey and Emily Starbuck Gerson, "The history of credit cards," CreditCards.com, updated June 15, 2016, http://www.creditcards.com.
3. Garry Marr, "Canadian seniors racking up debt to fund bigger homes, glitzy lifestyles," *Financial Post*, September 8, 2015, http://business.financialpost.com.
4. Marr, "Canadian seniors racking up debt to fund bigger homes, glitzy lifestyles."
5. John Heinzl, "The reverse mortgage quandary," *The Globe and Mail,* October 31, 2010, http://www.theglobeandmail.com.