

Should you have debt when you retire?

Written by 'Layin' it on the line' By Lawrence Castillo Guest Columnist
Friday, 30 December 2022 06:32



Unless your parents made some weird deal with the hospital, you were probably born kicking and crying, but debt-free.

You would have remained that way in a perfect universe, spending most of your life as solvent as possible. Then you would skip blissfully into retirement without being shackled to a boatload of debt. You'd have a million in your 401(k), maxed-out life insurance policies, and guaranteed Income from annuities.

However, the reality is different for most pre-retirees and retirees. Life has its own plans, and sometimes it goes off the rails. Even the best-planned people can end up underwater, sideways, and paying lots of unexpected bills.

According to financial researchers, over 41% of Boomer retirees have credit card debt, and another 35% have car loans with balances over \$24,000. Many older retirees also carry debt into retirement, although the number is substantially less.

How can debt impact retirement?

You may think, "So, why is debt so terrible? I have cash flow from my retirement accounts that I can use to pay it. Is it that much of a problem?"

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The answer to those questions, unfortunately, is “yes.” Many retirees discover that having a lot of debt when you no longer work means having a more stressful, hand-to-mouth existence that could last 30 or more years after leaving the workplace.

Even worse, debt might be the tipping point that causes some retirees to run out of money long before they die.

Having a lot of debt significantly constricts cash flow, making it difficult, if not impossible, to maintain emergency funds, pay for vacations and leisure activities, and pay for out-of-pocket health care costs and preventive medicine.

While many who are planning their retirements believe that having some money in the market will offset some of the problems created by debt, they forget that even historic market gains cannot offset high credit card rates.

Often, we forget the toll that financial anxiety takes on our health and emotional well-being. Having debt hanging over one's head can also cause various mental and physical ailments that could reduce life expectancy or require nursing home care.

How much debt is acceptable?

Those close to retirement probably wonder how much debt they can bring with them and not feel too impacted. There are rules of thumb in the financial services industry that say you should have no more than 28% of your pre-tax household income servicing principle, insurance, interest, and taxes on a mortgage and no more than 36% of that Income to consumer debt payments.

That's while you are still drawing a paycheck.

In my opinion, when you retire, the numbers should be much, much more conservative. If you

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find yourself rapidly nearing retirement and saddled with debt, you may want to consider other options.

In most cases, you want to pay the high-interest debts first and not worry as much about the mortgage, especially if you have a reasonable fixed rate and continue to get the mortgage interest tax deduction. If you don't have an ideal rate, consider refinancing to shorter terms or lower interest rates.

The final word: Because individual financial situations differ, the amounts of debt that can potentially impact retirement will be different for everyone. In general, it's a good idea to pay off as many debts as possible before you decide to retire. If you are already retired or about to, consult a competent retirement specialist to find the best debt reduction strategies for you.

Lawrence Castillo is a member of *Syndicated Columnists*, a national organization committed to a fully transparent approach to money management.

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