# Carrying debt into retirement (June 2011)

When Canadians plan for retirement, the focus is usually on amassing sufficient savings to last them through their retirement years. However, keeping a handle on expenses and minimizing overall costs while still being able to enjoy a reasonable standard of living is an equally important part of retirement planning. As part of that effort to reduce living costs, most retirees try to reduce or eliminate major financial obligations before giving up their regular paycheques.

Part of minimizing one's post-retirement financial obligations is planning to eliminate one's debt. Theoretically, that's something that should happen as part of the normal course of life cycle events. For younger Canadians, taking on debt, usually in the form of student loans, mortgages, and car payments, is almost unavoidable. However by the time retirement is on the horizon, decades later, most Canadians plan to have retired the mortgage and then, any other remaining debt.

While being debt-free in retirement may be the goal, it isn't necessarily the reality anymore. Research from theUnited Statessuggests that a growing number of both retirees and those approaching retirement are struggling with debt. StatisticsCanadarecently surveyed Canadians to determine whether they are dealing with that same reality. The StatsCan survey on retirees and debt was part of a larger survey—the 2009 Canadian Financial Capability Survey (CFCS)—which provided information on the income, wealth, and debt of retired Canadians. What that survey showed was that, in 2009, one in three households where all household members age 55 and older were retired still held some form of debt. Where only one spouse was retired, that figure rose to 6 in 10 households.

The survey disclosed that, among retiree households, average debt was $60,000, and that median debt (meaning that half owed less and half owed more) was $19,000. Those figures break down as follows: one-quarter of such households owed less than $5,000: one-third owed between $5,000 and $24,999 and another quarter owed between $25,000 and $99,000. The remaining 17% of retiree households carried debt of $100,000 or more.

In assessing the significance of debt levels owed by retired Canadians, it's important to note that, for purposes of the survey, all debt was considered equal—no distinction was drawn between long-term debt like mortgages and shorter-term debt represented by transactions like buy now/pay later offers. Consequently, where total debt is less than a few thousand dollars, it's entirely possible that such debt comprises relatively short-term borrowings which will be paid off in a matter of weeks (for credit card balances) or months (for buy now/pay later offers). Of greater concern are the 40% of retirees who owe more than $25,000 or even more than $100,000. Given the current low interest rate environment, it's almost a certainty that the interest cost of carrying those debts will increase over the next year or so.

Overall, the survey determined that retirees with debt have a median annual household income of $42,000, a median net worth of $295,000, and a median debt of $19,000. Within those figures, the author of the article analyzing and summarizing the survey data reached the following conclusions:

- There are no significant differences in annual income, net worth, and debt levels by the age and sex of retirees, although women have lower debt-to-income and debt-to-asset ratios than men.
- Compared with all other groups, the divorced have the lowest annual median income ($28,000) and net worth ($126,500).
- Homeowners have higher debt levels than non-homeowners, but their median income and net worth are also higher.
- Higher household income is associated with higher levels of net worth and debt, but lower debt-to-income and debt-to-asset ratios. Those with annual incomes of less than $25,000 have the highest debt-to-income and debt-to-asset ratios.
- As net worth increases so does annual income and median debt; however, only the debt-to-asset ratio falls as net worth rises.
- Those with higher median debt also tend to have higher annual incomes and net worth. However, those with high debt also have significantly higher debt-to-income and debt-to-asset ratios.

The StatsCan release summarizing the survey results in relation to debt held by retirees can be found on the Statistics Canada Web site at http://www.statcan.gc.ca/pub/75-001-x/2011002/article/11428-eng.htm.