What do 1 in 4 working and retired Canadians have in common?

Source: SunLife Financial
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A new study shows 25% of retired Canadians are in debt and 24% of working Canadians have raided their retirement savings. Is there a connection?

Retired Canadians are just as likely as those earning a paycheque every 2 weeks to be living with debt. Traditional attitudes about a more frugal approach to life in retirement appear to be losing favour.

According to the Sun Life Barometer — a new study that digs into working and retired Canadians' attitudes about a range of finance and health issues — one-quarter (25%) of retirees are carrying non-mortgage debt from month to month. Twenty per cent are still making mortgage payments on their homes.

By comparison, 32% of working Canadians say they don't pay off their non-mortgage debt every month. A larger number (50%) is still making mortgage payments. That makes sense, though, given the younger ages of those respondents.

Traditionally, Canadians have worked hard to retire debt-free. The idea of retiring before paying off the home mortgage or of going into debt to buy a car was next to unthinkable. But today's retirees — no matter their age — are changing the rules.

Canadian retirees and debt

Canadian retirees in these age groups…	55-65 years old	66-69 years old	70-74 years old	75-80 years old
Continue to make mortgage payments on their home	22%	16%	23%	17%
Do not pay off non-mortgage debt every month	26%	23%	20%	28%

What do these retirees owe money on, besides their mortgages? Among those who don't pay off their non-mortgage debt each month:

- 66% have miscellaneous credit-card debt.
- 26% are making car payments.
- 7% are paying down health expenses.
- 7% are paying for holiday expenses or a vacation property.
- 6% are in debt because of home renovations.

Borrowing from our future

Of course, retirees aren't the only ones living beyond their means. Statistics Canada reports that at the end of the third quarter of 2017, Canadians owed an average $1.71 for each dollar they earned in disposable after-tax income. The Bank of Canada's Senior Deputy Governor, Carolyn Wilkins told reporters, "the biggest vulnerability to the Canadian economy is coming from … high household indebtedness."

But working Canadians aren't just borrowing from banks and credit unions. They're borrowing from their own financial future.

One-quarter (24%) say they have withdrawn money from their retirement savings. That's true of 22% of millennials, 24% of Generation Xers and 28% of late baby boomers.

Among those who've made a withdrawal:

- 63% did so because they needed to, for medical expenses, debt repayment, etc.
- 24% withdrew money as part of the Home Buyers' Plan.
- 13% took out money simply because they wanted to purchase a car, go on a vacation, etc.

The parallel between 24% of working Canadians drawing down their retirement savings and 25% of retirees being unable to pay off their monthly non-mortgage debt is telling.

Either a good chunk of the population has grown comfortable funding present-day expenses with money meant for the future, or their economic position requires them to do so whether they like it or not.

We can take away 2 messages from this. The first: If you can avoid debt, you obviously should. But if you have to borrow, be conservative about how big a loan you take. Both the Bank of Canada and the U.S. Federal Reserve have told us to expect higher interest rates in the future. Both interest rates and the amount borrowed affect what you and I pay creditors. Our current debt payments will rise, probably more than once in the coming months.

The other clear message in all of this is that financial planning doesn't end when you reach retirement. Professional advice is as valuable at 65 as it is at 25.