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Balancing Debt into Retirement

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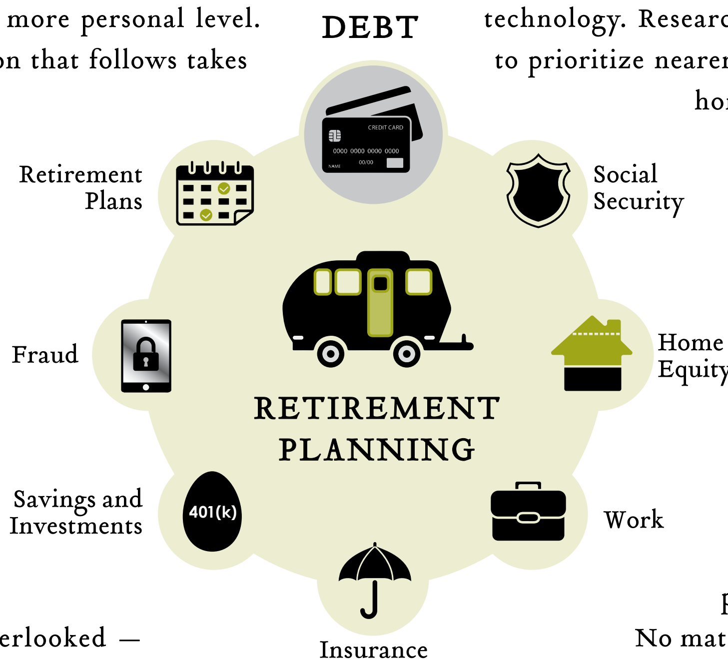
Saving for retirement, eliminating or reducing debts, or funding your next vacation is a debate that can navigate your financial picture toward its final destination early on in one's lifetime. The idea of weighing the accrual of debt for major purchases while simultaneously preserving retirement assets, to the aversion of debt or otherwise expending retirement dollars, is a notion that is dealt with on a more personal level. The analysis and conversation that follows takes a careful approach to a logic that balances financial impact with personal comfort. How you manage debt pre-retirement will largely impact the success rate of meeting retirement goals.

For many millennials, retirement may feel like an unreachable goal, and the level of impact that saving now could truly have then is often overlooked — especially when considering one's resources and obligations when just stepping into the "real world." It is common for even those young adults making logical financial decisions to value the immediate, near-term goals above saving for retirement. An example might be obtaining a mortgage on a first home. There is a careful balance. Saving just a little now, has a big impact later - even incremental amounts as to balance a student loan repayment plan.

Of course, many Baby Boomers know differently. They recognize (often with regret over having failed to take full advantage) just how significant and powerful long-term compounding can be. It's for this reason that assets invested when we're younger can benefit a retirement account in ways that become much harder to duplicate later. They also realize that assuming debt late in their career is harmful to their retirement goals.



There is no suggestion that millennials are spendthrifts, spending foolishly on experiences and technology. Research supports they simply tend to prioritize nearer-term goals such as buying a home, paying down debt, building an emergency fund, or saving for vacations...before longer-term goals such as retirement.

The fact is, the Gen X's and younger have become less driven to reduce debt strategically and efficiently. The best solution may be to create a balance between saving and paying off debt.

No matter the situation, take whatever steps are available pre-retirement to consolidate, reduce, and eliminate debt; ultimately, making it more affordable in the fixed income years of retirement. Oftentimes, credit card companies will grant lower rates, personal loans are accommodating, and often enough a refinance or home equity line may be the premier route. If it seems as though revolving debt payments will continue into retirement, they should be considered into monthly living costs.

We often find that retirees are happy in retirement and have ultimately secured resources to keep up their standard of living. It is the burden, however, of those outstanding debts — in combination with other red flags, such as reliance on Social Security as a main source of income — which could ultimately create a depletion of investment assets prematurely. It is common for one to feel uneasy with any strategy that causes their savings to fall below a certain level. For them, saving and paying down debt at the same time is likely the best strategy.

Simple math suggests if you're paying more interest than you're earning on your investments, you're losing money. By adjusting your budget to accommodate deferring incremental amounts for the long term, the less money you'll need to allocate to those accounts to hit the same target, because time and the idea of compounding will help you grow your balance. Diverting some income toward a retirement nest egg may seem like a less appealing choice than taking a trip, but ultimately you can choose both — by creating a balance.