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REACH

Dealing with debt before retirement

Should you make it a priority to retire your debts before you retire? As with other aspects of your financial planning, much will depend on your personal goals and situation. A debt-free retirement is a goal that many Americans share, if for no other reason than the peace of mind it can bring. If having to make debt payments would create undue financial and emotional stress, then you'll likely want to make a concerted effort to eliminate – or at least significantly reduce – your debts before you retire.

✓ Making choices

Absent a large influx of cash, you may not be in the position to pay off your debts all at once. When deciding where to allocate the extra dollars that are available for debt repayment, consider how much it is costing you to carry each debt.

Credit cards and consumer loans with high interest rates typically are prime candidates for paying off as quickly as possible. Although the money allocated to paying off these debts wouldn't be available to invest elsewhere, you'd essentially earn a return equal to the interest you'd otherwise pay.

✓ Paying off your mortgage

Your home mortgage may be your largest debt – and the one you would most like to pay off before you retire. Before acting, check to see if there's a penalty for prepayment and review the loan amortization schedule to get an idea of how much interest you'd save by accelerating your payments. With a traditional mortgage, the amount of each monthly payment that goes toward principal increases – and the portion representing interest decreases – as you get further into the loan term. So paying off the loan a few years early may not save as much interest as you'd expect. Sometimes, keeping a mortgage and allocating additional cash flow to other investment opportunities can be good strategy. A financial professional can help you work through the analysis.

✓ Finding the money

Although the prospect of trimming your debt while saving for your future retirement may seem daunting, don't give up on the idea without examining all of your options. Are there ways you can simplify your lifestyle? Could you downsize to a smaller home? Drive a less expensive vehicle? Spend less on college for your children? Proactive steps taken now, before you retire, might go a long way toward freeing up the cash you need to pay off burdensome debt, beef up your savings and improve your overall financial picture in the years ahead.

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