



THE GLOBE AND MAIL 

October 11, 2011

Retirement-bound Canadians piling on debt

By Roma Luciw
Globe and Mail Update

The 65-plus crowd are taking on debt at a much faster pace than their younger counterparts, report says

Older Canadians are nearing or entering retirement more indebted than ever before, piling on debt at a much faster pace than their younger counterparts, according to a report from TD Economics.

Much has been written about the fact that household debt in Canada has soared to a record high in the last decade, with all age groups showing a significant pick-up in the pace of borrowing in recent years. The TD report noted that younger Canadians, many of whom are entering the housing market for the first time, continue to record the largest debt burdens.

"However, the bigger surprise surrounds the increasing indebtedness of those in or nearing retirement. In particular, the 65-plus age group racked up debt at three times the average pace," TD economists Derek Burleton and Diana Petramala wrote in a report released Tuesday.

"What's more, Canadians approaching retirement (i.e., those aged 45-64) also showed an above-average penchant to accumulate debt, suggesting that the trend to holding debt later in life has some staying power."

The fact that older Canadians are embracing debt is a double-edged sword, Mr. Burleton and Ms. Petramala said. On a positive note, it could lessen the risk of a severe negative adjustment down the road.

"This is because older Canadians are better positioned to withstand an unanticipated event, such as a sharp decline in home prices or disruption in income, since they tend to have lower balance sheets and larger asset bases which to fall back on," they said.

On the other hand, the economists were alarmed that a growing number of Canadians heading into retirement with more debt increases the uncertainty about these households' longer-term financial state.

A "significant share of people are facing the prospects of a declining standard of living in retirement due to lower savings rates, volatility in asset markets, pension fund deficits and declining employment pension coverage," Mr. Burleton and Ms. Petramala said. "A sustained trend toward rising debt burdens among older Canadians could significantly exacerbate this financial challenge."

Independent financial planner Rona Birenbaum said taking on debt at an older age is a potentially serious problem.

"It is one thing if you are accumulating debt because you anticipate liquidating some other form of capital down the road," she said, such as planning to sell a cottage in 10 years to pay off debt. "But if it is debt created simply for

consumption purposes, it can create a longer-term financial crisis."

An increase of just 1 or 2 per cent in interest rates could have a huge impact on a household's finances, Ms. Birenbaum said. "It could completely undermine a retiree's financial balance sheet and force them to liquidate assets to pay down debt."

So what is driving aging Canadians to embrace debt at this later stage in life? The TD report said the growing debt burden among older Canadians reflects investment in real estate. Since 2002, average holdings in real estate have doubled among the 65-plus age cohort, the report noted.

"Like others, older Canadians have been lured by the attractive combination of low interest rates and home price appreciation. And for those in or close to retirement, low returns on interest-bearing securities and sharp equity losses in recent years have provided an added incentive to diversify portfolios into real estate," the economists said.

Outside of real estate, older Canadians are also increasing the number of cars they own or purchasing more expensive vehicles, the report said.

Debt made up of lines of credit has also grown among the 65-plus crowd, who are using them for investment purposes like real estate. The report noted that it was less clear how credit has been used as a tool for income replacement during a period of low portfolio returns.

The Globe and Mail, Inc.



The Globe and Mail Inc. All Rights Reserved.. Permission granted for up to 5 copies. All rights reserved.

You may forward this article or get additional permissions by typing http://license.icopyright.net/3.8425?icx_id=icopyright/?artid=2197318 into any web browser. The Globe and Mail, Inc. and The Globe and Mail logos are registered trademarks of The Globe and Mail, Inc. The iCopyright logo is a registered trademark of iCopyright, Inc.