

Want to Retire Comfortably? Get Rid of Your Debt



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THE WASHINGTON POST GOT IT RIGHT. In a May 4, 2020, article, Columnist Michelle Singletary proposed, “Old rule: Make retirement savings your No. 1 priority; New rule: Make paying off debt, especially high-interest debt, a priority.”

The “new rule” stems from a rather new realization that retirees are increasingly swallowed up with debt, a condition not conducive to a comfortable retirement. An August 9, 2019, *Forbes* article revealed that the median consumer debt in households headed by someone 65 or older in 2016 was \$31,300, more than twice what it was in 2001 and more than four times what it was in 1989.

While debt is cumbersome at any age, it can be emotionally and mentally as well as financially devastating for a couple or individual living on a fixed income. In so many cases, they’re simply not set up to be able handle a lot of debt. So paying down debt, especially consumer debt, should be a priority for anyone approaching retirement, or unfortunate enough to be in retirement and dealing with excessive amounts of debt.

The “avalanche” and “snowball” are two competing strategies for dealing with consumer debt. The avalanche strategy involves working on the debt with the highest interest rates first. That has been the predominant advice, and does save you money in interest over the long haul.

Some debtors are overwhelmed by their sheer number of credit card debts. The snowball strategy, so called because it builds on itself until your debt is paid off, has you paying the smallest balances first. Once a card is paid up, you take it out of circulation and redirect your payments to your next smallest balance. The snowball technique can help you feel like you are accomplishing more as you knock off each debt. It can give you confidence that you are getting control of your debt.

There are multiple ways to approach overwhelming consumer debt. You can refinance for a lower rate. You can use a debt settlement company that might get you a lower

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monthly payment, but you'll be piling up interest charges and be in debt longer. As well, many of those "services" are scams, so you need to be careful about who you engage. They often charge you a fee, and the way they recognize debt can be as damaging to your credit score as bankruptcy. And that last resort is bankruptcy, though bankruptcy doesn't free you of a student loan obligation or back taxes.

A more positive approach is to create a budget so that you are living within your means, putting away your cards or making it harder to use them, then using one of these strategies to get them paid off. And if you come into some additional cash, avoid the tendency to pay off your mortgage, and focus first on your consumer debt.

Consumer debt is affecting people in retirement. The median household debt has multiplied over the past 40 years. Getting your debt under control is one of the most important steps you can take to a financially and mentally comfortable retirement.

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