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| |  |  |  |  |  | | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | | **Going into Retirement with Debt Can Be Disastrous**  **Your lifestyle will largely depend on your retirement savings, and debt will reduce the amount you have available for your post-retirement expenses. Debt reduction is a critical aspect of your financial planning.**  It seems intuitive: The greater your debt payments during retirement, the less you can spend elsewhere. But just as important as paying off your debt before retirement is knowing which debt might make sense to leave in place.  **Understand the tax consequences.** You may be tempted to pay off debt by taking money from your retirement account. Generally, that’s problematic because retirement account money grows tax-deferred while it remains in the account, and you’ll need that money as income throughout your golden years. Moreover, you’ll pay taxes on withdrawals, and if you are younger than 59 ½, you may also have to pay a 10% early withdrawal penalty1.  **Repay debt using the avalanche method.** Sort your debt by descending interest rate and start repaying the one with the highest rate first. By working your way down the list, you’ll be saving the most in interest expense and will minimize the payoff period. Your mortgage interest is tax deductible, so divide the interest rate by (1 + your tax rate on ordinary income) to see the actual after-cost rate. This may put your mortgage at the bottom of your list and the interest may be less than what you earn from your retirement account. In this situation, it’s okay to continue your regular monthly mortgage payments instead of trying to pay it off early using retirement funds.  Consolidate your credit card debt. Credit cards typically charge an annual percent rate (APR) from 15% up to 24%2. If you have high-rate cards, consider getting a new credit card with an introductory 0% APR on balance transfers. You then move your existing balances to the new card (fees may apply) and concentrate on paying off the consolidated balance during the introductory period, which usually runs from 12 to 18 months after opening the account.  Social Security can help. Starting at age 62 you can begin taking Social Security benefits even if you continue to work. Keep in mind there is a maximum amount you can earn before your benefit amount is reduced if you haven’t reached full retirement age3. If you plan to go that route, you should consider dedicating those payments to repaying debt. If you have a pension, you may be able to direct at least part of your pension payments toward debt balances.  Debt reduction requires a plan. If you want to successfully pay down your debt, a strategic plan that integrates with your other retirement plans is your best bet. Contact me today to discuss how to address your debt situation. Together, we’ll develop a plan that accomplishes your goals in the most efficient way.   |  |  | | --- | --- | | |  | | --- | | [LET'S CONNECT](mailto:##AdvisorEmail##) | |  |  | | --- | | 1 [Irs.gov/newsroom/what-if-i-withdraw-money-from-my-ira](https://www.irs.gov/newsroom/what-if-i-withdraw-money-from-my-ira) 2 [creditcards.usnews.com/articles/average-apr](https://creditcards.usnews.com/articles/average-apr) [6/4/21] 3 [ssa.gov/benefits/retirement/planner/whileworking.html](https://www.ssa.gov/benefits/retirement/planner/whileworking.html)  Tracking #1-05182289 Expiration 08/24 | | | |