Action Plan: Lowering My Debt

Directions

Use this checklist to devise a strategy to pay off consumer debt prior to and during retirement. Use the activities from the workshop to help you determine your current debt load and/or anticipated debt load during retirement, establish goals to pay off consumer debt and create guidelines for borrowing during retirement.

(✓)	Readiness Tasks
	1. I intend to fully retire by age: _________
	2. I have calculated my current debt load and my anticipated debt load during retirement.
	3. I have established at least one SMART goal related to paying off debt (or avoiding the need to take on debt for a major purchase).
	4. I have adopted at least three tactics to avoid taking on new debt during retirement.
	5. I have an emergency reserve fund that is readily available to use as a contingency to cover the costs of unplanned financial events.
	6. I have outlined rules to guide my spending and borrowing decisions during retirement, particularly related to major expenditures.
	7. I have outlined criteria and rules to guide decisions about saving and extracting money from savings and investments during retirement, taking into consideration tax penalties.

Resources

- MyRetirementPaycheck.org/Debt
- AARP (Managing Debt): www.aarp.org/money/credit-loans-debt
- Consumer Finance Protection Bureau (CFPB), www.consumerfinance.gov
- Federal Trade Commission (FTC), www.ftc.gov
- National Foundation for Consumer Credit (NFCC), www. nfcc.org

Activity: Debt Comparison

Directions

Tabulate your current debt load. If you have not yet retired, also estimate your anticipated debt load during retirement. Then reflect on how your debt load might be impacting your plans for starting retirement and vision for your lifestyle during retirement.

Type of Debt	Interest Rate	Current Balance	Balance During Retirement
Mortgage			
Home Equity Loan			
Automobile Loan			
Automobile Loan			
Credit Card:			
Credit Card:			
Student Loan			
Medical Debt			
TOTAL DEBT			

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Activity: Debt Management Scenarios

Directions

Each scenario below involves a couple faced with a decision about managing debt. Read each scenario and offer suggestions to advise the couple on ways to lower debt during retirement.

Scenario 1: Joe and Jane

Joe and Jane both are 55 years old and intend to retire in 10 years. They still owe $100,000 on their home (3 percent mortgage interest rate) and plan to pay off the mortgage before retiring. Each month they contribute $1,000 to each of their employer-based 401(k) retirement savings plans. Their plans each average an annual 5 percent return. Joe and Jane also have two credit cards, with balances of nearly $5,000 and $7,000 respectively. Each card has a 17 percent interest rate. They have been paying the minimum payment due each month because they are financially helping their two children with school tuition payments. What do you suggest they do, if anything, to adjust their debt load?

Scenario 2: Kit and Carl

Kit and Carl, age 64, plan to retire next year. Unfortunately, Carl (the primary wage earner) had an accident, and now the couple is saddled with $50,000 in medical debt. Carl will not be able to return to work for at least three months. The couple has $5,000 in savings; their monthly expenses are nearly $5,000 per month on average. They are unsure of what to do.

Activity: Decrease Debt Goal

Directions

Write at least one SMART goal aiming to lower your debt load. A guide is provided to help you write a goal that is specific, measurable, attainable, relevant and time-bound.

SMART Goal Guide	
Specific	What exactly needs to be accomplished? Who else will be involved? Why do I want to accomplish this goal?
Measurable	How will I know I've succeeded? How much change needs to occur?
Attainable	Do I have, or can I get, the resources needed to achieve the goal? Is this goal a reasonable stretch for me (neither out of reach nor too easy)? How can I break this down into manageable steps to bring success?
Relevant	Is this too difficult or too easy to achieve? Would it delay or prevent me from achieving a more important goal? Am I willing to commit to achieving this goal?
Time-bound	What is my target date to accomplish this goal? What are due dates or benchmarks to schedule along the way? What can I do today?

Activity: Debt Management Scenarios – Answer Key

Directions
Each scenario below involves a couple faced with a decision about managing debt. Read each scenario and offer suggestions to advise the couple on ways to lower debt during retirement.

Scenario 1: Joe and Jane
Joe and Jane both are 55 years old and intend to retire in 10 years. They still owe $100,000 on their home (3 percent mortgage interest rate) and plan to pay off the mortgage before retiring. Each month they contribute $1,000 to each of their employer-based 401(k) retirement savings plans. Their plans each average an annual 5 percent return. Joe and Jane also have two credit cards, with balances of nearly $5,000 and $7,000 respectively. Each card has a 17 percent interest rate. They have been paying the minimum payment due each month because they are financially helping their two children with school tuition payments. What do you suggest they do, if anything, to adjust their debt load?

Facilitator Note: Responses for this scenario will vary depending on the assumptions and perceptions brought up during the discussions. Suggested actions might include any or all of the following:

- *Stop helping their children with college; encourage the children to get their own loans.*
- *Temporarily reduce 401(k) contributions to put money towards paying off the credit card debt.*
- *Look for ways to reduce spending or increase income to more quickly pay off the credit card debt.*
- *Each billing period, pay considerably more than the minimum payment due for each credit card.*
- *Visit a credit counselor to learn more about how to eliminate debt prior to retirement*

Scenario 2: Kit and Carl
Kit and Carl, age 64, plan to retire next year. Unfortunately, Carl (the primary wage earner) had an accident, and now the couple is saddled with $50,000 in medical debt. Carl will not be able to return to work for at least three months. The couple has $5,000 in savings; their monthly expenses are nearly $5,000 per month on average. They are unsure of what to do.

Facilitator Note: Responses for this scenario will vary depending on the assumptions and perceptions brought up during the discussions. Suggested actions might include any or all of the following:

- *Visit a credit counselor for guidance to devise a spending action plan.*
- *Postpone retirement for a couple of years.*
- *Kit take on a job (or work more hours if she already is working).*
- *Contact the hospital and doctors to work out a realistic payment plan to delay or reduce payments due during the three months that Carl is unable to work.*
- *If available, utilize Carl's disability insurance benefits for income while unable to work.*

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