Owing $240,000, B.C. couple downsize to save their retirement

Don Sutton
Special to The Globe and Mail
Published Thursday, Oct. 29, 2015 5:00AM EDT

Nothing says retired and in debt as much as when 60-year-old Jerry Newbery and Lesley Bates, 51, moved in with her 87-year-old father for three months to save cash until they can downscale into a new townhouse.

After working all their lives – Mr. Newbery has already retired once – they are in the midst of a severe financial overhaul to cut their debt load of $240,000.

Stories like this are now woven through our retirement dreams and our bank accounts. A recent HSBC survey said 41 per cent of working Canadians believe they can't adequately prepare for retirement because of debt. In 2011, Statistics Canada delivered hard numbers about our so-called golden years: One in three retirees above 55 have a median debt load of $19,000.

Mr. Newbery and Ms. Bates, a common-law couple together since 2012, have had to sell their $300,000 home and their beloved garden in Courtney, B.C., on Vancouver Island for cheaper digs and solvency.

Others are not so lucky. A report by bankruptcy trustee firm Hoyes, Michalos & Associates this year revealed that of 6,000 insolvencies in 2013 and 2014, 30 per cent involve people 50 or older.

Downsizing is the key to Ms. Bates' and Mr. Newbery's plan. They have sold a $300,000 home to pay their combined debt and will be leaving Ms. Bates' father's home for a $150,000 townhouse later in the fall. The couple – both of whom had recent divorces – are employing Leslie Gardner of Money Coaches Inc. who has offered some draconian but effective choices to find order out of the couple's chaotic financial problems.

The choices were alarming: They could remain in their home and continue to scrape by, loaded with debt, or make some severe decisions about selling their home. Neither partner had much experience with personal finance or budgeting before they sought help. Mrs. Gardner says Mr. Newbery regarded his credit line maximum as money to be spent.

"The left hand didn't know what the right hand was doing and that was going to break us up. Someone would have buckled under the pressure of not being able to pay some bill," Ms. Bates said.

The experience has been an emotional upheaval.

“That house we just sold was our first house together. And it meant a lot to us. We had a beautiful, beautiful yard that our dog loved and now we have to give up gardening where we bought. The townhouse that we bought is newer but there is no yard,” Mr. Newbery said.

“Yes it was a bit of a shock. But we’re going to get through it,” he said.

Part of the problem was that they came out of previous marriages with half of the assets they should have had at this point in life. Mr. Newbery walked away with only $30,000 when the sale of his previous family home netted slightly less than $300,000, as a series of expensive vehicles were paid for from the home equity.

Postdivorce, he bought a condo but it was later sold at a $54,000 loss. His $20,000 in RRSPs have diminished to $5,000 as funds were withdrawn to service his $18,000 line of credit and used to purchase his new home.

Similarly, Ms. Bates had a $25,000 line of credit debt that accumulated after her first marriage ended and was used for living and medical expenses when health problems kept her off work.

Their adviser, Mrs. Gardner, said that Canadians are retiring with debt problems because few of us have any kind of financial plan . We simply don’t grasp where the money is until we look hard at what it takes to retire and realize the numbers don’t add up.
How we end up that way varies. Keeping up with the Joneses is one factor, when a family spends beyond their capacity to manage their loans just to have a certain lifestyle.
Today many Canadian families are paying the living expenses of adult children living at home or caring for elderly parents or both, and any savings are consequently diminished, something previous generations never had to address, she said.

Mrs. Gardner points out we are living in the easy-money age where interest rates have been low for at least 15 years, providing us with an almost painless environment to spend ourselves silly. Frivolous spending diminishes savings. Being content with debt while working turns into a debilitating problem when income is reduced.

Low interest rates also mean that we can afford larger mortgages, meaning more of our earnings are earmarked for homes instead of paying down other debt or savings, she said. Statistics Canada recently reported that the ratio of household debt compared with income has reached a new high.

As well, catastrophe can strike Canadians and push us into a debt situation if we lose our jobs, if we become ill or if unseen medical expenses sap our savings.

But despite the various ways Canadians happen to find themselves in debt, the outcomes are usually the same. People can't retire when they want to or they can't retire with the lifestyle they expected to have.

Losing their home wasn't the only sacrifice for Ms. Bates and Mr. Newbery. Although he retired nine years ago at 51 after working 35 years as a maintenance supervisor in Mapleridge, outside Vancouver, he has reluctantly agreed to go back to work part-time. A $2,200 stereo system was sold on Kijiji for $350. No more Starbucks coffee. Ms. Bates continues to work at the Comax Valley Regional District as a fitness instructor.

Once in their new home they hope to easily deal with the $800 monthly mortgage while living off Mr. Newbery's $2,700 monthly pension and their combined $1,300 income. With a retirement plan that is both delayed and scaled back, their only other large outlay of cash will be ferry charges to the mainland to visit their four grandchildren.

"I'd like to be debt free," said Mr. Newbery. "I don't know if that's a reality. We want to be together. We want to be happy. We want to be in our own home."

Retirees Now

- Paying for adult children in their mid 20s
- Feeding/caring for aging parents
- More income goes to mortgage, less to savings
- Fewer people have company pensions
- Company pensions not as comprehensive as years ago
- Low interest rate environment an incentive to spend wildly
- High home prices mean downsizing becomes a preferred retirement income strategy
- Rise of 'gigs', freelancing and consulting means fewer people are employed steadily until 65
- Working past 65 more common and means more savings
- Longer life span means more funds needed for retirement

Retirees Then

- Strong company pension
- High interest rates means inflation but also an incentive to save money and higher investment returns
- Kids are on their own in early 20s
- Steadier employment means steadier savings
- Often mandatory retirement at 65
- Shorter lifespan means less funds needed for retirement