How advisors can help seniors with high debt or facing bankruptcy

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Rising house prices, inflation, and cost of living expenses have exacerbated the situation for seniors struggling with high debt.FluxFactory/iStockPhoto / Getty Images

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More seniors are carrying alarming debt levels, and they may turn to advisors to help get them out of the red – especially when facing insolvency.

“They can make hard choices now or later,” says Steve Bridge, an advice-only certified financial planner and money coach at Money Coaches Canada Inc. in Vancouver. “Hard choices now might save them from bankruptcy later.”

When seniors come to him for advice on managing debt, Mr. Bridge looks at debt consolidation, selling assets, examining cash flow and revisiting budgets.

He notes that seniors who have a severe debt situation often want to liquidate all assets to pay off creditors.

“The creditors call and harass them and they feel they have to take care of the debt right away with any funds,” Mr. Bridge says. But he cautions them to reconsider as some assets are creditor-proof.

A key example is registered retirement savings plans (RRSPs) are protected against insolvency if the investments are more than a year old, says Laurie Campbell, director of client financial wellness at Bromwich & Smith Inc., a Toronto-based licensed insolvency trustee firm.

“So, they don’t necessarily need to withdraw their RRSPs to pay down debt and may be able to avoid losing those assets,” she says.

Canada Pension Plan, Old Age Security and locked-in employer pensions are also exempt from creditors, Ms. Campbell adds.

The reason for these exemptions is to provide people with some retirement income to survive. But there are certain parameters. While pensions are exempt, if the client owes money to a financial institution at which their pension money is deposited, that institution can seize the funds, Ms. Campbell says. So, they may need to deposit their pension at another bank.

Furthermore, creditors cannot access permanent insurance policies and segregated funds, with certain conditions. For example, the policy needs to be personally owned and the person can’t purchase these products knowing they’re possibly facing bankruptcy, says Elke Rubach, principal at Rubach Wealth Holistic Family Advisors in Toronto.

But creditors can seize assets such as a tax-free savings account, funds in a registered education savings plan, and equity in a home. Ms. Campbell notes that every province has different rules about personal items such as vehicles and other valuables.

How financial struggles can escalate

She has found near insolvent seniors have struggled financially for some time and had a major lifestyle curveball throwing their already reduced income over the edge.

More recently, rising house prices, inflation, and cost of living expenses have exacerbated the situation. Sometimes, she says seniors have made bad decisions, such as following flavour-of-the-month investment tips from friends or a salesperson pushing an investment product not appropriate for their risk tolerance and time horizon.

Ms. Campbell has also seen cases in which low-income seniors are assisting their children who lost their jobs during the pandemic or became underemployed.

“Their adult children and/or grandchildren have moved back in, and this puts a lot of extra financial pressure on their budgets,” she says.

Meanwhile, Mr. Bridge says clients sometimes present clues of a debt issue. One red flag could be a client suddenly wanting to withdraw huge amounts of money from an investment or struggling to make debt payments.

Sometimes, clients try to hide their debt, which is why he conducts many open-ended conversations to flag possible issues.

“Ask good questions and really listen to the answers,” he says. “Ask about debts, whether it’s car loans, personal loans, lines of credit and get an idea of their liquid assets.”

From there, it should be obvious to an advisor whether this person needs someone else’s help other than your own, he adds.

In the case of struggling business owners, Ms. Rubach says lack of cash flow planning, budgeting, and uncontrollable debt can be a challenge for some who usually invest everything back into their business no matter what.

“They don’t always have the foresight to divide personal and business and have an advisory team to help them do that,” she says. “We highlight the need to be very aware of your cash and expenses.”

While Ms. Rubach has had prospects facing bankruptcy come to see her about their financial options, she knows that’s not her expertise and will refer them to a licensed insolvency trustee or credit counselling expert.

“We, advisors, need to know our boundaries. We can help plan for debt repayment such as graduate loans but bankruptcy is not our specialty,” she says.

An insolvency expert will present options for seniors with out-of-control debt such as consumer proposals, which is an arrangement to pay creditors at a reduced rate, or filing for bankruptcy, Ms. Campbell says.