Money mistakes to avoid in your 50s, 60s and retirement

By Josephine Lim

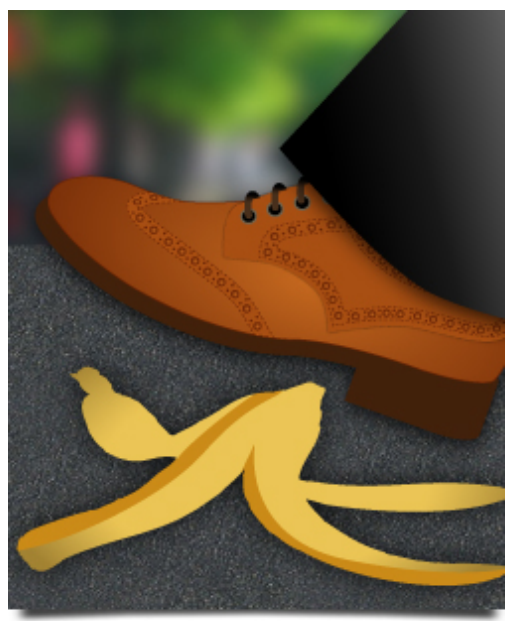
Managing your money well as you near retirement is crucial. Retiring with debt is a dangerous strategy since retirees tend to have lower incomes than they did in their working years.

But those within this age group aren't managing their personal financial situation well, with the average debt load for seniors rising by 94 per cent over the last two decades to $61,700 in 2012, according to The Current State of Canadian Family Finances: 2013-2014, a report by the Vanier Institute. Those nearing or in retirement are also now more likely to declare bankruptcy than they were two decades ago, with the insolvency rate over the last two decades climbing by 600 per cent for those between 55 and 64 and 1,747 per cent for those 65 and older.

The Credit Counselling Society sees this trend firsthand. One in five of its clients is older than 55. In the past, only was one in 20 clients fell in that age group, says the society's president and CEO Scott Hannah.

"It's a very unhealthy increase," says Hannah. "From what we can see, it's things that people have done earlier in life have come back to haunt them. You can recover if you're a younger age, but it's tough if you've got a limited timeline."

Here are some common mistakes those near retirement (and beyond) make, and how to avoid them:



1. Continuing to fund adult children
One common mistake people within this age group make is giving money to adult children, even if they can't afford it.

"There's a lot of emotion wrapped around it; people want to help their kids get a step up," says Melanie Buffel, a money coach with Money Coaches Canada.

Parents feel pressured to treat their children equally, which means if they paid for one child's education, they feel they need to do the same thing for all their children. Some parents also unintentionally enable their children to financially take advantage of them by paying for cellphone bills or providing them with free room and board, even when the adult children are working, says Hannah.

For parents looking to cut off their adult children, it's important to come up with a course of action and explain to the kids why they're no longer able to support them. Parents need to have the courage to say that continuing to fund their adult children will put their retirement in jeopardy, says Hannah.

2. Not planning appropriately for retirement
Fifty per cent of Canadians expect to carry debt when they retire, according to a recent Manulife Survey. Though a popular retirement goal is to be debt-free, it appears that, as Canadians near that age, they are less confident they'll reach their goal.

Start your retirement planning while you're in your 40s and revisit it yearly, says Buffel. "It's much better to start with something in terms of a plan and see how reality wavers from the plan and respond to it," she says.

It's important to understand the details of your investments, such as whether the level of risk you're taking is suitable and how much money is going toward investment fees. Also, you need a proper transition plan, which should include how many years will it be before you retire; how you're going to retire (whether you ease into part-time work or stop working altogether); and how you will handle living expenses once you retire (Are your retirement funds enough to cover your monthly expenses?).

During their 60s, some Canadians underestimate how long they need to continue working or are forced to retire due to a medical condition. Not working has a huge effect on your retirement income and your Registered Retirement Savings Plan (RRSP), and it may force you to withdraw from your Canada Pension Plan (CPP) earlier, which hurts your financial stability in the long run, adds Hannah.

3. Inappropriately managing, taking on debt
Your 50s and 60s are typically your highest earning years, and you have lots of credit available to you. But around this age, some people stop paying attention to their cash flow and it becomes a round robin of credit, says Buffel.

Parents whose children move out of the house tend to relax the budget rather than catch up on retirement savings, adds Hannah. In some cases, they take on debt for large ticket items, such as a boat, a car or home renovations, when they should be ridding themselves of consumer debt, he adds.

"I can appreciate in your 50s it's great to travel the world and do everything else, but when you retire, you have to have something to retire on," says Hannah.
Just because you've made a mistake, it doesn't mean it's too late to correct it, though. "It's never too late to turn and face the situation head on and really understand what your options are," says Buffel. "I think if anybody is in any of the situations we've talked about, it starts with a conversation with what you really

want your life to look like and how the money you've got now is going to support that."