Retired Maritimes couple digging their way out of $145,000 debt hole

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Jacques Marion still doesn't know where all the money went. But somehow, he and his wife racked up $75,000 in credit card debt and borrowed another $70,000 on a line of credit.

"It's easy to make purchases when you don't have to pay right away," Mr. Marion, now 63-years-old and retired in Bathurst, N.B., said. "Everything is tempting."

With four children and a combined income from their civil servant jobs of about $90,000, the Marions never purchased anything extravagant. There were no "skidoos or four-wheelers or fancy cars," Mr. Marion said – just groceries, vehicle repairs and other "daily stuff."

Their bungalow, which they purchased more than two decades earlier for $45,000, was recently mortgage-free. But in 2003, the couple took out a $70,000 home equity line of credit. Over the next four years, they used that money to pave their driveway, build a shed and pay bills.

They turned to credit cards to cover other purchases and as their debt snowballed, the Marions started applying for new cards to cover the balances on their maxed-out plastic. Before they knew it, they had accumulated 16 cards from multiple banks and stores.

By 2010, their credit card debt had soared to $75,000. A big chunk of that came from covering their children's higher education costs. Shortly after their youngest daughter moved away to university, her two older sisters unexpectedly decided to go to college. The parents wanted to pay the girls' tuition fees but had no savings and so they turned once more to their credit cards.

By late 2010, Mr. Marion was nearly 60, an age where he should have been putting the final touches on his retirement plan. Instead, he and his wife couldn't keep up with their credit card payments and mounting interest.

When the bank rejected his proposal to consolidate their debt, he called a debt consolidation company. The company arranged for the Marions to pay $1,723 a month after creditors waived their interest. For nearly the next four years, the Marions reined in their spending. They created a budget and, lacking access to credit cards, forced themselves to stick to it. When Mr. Marion's snow-blower broke, there was no money to fix it. "I shovelled a lot of snow the last couple of winters," he said.

When his wife's brother died last winter, the Marions weren't able to attend his funeral in Ottawa, never having saved money for emergencies. "We felt really bad about that," he said. "But we couldn't go. We didn't have a cent to our name."

Last September, the Marions made the final payment on their credit card debt.

Jamie Golombek, CIBC's managing director of tax and estate planning in Toronto, says it's not uncommon for parents to borrow money to help their children pay for a postsecondary education.

"The key though is what kind of debt they're going into. Obviously, credit card debt is generally the worst kind of debt," Mr. Golombek said, because it carries some of the highest interest rates around.

If parents know they will be going in the red to help their children, they should seek financial advice and look for other lower-interest borrowing options, he said. Financial advisers don't just provide guidance on assets, but can also help people determine the best type of debt for them and create a long-term debt repayment plan.

In an ideal situation, Mr. Golombek added, parents would start saving early for postsecondary tuition through a Registered Education Savings Plan(RESP). In a RESP, the Canadian government will contribute $500 for each year that parents contribute $2,500 – to a maximum of $7,200. Best of all, the savings in a RESP grow tax-free.

Kathryn Mandelcorn, a Vancouver-based certified money coach with Money Coaches Canada, says deciding whether or not to pay for a child's college or university costs is something each family needs to do on their own, after considering their own financial situation.

However, families who take on debt should realize that will leave the parents with less money for retirement, she said, which means that the children might eventually have to help support their parents. “They don’t have that time ... on their side to recoup the money,” Ms. Mandelcorn said.

The Marions don’t regret helping their children through school. They are fortunate that their federal pensions leave them with only $10,000 less than their net pre-retirement income. So although they have been retired for several years, they are able to keep repaying their debt. Now that their credit card debt is gone, the Marions are tackling the $70,000 they still owe on the house with an aggressive $1,200 payment monthly.

Mr. Marion has purchased a snow-blower, and the couple is halfway towards their $1,000 emergency fund goal – so they never find themselves unable to see family in a bind.

When their fourth child started university in the fall, Mr. Marion paid his tuition in cash.

“We feel good about it because we can pay it,” he said. “There’s no credit card involved. No interest. It’s paid. It’s ours.”