

Repay debts for a relaxing retirement

RETIREMENT is a time to sit back and take things easy, but life won't be so relaxing if you still have unpaid debts.

By **HARVEY JONES**
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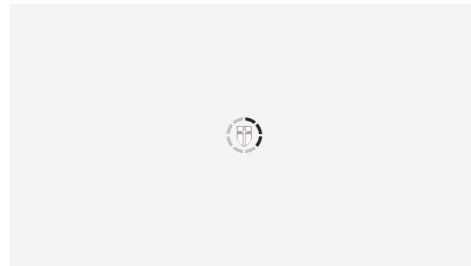
Solving any money worries will lead to a happier old age

The bad news is that millions of people head into retirement owing thousands on outstanding mortgages, credit cards and unsecured loans.

If you have one eye on retirement it's time to draw up a plan to repay what you owe before it's too late.

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Millions of people risk becoming "OAP mortgagees" as they buy their homes later in life, according to the latest research from property website Rightmove.



High house prices and the lack of mortgage finance means many people can't buy their first home until their 40s, which doesn't leave them enough time to clear their mortgages before they retire.

Most children will do all they can to help

Brian Murphy at broker the Mortgage Advice Bureau says: "Your mortgage is likely to be your biggest debt. If you don't put a plan in place to repay it you could face a harsh and stressful retirement."

Start by looking at the repayment plan. Most people repay their mortgage over a 25-year term. "Does that set you on course to clear your debt by the time you turn 65? If not, you might need to speed up your repayment schedule," Murphy says.

For a £100,000 mortgage at 4 per cent over a 25-year repayment term your capital and interest payments will total £527 a month. If you cut that term to 20 years to clear the debt before you retire your monthly repayments would rise to £606.

That relatively minor increase could knock five years off your mortgage term. "This can be a good way of paying down your debt provided your lender will let you do this without penalty," says Murphy.

By speeding up your repayment schedule you will slash the total amount of interest you will pay. Your total interest repayments will fall from £58,351 to just £45,438, saving you a whopping £12,913 in interest.

In debt-stricken Britain, a growing number of pensioners have unpaid credit cards and personal loans. The average pensioner who is still in debt owes £10,296 on credit cards and £11,396 on personal loans, according to research from Key Retirement Solutions.

To avoid a similar fate, you need a strategy to clear your debts in good time, says Andrew Hagger at personal finance website Moneynet.co.uk. "Start by drawing up a budget planner. Look at all your outgoings and ask yourself two questions. Firstly can I do without this? If not, can I get it cheaper elsewhere?"

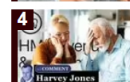
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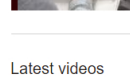
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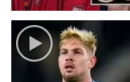
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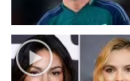


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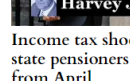
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Then you know how much spare money you have to pay your debts.

"Repay the most expensive debt first. If you have got several credit cards, try to consolidate them all onto a new interest-free balance-transfer card."

Many people decide to shift their borrowings to the cheapest form of debt which is their mortgage, says Gary Bush, managing director at broker MortgageShop.com.

"The drawback is that you spread your repayments out for much longer. Unless you repay that debt quickly, your total interest bill could be much higher, wiping out the short-term benefits."

You don't have to downsize in order to service loans

If you owe money at retirement, Andrew Hagger at Moneynet.co.uk says there is another option to downsizing. "An equity-release scheme allows you to raise tax-free cash against the spare equity in your property while retaining the right to live there for the rest of your life."

You don't have to make any monthly repayments while you are alive, the capital and interest are repaid from the proceeds of your property sale when you die.

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This will reduce your children's inheritance, although they will be able to keep any surplus from the sale.

"Equity release isn't for everybody, but it may work well for some," adds Hagger.

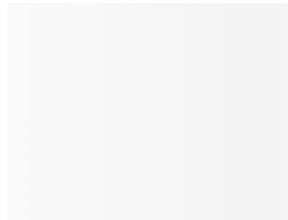
"Discuss it with your children and check that your preferred equity release company is a member of industry body Safe Home Income Plans (Ship) which was set up to protect consumers."

If you're struggling in retirement make sure you are claiming your full State benefits and don't be too proud to ask your family for assistance. Hagger says: "Most children will do all they can to help and won't want to see their parents burdened with money worries."

While clearing your debts is important, so is saving for a pension. Strike a balance between the two, says Justin Modray, founder of personal finance website Candidmoney.com.

"The interest charged when you borrow money is invariably greater than the return you will get on your savings or investments so it is usually better to pay down expensive debts before you start building a nest egg. The exception is your mortgage."

If your employer will pay money into a pension on your behalf, this is too good to turn down.



"Unless your debts are crippling, you should make the minimum payment needed to secure that," Modray says.

If you still owe too much money when you retire you have one final option: keep on working.

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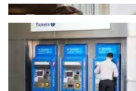
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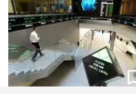
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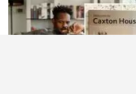
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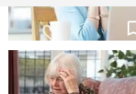
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