PEOPLE RESOURCES

Pay off debt or save for retirement? Here's how to prepare financially for the future

Source: SunLife

Having trouble paying off your debts and saving money for your nest egg? You're not alone.

On the one hand, you have bills, rent or a mortgage to pay right now. But on the flip side, you have an unpredictable future to save for. And, as our **2019 Sun Life Barometer** report shows, both situations can feel challenging. (The Barometer survey measures Canadians' attitudes about their health and finances.)

Here's a look at some of this year's findings.

When it comes to living in the here and now:

- 74% of working Canadians and 52% of retired Canadians have various types of debt (e.g. credit cards, car payments and mortgages).
- Eight in 10 Canadians own their home by the time they retire. But two in 10 are still paying down a mortgage.
- 40% of working Canadians and 19% of retired Canadians experience excessive levels of stress from trying to cover personal and household finances.

When it comes to retirement planning:

- 37% of working Canadians and 25% of retired Canadians feel unsatisfied with their retirement savings.
- 47% of working Canadians and 27% of retired Canadians think they may outlive their savings.
- 25% of working Canadians experience excessive levels of stress from trying to save enough for retirement. Meanwhile, 16% of retirees experience excessive levels of stress from unexpected expenses.

The numbers can seem a little intimidating. But don't fret. The good news is that it's not an either-or situation. You don't have to prioritize paying debt over saving for retirement – or *vice versa*. Instead, you can try to find a balance of the two.

Here's a four-step preparation plan to help you reduce debt and save for retirement at the same time:

Step 1: Create a budget

Don't be intimidated by the B word. All budgeting really means is that you're taking an honest look at your finances.

Start by comparing how much you earn every month to your monthly spending habits. Once you take all your monthly living expenses – like food, transportation, rent, mortgage, etc. – out of your income, you're left with a certain amount. From there on, you can figure out how much you can afford to set aside right now. Maybe you can only afford to put away $5 or $10 a week right now. That's a good start.

You can also find out if there are parts of your budget where you can cut back and save. For example, does your budget reveal that you're paying a lot in utilities, heat, water or electricity? **Look for ways to use less power**. This way, you can decrease demand for energy while saving money.

And, don't feel discouraged if you can't always stick to your budget. You may face an **unexpected emergency that requires you to dip into your funds**. Or maybe you'll feel the urge to splurge a little. That's okay. Just make time to reorganize your budget and get back on track when you're ready.

- Try our **Budget calculator** to see get a glimpse of what you're spending and saving now.

Step 2: Find ways to make your money grow

Your budget will show you how much you can afford to save on a weekly or monthly basis. This could be any amount. Maybe it's $10 a week. Or maybe it's $100 a month. It depends on your income and spending habits.

So what do you do with that money? You can have it automatically transferred every month or week from your chequing account and into a savings account. Automatic transfers are an easy way to set aside money without having to think about it.

Or, you can take it a step further by investing your money in one of these plans:

- **Registered retirement savings plan (RRSP)**. An RRSP is a savings plan that lets you hold various types of investments, like stocks, bonds, mutual funds, etc. You get a tax break on any deductible contributions you make to an RRSP. And, your investments within the plan can grow on a tax-deferred basis. This means you won't have to pay taxes on them until you withdraw money. The purpose of an RRSP is to build your nest egg and save for the future. Ideally, you won't have to withdraw funds until you retire. At which point, you may be in a lower tax bracket – so you'd pay less in taxes for any RRSP withdrawals.
    - **6 things you may not know you can do with an RRSP**
- **Tax-free savings account (TFSA)**. Like an RRSP, a TFSA can hold various kinds of investments (e.g. stocks, bonds, etc.). But unlike RRSP contributions, your TFSA contributions are provided with after-tax dollars. This means you've already paid income tax on the money you put in your TFSA. So you won't have to pay tax when you take it out. And, any investment income you earn inside your TFSA won't be taxed – not even when you take the money out. You can also take your money out at

any time, for any reason. That's what makes TFSAs a great savings vehicle for both short- and long-term goals.

- [6 really useful things you can do with a TFSA]

You can even set up weekly, monthly or annual automatic transfers into your RRSP and TFSA. Just remember to avoid going over your yearly contribution limit.

- **How much can you contribute to an RRSP?**
- **How much can you contribute to a TFSA?**

The savings options doesn't end there either. Look into what your employer has to offer. Does your employer provide any workplace pensions or savings plan? If so, then find out if they offer employer-matching opportunities. That's when they deduct your contributions from your paycheque and match your contributions. They'll then place both amounts into a workplace savings plan. Their matching contribution means free money for you

The importance of joining a workplace pension or RRSP

Step 3: Start paying off some of your debt

Mortgages, student loans, credit card bills. We all have some sort of debt in our budget. There's no shame in that. But that doesn't mean we can't look for ways to reduce debt and the added stress it gives us.

Your budget may reveal exactly how much goes into all your debts. Here's how you can ensure those debts are retired before you are:

- **Pay off your credit card bills first.** Out of all your debts, it's likely that you're paying the highest interest rates on your credit cards. If that's the case, try the debt-snowball method. That's when you pay off the card with the lowest balance first while only paying the minimum on the others. What happens after you've paid off the card with the smallest amount of debt? You can then redirect your money to the next-lowest balance card until it's cleared. Rinse and repeat.
- **Consolidate your debt.** Are you paying interest on several different credit cards and other loans? Call your bank and ask to consolidate all of these debts into a personal line of credit (LOC) or all-in-one account, at a lower interest rate. So let's say you're making payments on three different cards, each at 20% interest. If you consolidate your debt, you'll have to make only one monthly payment to your LOC at a much lower interest rate. This means you can pay off your debt faster.
- **Pay your mortgage off faster.** Here's one way to avoid carrying mortgage debt into retirement: pay more than the minimum. Let's say your mortgage is $2,000 a month, but you can comfortably afford to spend another $200. Raising your monthly payment to $2,200 will reduce the amount of interest you pay. This lets you save potentially years of mortgage payments. **(Read more: 2 more ways to pay off your mortgage faster.)**

- **Use some of your savings to pay off debts.** You may be able to use money growing in your TFSA or your workplace savings plan to help pay off some of your debts. You can even take a bit of the money from your tax refund to clear off an outstanding balance on your credit card bill. Just make sure you have a little tucked away for yourself as well. You never know when you'll need it.

Remember the more you can pay off now, the less you'll have to stress about in the future.

- **How to save for a debt-free retirement**
- **6 tips for reducing debt**

Step 4: Talk to an advisor

Need help getting started? It all starts with great advice.

An advisor can look at your specific needs to help you develop a solid financial plan. They'll work with you to understand your goals and what you want to achieve – for the present and the future. They can also answer any questions you may have and help you:

- assess your current financial situation,
- understand how other programs may affect your plan,
- monitor your investments alongside your plan regularly,
- revise your plan as your needs change and
- provide additional tips and resources.