Student loans imperil parents' retirement

Borrowing or cosigning for a child could mean debts too hard to get out from under

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By **Darla Mercado**

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As student loan balances continue to rise, advisers have a warning for clients who are inclined to help by cosigning or taking out a loan on the behalf of a child: When you borrow, you imperil your retirement.

Take it from Larry Rosenthal, president of Rosenthal

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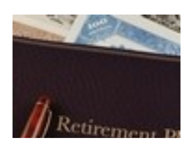

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Wealth Management Group, who recently started working with a woman in her mid-50s who is holding about $50,000 in student loan debt taken out on the

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Will they be able to retire at their ideal age of 65? If they'd like to, it's going to be an uphill haul, Mr. Rosenthal said.

"The conversation was that they have to retire this debt before they get into retirement," he said. "[They're] up to their neck in spending issues with this debt, and that's going to move into retirement with them. They won't be able to retire unless we assassinate the debt."

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A recent report depicting the plight of retirees chained to student loan debt is a stark warning to advisers such as Mr. Rosenthal whose clients want to bear the brunt of borrowing for their college-bound children.

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The report, compiled by the U.S. Government Accountability Office, found that 3% of households led by those aged 65 and older — 706,000 households in all — are maintaining student loan debt. The number is tiny compared to the 22 million households led by those 64 and under who are still holding student loan debt.

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Still, the dollar amount of student loan debt held by borrowers over age 65 is growing rapidly. In 2005, the amount of outstanding federal student loan balances for the senior crowd was $2.8 billion, according to the GAO. By 2013, that figure had ballooned to $18.2 billion.

Though the study focused on retirees who had taken out their loans decades ago and were still paying them down, it highlighted a concern that advisers have for clients who may imperil their retirement because they are inclined to help their children.

“Don't harm your own financial future to help your kids,” said Abby Rosen, a financial adviser with Brinton Eaton. “They have a much longer working future ahead of them.”

For parents already encumbered with student loan debt, “retirement isn't a green pasture,” said John Collins, managing director of GL Advisor. These parents will likely end up working longer and may even dip into their home equity to try to service their debts. That strain may continue into retirement.

Parents, particularly those who borrowed those PLUS loans when interest rates were higher, may benefit from refinancing those loans via the private marketplace. Those who borrowed around the 2008 financial crisis may have interest rates as high as 8.5%. Refinancing could bring the interest rates on the loans back down to something more reasonable, Mr. Collins said.

Adviser Jeffrey Cutter, founder of Cutter Financial Group, says he's seeing more retirees and near-retirees budget out a portion of their income to manage student loans that they've cosigned for their kids. Those children have run into hardship and can't afford their monthly

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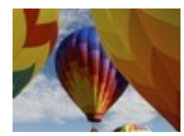

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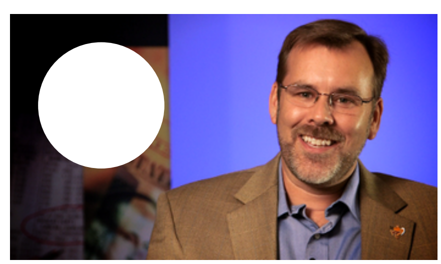

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payments. The amounts of money parents spend to service student loans is significant: $800 to $1000 a month, Mr. Cutter said.

"In the past year, I can count eight to 10 times where this has happened," he added. "It's significant. And when you drill down, you find that it's not just one kid that they're paying for; it's multiple kids."

Mr. Rosenthal is working with the woman with about $50,000 in student loans by basing her retirement plans around cash flow. She is able to save a little money in spite of the debt servicing that's going on, but is unable to ramp up her savings — and she's able to pay down only the minimum payments on the debts.

Mr. Rosenthal asked the woman to prepare for their planning by pulling together four months of expenses and determining where she can start making some budget cuts. "The challenge she has is that all the money that's going in, is going out," he said.

For Millennials, the GAO report is a glimpse into what may be ahead. Broken down by age group, the under-30 crowd has the lion's share of student loan debt: $322 billion as of the end of 2012, according to **data from the Federal Reserve** Bank of New York. The possibility of carrying five- and six-figure debt into retirement, plus the prospect of having your Social Security garnished if you default, doesn't seem all that unrealistic anymore.

"If you're paying the debt now, how does it impact your ability to save and put away for retirement and to invest in assets that appreciate over time, like a home?" posed Mr. Collins. "Mortgage underwriting standards have

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changed so dramatically and student loan debt is so pervasive that people who would be great first-time buyers aren't even close to eligibility for loans."

"It has a dire impact on Millennials," he added.

An earlier version of this story indicated that student loans could be refinanced at a lower rate through Federal Direct Reconsolidation Loans. Such loans do not necessarily carry a lower rate.

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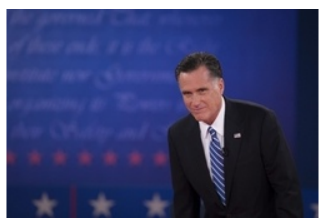

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