Canadian Living, April 2013

Mom and Dad in Debt

Your parents are in financial trouble. But beyond your love, how much help should you give them?

By Lisa Bendall

Even as a child, Erin Cook* was aware her parents struggled with money. “I never went without, but it was always talked about: Where can we get the money for this, for that,” she recalls. Her family was chronically short of cash to pay for such things as clothing, car repairs and school trip fees. When her mom and dad reached their 50s, Erin decided to buy a house with them. Prior to that, both parties had been renting, and this arrangement would allow them to live in separate areas of the house while sharing a mortgage.

Soon after the move, Erin, now a 42-year-old financial planner in Burlington, Ont., got a clearer perspective on the sizable debt her folks were facing. “I would ask about their financial situation, and everything was fine in their eyes,” she says. “But then I’d find out from credit card statements that they were maxed out – $10,000 on one card, $15,000 on another.”

If a club existed for seniors carrying debt, it wouldn’t be all that exclusive. About one-third of retirees age 55 and up owe money, reports Statistics Canada, including unpaid balances on lines of credit, credit cards and mortgages. One in six of these indebted older Canadians owes $100,000 or more.

And the situation is getting worse. A 2011 TD Economics report based on an Ipsos Reid survey found that Canadian seniors are sinking into debt much faster than the rest of the population. “It is a very scary situation,” says Pat White, executive director of Credit Counselling Canada. “We expect those people to be debt-free in retirement.”

What if you find out your folks owe a fortune? Is it too late for them to dig themselves out of debt? Here are nine questions to ask yourself as you help your parents get back into the black.

How did this happen?

Many of us assume our parents will be financially secure in their old age, with their house paid off and perhaps even nest eggs to pass down to the kids. “That’s our perception, but things have changed over the years,” says White. Stuff happens: a divorce, a job loss, an illness, a boomerang kid or two.

Consider too that Mom and Dad may have looked at their future through rose-coloured glasses. “One likely situation is they just didn’t plan properly,” says Kelley Keehn, an Edmonton-based personal financial expert and author of *The Money Book for Everyone Else* (Insomniac, 2011). Maybe they bought a bigger house when they should have been downsizing. Maybe they overestimated their investment income. Keehn notes that many of us make similar mistakes: “Let’s not point fingers.”

How do I broach the subject?

Many of our parents are from a generation that didn't talk openly about cash flow. "It was hush. It was none of our business," says Donna Ramsey*, a 43-year-old paralegal in Calgary. Her parents appeared to be doing all right financially before her dad was diagnosed with a degenerative terminal disease and could no longer work. The couple spiralled into a pattern of overspending. Medications were costly, her dad began to gamble compulsively and mom consoled herself by shopping.

Ramsey discovered their mounting money problems as her father got sicker; a mortgage payment didn't go through because of insufficient funds in her parents' bank account. But that didn't make it easy to talk about.

"We weren't brought up telling our parents what to do," Donna says. So she tried an indirect approach. "I'd say ,'Well, maybe just wait on that,' if my mom talked about buying something."

"These are tough conversations," concedes Keehn. "Sometimes you have to build up to them." She suggests showing your parents an article like this one or a book about managing finances, and then setting aside a time to chat when you're not in the middle of a holiday dinner.

As tempting as it is, don't put off the conversation. "I guarantee that waiting only makes it worse," says Keehn. "Like with a disease, it never, ever gets better by doing nothing."

Where can they get help?
Start by gently steering your parents towards a professional, such as a financial planner, an accountant or a notprofit credit counsellor who can address their specific needs. Not only will a professional be nonjudgmental, but she will also crunch the numbers in a way that your folks likely haven't, examining all assets, debts, income and living expenses. "Once [the expert] gets those details, she has a better idea of what's going on and can have a dialogue with that person," says White.

After Donna's father passed away, she nagged her mom to seek help for her debts. "I kept telling her, 'Let's go find somebody at the bank.' She finally went, and a banking officer laid it out for her." With annual professional guidance, Donna's mother is now able to manage her debt payments and keep her expenses within her income level. "She listened to an independent person, and that's what she needed.

Can they bail themselves out using assets?
If your parents have paid off their home, then selling it might solve most of the problem: They could downsize and go debt-free. Their maintenance costs and land taxes would also likely shrink. But moving may not be their first choice, and you can hardly force them. "You don't want to ask them to leave the house they've been in for 50 years," says Keehn. Another option is for your parents to set up a reverse mortgage, which allows them to pay down debt by swapping funds for some of the equity in their house. However, reverse mortgages can carry certain risks, such as unexpected fees and high interest rates, and they may mean the kids won't inherit the house. Keehn considers this "a last-resort option, not a quick fix."

Can they make more money?
"There are always two sides of the equation to getting out of debt: cutting expenses or bringing in more income," says Keehn. Your parents' earning days aren't necessarily

over just because they're older. Even a very part-time job will provide a welcome bit of cash. Donna's mother is 68 but still works a few hours a week as a school bus driver. One of Keehn's former clients does office cleaning. "It's after hours, it's really flexible and it supplements her income nicely."

Should I share my own cash?
You can, but don't get in over your head. You likely have a mortgage and car or tuition payments of your own, plus you may be planning for your own debt-free retirement. "At the end of the day, you need to survive financially as well," says Keehn.

If you won't miss a couple of hundred bucks a month and it means your parents can use it to buy groceries or medications, then go for it. But be aware that this may not help them out of the red; without financial advice, there's no reason to expect their poor spending habits will change. And be sure to consider how your parents will feel about taking money from you. It may not be appropriate to offer it if it's going to make them miserable.

Keep a written record, signed by both you and your parents, of your cash gifts. It will help you make a case for reimbursement from their estate after your folks are gone.

Should they declare bankruptcy?
The Vanier Institute of the Family reports the rate of insolvency (the inability to pay debts) among Canadian seniors is spiking faster than in any other age group. But does that mean it's a good idea?

"I wouldn't say that bankruptcy would be the first alternative," says White. It is a relief from the indebtedness, but it impacts your credit rating for six to seven years, depending on where you live. Plus, fees must be paid to a trustee, and some assets can be lost for good. Which seniors have the least to lose by filing for bankruptcy? Those who have very little equity in their homes, have unsecured debt (such as credit card balances) and are unlikely to do any more borrowing in their lifetimes.

Am I on the hook for their debt when they die?
If your mom and dad pass away still owing money, in most cases you won't inherit their debt. But you may not inherit their property, either: Creditors may be able to collect their cash from your parents' estate before you can. If there's nothing left behind or not enough to pay off the debts, then everyone is out of luck.

However, if you cosigned your parents' loans or there's evidence you were making regular payments for them, the debt won't necessarily disappear after they die. That's another good reason to get advice from a pro before you set up financial arrangements with your parents.

What else can I do for them?
You and your siblings can help with more than just cash flow. Perhaps you can provide a service that your parents would normally have to pay for, such mowing their lawn. You can cook them freezer meals to lower their grocery bills. Offer to drive them to appointments and errands to cut their transportation costs. Do some online research to find out who will buy their old record collection. "You can give time and energy and resources when it comes to helping your parents," says Keehn.

**Names changed by request*