MAKING SMART BORROWING DECISIONS IN RETIREMENT

A post-recession lending guide for retirees and pre-retirees.

KEY TAKEAWAYS

When properly managed, smart borrowing can be a useful component of your financial toolkit in retirement.

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Having ready access to liquidity through debt puts you in a position to act quickly should opportunity – or an emergency – arise.

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Taking on debt is a financial decision made easier with the help of a knowledgeable financial advisor.

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INTRODUCTION

Life has its way of altering even the best laid retirement plans. Should the unexpected happen, borrowing may offer a way to smooth out the bumps that inevitably confront most of us.

However, after the recession, it's understandable that many retirees may hesitate to take on debt, preferring to fund their needs and wants as well as emergencies with their retirement income as planned or from available assets.

Still, credit can be a powerful tool to help you respond to unexpected events in retirement. It can put you in a position to act quickly should opportunity – or an emergency – arise.

If you decide that borrowing wisely may have a place in your overall financial strategy, you may want to consider implementing a plan before you retire. However, even after you retire, you still may be eligible for a Securities Based Line of Credit (SBLC),[1, 2] margin[1] account, mortgage or home equity line of credit (HELOC).[3]

As always, your financial advisor can help guide you in decisions about how to pay for specific life events without interrupting your long-term investment strategy. This paper details both pre- and post-retirement lending options available today.

Credit can be a powerful tool to help you respond to unexpected events in retirement – both good and bad.

[1] Margin or a Securities Based Line of Credit may not be suitable for all clients. The proceeds from a Securities Based Line of Credit cannot be used to purchase or carry margin securities. Borrowing on securities based lending products and using securities as collateral may involve a high degree of risk. Market conditions can magnify any potential for loss. If the market turns against the client, he or she may be required to deposit additional securities and/or cash in the account(s) or pay down the loan. The securities in the pledged account(s) may be sold to meet the margin call, and the firm can sell the client's securities without contacting them. The interest rates charged for a Securities Based Line of Credit are determined by the market value of pledged assets and the net value of the client's Capital Access account. The interest rates charged for Margin are determined by the amount borrowed. For additional information on margin, visit **http://sec.gov/investor/pubs/margin.htm**.

[2] Securities Based Line of Credit provided by Raymond James Bank. Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. are affiliated with Raymond James Bank, a federally chartered national bank.

[3] The line of credit can be suspended, reduced or terminated in the event of fraud, failure to repay, adverse collateral conditions, or other violation of credit terms.

THE ADVANTAGES OF BORROWING OVER CASH

For many people, paying off their home and being debt-free before they retire is important. While this is an admirable goal, consider that doing so may mean using up much of your hard-earned capital, reducing or depleting your savings, which can be invested to grow over time. Keeping this in mind, it is important to think about what types of debt you have and what may be considered "good" vs. "bad."

"Good debt" enhances your financial position, creates flexibility within your financial plan and potentially helps you build wealth. Examples include a mortgage or a line of credit to meet an unexpected event. Additionally, these sources of debt may come at a lower interest rate. "Bad" debt, like large revolving balances on credit cards, can limit your ability to grow assets and actually increase your costs over time. Having the right balance and understanding the pros and cons of each is important to consider when reducing your overall debt.

For example, most people know that they should pay off their high interest credit cards as soon as possible but they don't always take the steps to do it, often because they want to preserve some cash savings. Understanding all of your options around debt could help you to reduce your interest rate significantly and still preserve the ability to pay for emergencies.

The same may apply to your mortgage. Paying off a home mortgage may leave retirees "house rich" but "cash poor." Consider the effect of a down market on your ability to access liquidity in your house. If there is a need for emergency cash, your home may not allow for access to the equity you've built over the years. As a result, people may turn to personal loans or other high interest alternatives, like credit cards.

CONSIDERING YOUR OPTIONS

One of the keys to successfully planning for your life after you leave your job is to find ways that help you maintain flexibility and manage risk. A well-diversified portfolio and equity in your home provide you the option to borrow against those investments as collateral. And if you need money when the market is down, having an alternate source of funding could help you ride out the markets so you don't have to withdraw assets at the worst possible time.

QUESTIONS TO ASK YOURSELF

Are you thinking about helping your children with a home purchase?

- If you have an immediate need for $100,000 in retirement, what would you do?
- Are you thinking about a new home purchase in retirement?
- Can you lower your current mortgage rate?
- What do you want to do after retirement? How will you pay for it?
- Are there any special events or expenses, such as a wedding or college, which you need to cover in retirement?

Careful planning for retirement requires looking at the big picture – managing both assets and debts to your best advantage. Managing your spending, investments and borrowing all in one place gives you a holistic view of your entire net worth and enables to manage your long-term goals more effectively. You can determine if and when you should transfer capital to take advantage of – or defensive action against – unexpected events such as changes in interest rates, a drop in the market or your own personal situation.

QUALIFYING FOR CREDIT

While one of the primary criteria remains regular income, post-recession, lenders have become more stringent. If you're retired and living on a fixed income from Social Security and your investments, your retirement income alone may not support a lending request for a mortgage or other products, even if you have a sizeable portfolio.

Retirees generally must meet the same criteria for loans as the rest of the population. This means an excellent credit score, substantial assets, low debt obligations and consistent monthly income. You may have significant assets, but for traditional lending options the bank will need to confirm your debt-to-income ratio falls within their guidelines. To see where you stand, a loan consultant will calculate your debt-to-income ratio to establish your qualifying criteria. After this has been calculated, all of the factors will be put together for an overall look at your qualifying criteria.

BORROWING OPTIONS FOR RETIREES

- Securities lending
  - Use your portfolio as collateral[1]
  - Use specific securities as collateral
- Residential lending
  - Buy or refinance a home
  - Borrow from home equity[4]
  - Use your investment assets to finance up to 100% of home purchase[5]
- Credit card
  - Day to day spending
  - Offers fraud protection
  - Accrue rewards

[4] Contact Raymond James Bank at 888.457.5626 for current rates and other information.

[5] The Pledged Securities Mortgage is not suitable for everyone. A loan client may be at risk of losing money in their collateral account due to market volatility. This may require the deposit of additional equity into the collateral account, which could result in further losses. Though Raymond James Bank will typically contact the client or their Financial Advisor prior to liquidating pledged assets, Raymond James Bank reserves the right to sell pledged assets of its choosing without contacting the client, if needed to maintain equity in the collateral account. Trading in the collateral account is permissible provided that minimum balance requirements are maintained. If a loan client defaults (stops making monthly payments) on their mortgage, they could lose both their house and the securities they have pledged. In addition to regular closing costs, an annual fee may be charged by Raymond James & Associates, Inc. for manual administration of the pledge accounts. Clients should consult with their financial advisors for details.

USING YOUR ASSETS AS COLLATERAL

You spend much of your life saving to achieve your goals and build up your nest egg. And to ensure that it lasts, you need to keep it invested as long as possible. But the timing of your goals does not always coincide with the right time to take your money out of the market.

Perhaps you find the perfect cabin while on vacation, or a cottage is listed for sale near where your grandchildren live. For these timely opportunities, a securities-based loan may allow you to make a property purchase without selling your assets. Preparing for the unexpected also means that it is a good idea to apply ahead of time for a securities based line of credit so you have peace of mind should you need cash unexpectedly. And you always have the option to refinance or pay off the loan later.

Securities Based Line of Credit

The Securities Based Line of Credit (SBLC)[1] is a flexible credit line that can be collateralized by your full portfolio (from one or more brokerage accounts) for a variety of purposes – with the exception of the purchase of securities. The SBLC offers competitive rates based on the value of assets collateralized, not the loan amount, and interest may continue to accrue on the loan. The line of credit remains open for as long as you want with no expiration date, even if it goes unused. Because this option enables you to keep your money invested, you may benefit from potential market gains without disrupting your investment strategy and/or retirement plan. This lending strategy offers a simple application process compared to traditional bank loans, requiring no fees, doc stamps or recording taxes. You also may be able to borrow at a lower rate than the return you expect from staying invested in the markets.

ADVANTAGES	DISADVANTAGES
Simple process compared to traditional bank loans	If pledged securities drop in value, you may have to add to the account
Interest on securities can continue to accrue	Your securities can be sold to cover the deficit
Third-party borrowing – pledge personal assets for business or others	It is not required that you be contacted before securities are sold

You may be able to borrow at a lower rate than the return you expect from staying invested in the markets.

Margin

A margin account[1] enables you to borrow against specific securities in your portfolio at competitive interest rates. This approach provides cash on demand, with no lengthy application or approval process. It is a convenient way to take advantage of a timely real estate or investment opportunity, pay taxes, create a short-bridge term loan, and provide overdraft protection on your Capital Access account, emergency cash or any other type of short-term cash need.

Cash borrowed on margin has no restrictions on how loan proceeds are used – including a securities investment opportunity. You can determine when to make payments, as well as the amounts, as long as the equity value in your pledged account is sufficient. Applying for margin is generally part of the account opening process, but you can add it to your eligible accounts at any time. Then you typically may borrow against the value of your eligible securities within 24 hours. You will continue to receive dividends and interest from your owned investments, provided sufficient equity is maintained in your account.

ADVANTAGES	DISADVANTAGES
Easy to open – no fees	If pledged securities drop in value, you may have to add to the account
Interest on securities can continue to accrue	Your securities can be sold to cover the deficit
Flexible credit approval requirements	It is not required that you be contacted before securities are sold
Overdraft protection	

Pledged Securities Mortgage

Borrowers may also use select securities in an investment portfolio as collateral on a residential mortgage for a primary home, second home, residential investment property or to help a child or grandchild buy a home.[5] This strategy enables you to keep your money invested rather than interrupting your investment strategy, as well as avoid potential capital gains taxes that may result from liquidating assets.[6] This mortgage solution would also allow you to finance up to 100% of a home purchase so you don't even have to come up with a down payment if that is something that might work for your situation.

ADVANTAGES	DISADVANTAGES
Finance up to 100% value of home Reduce or eliminate cash down payment Remain invested	If pledged securities drop in value, you may have to add to the account Your securities can be sold to cover the deficit It is not required that you be contacted before your securities are sold

FINRA warning

The Financial Industry Regulatory Authority (FINRA) is a private, non-governmental agency that regulates its member brokerage firms and the financial markets to help protect investors. The following excerpt is from a warning the organization issued regarding the risks associated with securities-based lending:

- ***Even after you obtain your loan or line of credit, you may be required to deposit more cash or securities if the value of the securities you pledged falls below the minimum required by your firm.***
- ***Your brokerage firm can force the sale of securities in your account to meet a collateral call.***
- ***Your brokerage firm can sell your securities to meet a collateral call without contacting you.***
- ***You are not entitled to choose which securities in your account are sold to meet a collateral call.***
- ***You are not entitled to an extension of time to meet a collateral call.***
- ***If you stop making your monthly payments on your loan, you could lose both your house (in the case of a pledged securities mortgage) and the securities you pledge.***

[6] Raymond James does not offer tax advice. Please consult your tax advisor for questions regarding your tax situation.

YOUR MORTGAGE

In deciding about a mortgage, it's important to match the right loan to your designated use. While the average family stays in its home for seven years, the majority of homeowners take out a 30-year mortgage. If you are retired, you might consider a shorter term mortgage in order to free up more cash for your later years – when you may have more medical bills or long-term care expenses. On the other hand, for some retirees it may make more sense to take out a 30-year mortgage and save or invest the monthly savings from a lower mortgage payment. Your financial advisor can help you determine the best strategy for your financial situation.

If you currently own a home, the interest from your mortgage and/or home equity loan may be low and even tax deductible.[7] If you are considering the purchase of a second home during retirement, bear in mind that meeting the criteria for a mortgage may be more difficult after you stop working.

There are plenty of versatile financing options for retirees. Remember, too, that lenders will reward you for good credit with lower interest rates and greater access to liquidity.

ADVANTAGES	DISADVANTAGES
Collateralized access to cash	Stringent qualification criteria
Competitive interest rates	Longer application process
Potential for tax deductible interest	

Review your interest rates to see if refinancing, for example, would free up more cash for savings and investing.

[7] Raymond James does not offer tax advice. Please consult your tax advisor for questions regarding your tax situation.

CREDIT CARD

For everyday items and smaller purchases, many of us rely on the convenience of credit cards. With good credit, you could have tens of thousands of dollars at your disposal. There are benefits to using a credit card, and they are a valuable spending tool that can protect you from harm and offer valuable rewards. A credit card offers you fraud protection should someone get access to your card and make unauthorized purchases. You can also earn valuable rewards, such as cash back or travel benefits, even if you pay off your balance in full each month, so charging costs you no more than cash – but helps you earn discounts on airline tickets, cash-back and other perks. Some credit cards offer other benefits as well, like purchase protection and concierge services that can make your life easier.

Borrowing with a credit card, however, comes with a price, usually a high interest rate (currently averaging 15%) which can make them less appealing than other forms of credit if you need time to pay off the debt.

You should carefully consider the merits of paying for expensive items with a credit card and consider if other options are more beneficial.

ADVANTAGES	DISADVANTAGES
Immediate access to capital	High interest rates
Accumulate rewards with responsible spending	"Bad" debt on your credit record
Does not require collateral	

An excellent credit history can help you receive lower interest rates and fees.

YOUR DEBT AFTER DEATH

What happens to your debt once you pass away can be complicated. The rules vary based on the type of debt you leave.

After your death, your estate will pay debts to your creditors before it relinquishes assets to your beneficiaries. Creditors have a finite time period in which they may file a claim, and they are prioritized by whether their credit is secured, as in the case of a mortgage or car loan. Lower on the priority list is unsecured debt, such as credit cards. Your estate will pay your debts in order of priority, with credit card companies usually at the back of the line. However, that may not stop them from calling your loved ones to recoup their losses.

It's a good idea to consult with an attorney who has specific knowledge about debt laws in your state before you set up your estate plan. If the issue comes up after your death, your family members should consult with this type of advisor before the estate makes any payouts. Speak with your financial advisor for guidance on these matters.

CASE STUDIES[8]

#1: AN UNEXPECTED EVENT

In any life, we know we have to expect the unexpected, but when you are living off of your assets, these unexpected expenses can seriously derail your financial plan.

Rob and Anne

Rob and Anne retired eight years ago and worked with their financial advisor to put together a plan that helped them manage risk while they were living off of their savings. They set up a margin loan on a Capital Access account just to be on the safe side. And it's a good thing they did. When Rob had to go to the hospital with some health issues and required subsequent in-home care, the line of credit helped them cover their immediate expenses so they could plan for the best way to pay their out-of-pocket costs over time. They did not have to sell any assets in the short term, and the line of credit was there just when they needed it.

[8] The case studies are hypothetical and presented only as examples and are not intended as investment advice. Please consult your financial advisor if you have questions about these examples and how they relate to your own financial situation.

#2: FUNDING A RETIREMENT DREAM

You may discover a timely opportunity, such as finding your dream retirement home or the perfect sailboat for a particularly good price well before you planned to purchase.

Bill and Susan

As Bill and Susan approached retirement, they diligently paid off their mortgage. They dreamed of spending winters on their own sailboat in the Caribbean in their early years of retirement. When the perfect vessel presented itself while they were still working, the couple contacted their financial advisor to discuss their concerns about the tax consequences[7] of liquidating IRA assets before the allowable age.

Since Bill and Susan had paid off their home before retiring, their advisor recommended that they take out a home equity line of credit (HELOC)[3] based on the equity that had accrued in their home over 30 years. The couple would be able to pay down the sailboat loan throughout the year but tap the excess credit line for extra cash during their pre-retirement sailing excursions, if necessary, paying interest only on the outstanding balance. In addition, they may be able to deduct the interest on their HELOC payments and keep their investment portfolio intact for greater long-term growth opportunity.

On New Year's Day, to celebrate their newfound retirement freedom Bill and Susan set sail from Miami for the Caribbean. When they get a little older, the couple plans to sell the boat and pay off any remaining balance of the HELOC.

#3: STARTING A BUSINESS

With the economy poised for continued growth in the future, many small business owners are seizing the opportunity to grow their business while interest rates are still low.

Carol

Carol, a longtime book editor, always dreamed of owning her own independent bookstore when she retired. Her careful planning and savings allowed her to sign a lease for a small shop in an ideal location near her home. When she learned the deli next to her shop was closing for business, she contacted the shopping center's management company about renting the space to expand her small shop into a larger, higher-profiting Internet Café. Ultimately, this could enable her to leave a larger bequest to her grandchildren.

Carol called her financial advisor to discuss ways to fund her new business plan. He suggested that she borrow money using her brokerage account as pledged collateral against a securities based line of credit (SBLC).[1,2] This strategy allowed her access to money without liquidating investments or impacting her current cash flow. Carol could access all the cash she needed upfront, with the ability to pay back the loan as her newly expanded business brought in more revenue.

WORKING WITH AN ADVISOR

Choosing the right way to borrow is as much a part of the financial planning process as saving and investing because managing what you owe is just as important as managing what you own.

Your financial advisor can help guide you in decisions about how to access cash for specific life events without interrupting your long-term investment strategy. He or she is not just there to help you manage assets and debts – but also to preserve them and use them effectively to meet both your long- and short-term goals.

Your advisor can also stress test your borrowing plan to make sure it can withstand the unexpected, like higher inflation, changes in health or even an unforeseen death. Finding the right mix may take time, but remember that you are in control, and having spent so much time saving, you want to be sure your assets are working for you. Ask your advisor about stress testing your financial plans with the Goal Planning & Monitoring tool.

WORK WITH YOUR ADVISOR AND A LENDING SOLUTIONS CONSULTANT

PLAN EARLY		CHOOSE WISELY		MANAGE OUTCOMES
Ask yourself whether you may need to access a large amount of cash during retirement for an unexpected event	▶	Discuss the pros and cons of paying cash versus borrowing with your advisor(s)	▶	Assess various lending options and determine the best solution for your situation

LIFE WELL PLANNED.

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