Mortgage debt — the new retirement time bomb

How long has it been since you've seen one of those mortgage-burning pictures? It was once a big deal, especially with the Greatest Generation.

There was no joy like that last mortgage payment, and our parents prided themselves on burning that paper, hopefully before they retired.

These days, baby boomers increasingly are carrying that debt into retirement.

And while there are pluses to that (the interest rate deduction for some), many financial planners now advise their clients to pay off the mortgage. But they are much more concerned with credit-card, auto-loan and student-loan debt.

The Consumer Financial Protection Bureau says the percentage of homeowners ages 65 and older with mortgage debt increased from 22 percent in 2001 to 30 percent in 2011. Among homeowners 75 and older, the rate more than doubled, from 8.4 to 21.2 percent.

And the median mortgage debt for seniors increased by 82 percent, from about $43,400 to $79,000.

The CFPB said, in a report last year, that rising mortgage debt is "threatening the retirement security of millions of older Americans. In general, older consumers are carrying more debt, including mortgage, credit card and even student loan debt, into their retirement years."

It's a trend that distresses financial planners and retirement planners.

"My philosophy with regard to debt is when you retire your debt should be retired," says Ken Moraif, senior adviser at Money Matters in North Dallas, Tex. "We really adhere to that with our clients. If they have debt, we want to embark on a journey of getting it paid down and maybe working longer to generate the cash flow to accelerate the payments to get it paid off."

Moraif says one of the dangers of retiring with mortgage debt is that the economy and markets may turn bad.

"The money you thought would be there to service your mortgage is not there," he says. Now what? I'm sure the bank will not say, 'I will let you live there for free.' "

James Gambaccini, financial adviser at Acorn Financial Services in Reston, notes a stark difference between baby boomers retiring today and their Depression-era parents.

"People who lived through the Depression wouldn't think about retirement without having all their debt cleared," he says. "Boomers are not only fine with it, but prior to the crash, they tried to retire with a lot of debt. We had people trying to retire and build that dream home of 15,000 square feet. That is somewhat unique to baby boomers."

Mark Hebner, president of Index Fund Advisors, says the retirees with the least amount of stress and the most financial freedom are those with the lowest fixed expenses.

"One of the problems with debt is it contributes to your fixed expenses in retirement," he says. "The more you have, the less room you have for variable expenses, such as entertainment and travel."

So what can you do if you're preparing for retirement and believe you have too much debt?

Reduce expenses. "What we like to do is see how we can pay down that debt to their comfort zone," says Roger Stinnett, managing director of planning at First Foundation Advisors in Los Angeles. "We will create a budget. Where can we reduce other expenses so we have more cash flow to apply toward paying debt?"

Pay off credit cards first. "For sure, you have to pay that off," Moraif says. "You cannot have $20,000 in credit-card debt and pay that out of your retirement."

Pay down the mortgage faster. If you're an avid saver, it may make sense to redirect some of that money you're putting into your retirement savings to pay down your mortgage earlier.

Delay retirement or work part time to pay off the debt. "I advise clients to keep working to pay off debt," Moraif says. "Maybe spend another six months or year working. You will spend the rest of your life with no debt. It's worth it."

As Stinnett puts it: "We want our clients to sleep well in retirement. If you can sleep well with no debt, then that is the answer."