

Retiring With Debt: How To Stay In Control

What to Keep, What to
Pay Off, and How to Protect
Your Cash Flow in Retirement

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Why More Retirees Are Carrying Debt, And What It Means For Retirement Planning

Retirement planning today has to account for financial lives that are broader and more complex than they once were. Mortgages may extend longer, real estate decisions carry more weight, business activity continues later in life, and family support often spans multiple generations. It's increasingly common for retirees to enter this stage with a mix of obligations on the balance sheet.

What matters most is not the presence of debt, but how the obligation behaves inside your income and tax structure. Some debts support liquidity or help avoid poorly timed withdrawals. Others restrict flexibility or push income into less favorable years.

Understanding this behavior provides insight into which obligations align with your long-term goals and which may need attention.

Planning Step: Create a simple inventory of your obligations. Note the balance, interest rate, payment amount, and whether the rate is fixed or variable. This gives you a clear picture of what you're working with before deciding how any debt fits into your plan.

The Role Of Debt In Today's Retirement

As you approach retirement, every part of your financial picture should work together to support the life you want. Debt can influence the timing and structure of your income, especially as the portfolio begins doing more of the work.

This guide offers a practical, structured way to evaluate your obligations and understand how each one fits within a retirement plan designed for long-term stability.

How Debt Behaves When the Paycheck Stops

During working years, income arrives predictably and can absorb fixed payments with little strain. In retirement, income shifts to a mix of Social Security, pensions, and structured withdrawals. Each payment now interacts with tax planning, investment timing, and cash-flow design.

Three factors determine whether a debt fits smoothly or creates friction:

1. Cash-Flow Flexibility

Fixed payments reduce your flexibility in adapting to changing markets or unexpected expenses. Having margin often matters more than removing every debt.

2. Tax Coordination

Using tax-deferred accounts to service debt can increase taxable income, affect Medicare premiums, and change how Social Security is taxed. The obligation itself may be reasonable, but the withdrawals funding it may not.

3. Sequence-of>Returns Exposure

Declining markets early in retirement amplify the effects of taking withdrawals at the wrong time. A debt that requires fixed payments can increase that exposure.

Planning Step: Run a year-by-year cash-flow projection including income sources, withdrawal types, and every fixed payment. Then model the same plan assuming a 15–20% market decline early in retirement. This comparison reveals how sensitive your current structure is to market timing.



How Different Types of Debt Affect Your Retirement Plan

Not all obligations behave the same way. Some fit naturally within a retirement plan. Others introduce volatility or reduce your flexibility. Grouping debt by how it functions—not by balance—helps you see these differences clearly.

| Productive Debt | Neutral Debt | Restrictive Debt |
|--|--|--|
| <p>Stable, low-cost obligations tied to durable or appreciating assets. These debts can help support liquidity by reducing the need for withdrawals in weaker market periods.</p> <p><i>Example: A low, fixed-rate mortgage on a home you plan to keep. The payment is predictable, and carrying the loan lets your investment portfolio stay invested instead of pulling money out at the wrong time.</i></p> | <p>Obligations with reasonable terms and predictable payments. They neither meaningfully help nor hinder the broader plan.</p> <p><i>Example: A car loan with a modest payment that fits easily into your monthly cash flow. It doesn't change how you take income, and it doesn't disrupt anything else in your plan.</i></p> | <p>Higher-cost or variable-term obligations that tighten your monthly margin or create volatility. These kinds of debts interact most directly with tax coordination and sequence-of-returns risk.</p> <p><i>Example: A high-interest credit card balance or variable-rate personal loan. Payments can change quickly, and covering them may require withdrawals at less-than-ideal times.</i></p> |

Planning Step: Use this framework to see how each obligation functions inside your plan. Productive and neutral debts fit easily; restrictive debts often need closer attention.



How to Decide What to Keep, Restructure, or Pay Down

Once you understand how your debts behave, the next step is determining the role each one should play going forward. The goal is to align obligations with a retirement income strategy that adapts to changing market, tax, and spending conditions.

When Keeping a Debt Makes Sense

Low-rate, fixed-term obligations tied to durable or appreciating assets often sit comfortably within a plan. These payments may help avoid unnecessary withdrawals during unfavorable market periods.

When Paying Down a Debt Strengthens the Plan

Eliminating a balance can be helpful when the obligation consistently reduces your monthly margin or requires withdrawals that interfere with tax strategy or income design.

When Restructuring Improves Predictability

Some debts remain workable but benefit from more stable terms. Converting a variable rate to a fixed one or refinancing into a more predictable payment schedule can create steadier planning.

Planning Step: As you evaluate each debt, ask how it affects your ability to adjust. The obligations that reduce flexibility or make income planning harder often point to whether you keep it, reshape it, or pay it off.

How to Monitor Debt Effectively Throughout Retirement

You should plan to review and refine your debt structure on an ongoing basis. Markets move, income sources change, and spending patterns shift, so an obligation that fits neatly today might begin to interact differently with your plan tomorrow. **Key moments to reassess include:**

Shifts in Cash-Flow Needs

A payment that once felt manageable may tighten your margin in years with higher-than-normal expenses or healthcare costs.

Changes in Income Sources

Transitions into RMD years, ending part-time work, or adjusting Social Security benefits can all affect how predictable your income feels.

Market Changes

Fixed payments don't create much pressure when investments are doing well. They tend

to matter more in down markets, because withdrawals work against the portfolio at the wrong time.

Purpose Changes

Sometimes a debt makes sense for a short period because it serves a specific, immediate purpose. For instance, keeping a small loan for a bit longer may help you avoid taking a large withdrawal in a year when the timing isn't in your favor. Once that purpose has been fulfilled, the debt may no longer fit as well in your plan.

Planning Step: Review your obligations whenever your income structure, tax picture, market environment, or major spending needs shift. That's often when it becomes clear whether a debt still works inside your plan.

Ready to Take Control?

Debt doesn't define your retirement—control does. Understanding how each obligation fits within your income, tax, and investment structure helps protect flexibility and ensure your plan supports the life you're building.

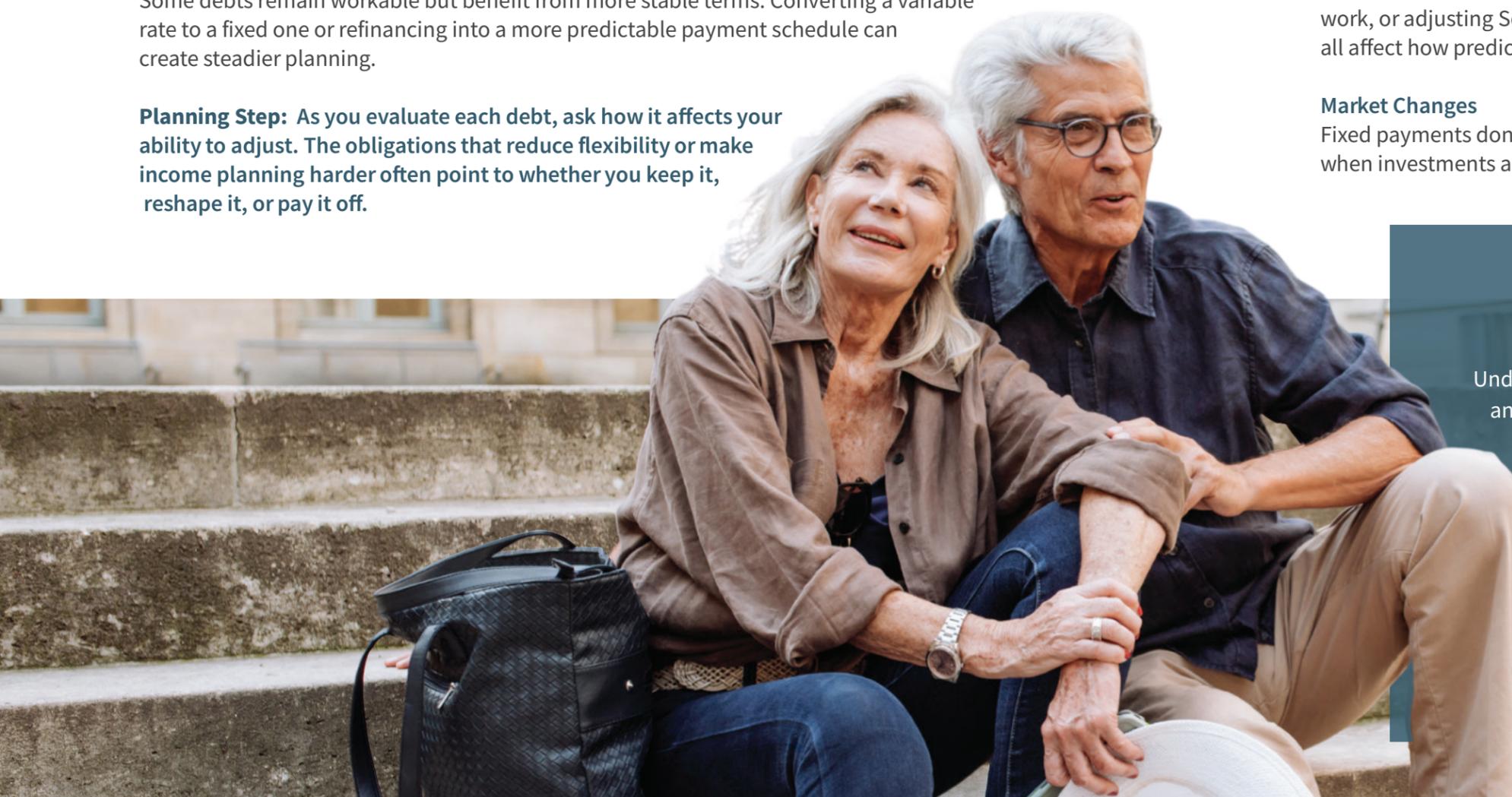
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