JTD
Financial Services, LLC

167 South River Road
Suite 11
Bedford, New Hampshire 03110
Tel: 603-641-1010
Fax: 603-641-0707
e-mail: fdemaio@jtdfinancial.com
www.jtdfinancial.com

Why Retirees Need Good Credit Scores

Careers & businesses end, but the need to borrow remains.

Provided by Frank DeMaio*

We spend much of our adult lives working, borrowing, and buying. A good credit score is our ally along the way. It retains its importance when we retire.

Retirees should do everything they can to maintain their credit rating. A FICO score of 700 or higher is useful whether an individual works or not.

For example, some retirees will decide to refinance their home loans. A recently published study from the Center for Retirement Research at Boston College noted that in 2013, 50% of homeowners older than 55 carried some form of housing debt. In 2017, it is probable that picture is unchanged. Arranging a lower interest rate on any remaining mortgage payments could bring income-challenged retirees more money each month. A strong FICO score will help them do that; a substandard one will not.[1]

Most retirees will want to buy a car at some point. Perhaps buying a recreational vehicle is on their to-do list. Very few car, truck, or RV purchases are all cash. A good credit score can help a retiree line up an auto loan with lower interest payments.

Insurance companies also study retiree credit habits. Since the early 1990s, credit-based insurance scores have been fundamental to underwriting. Used in all but a few states, they play a major role in determining car insurance and homeowner insurance premiums.[2]

The Fair Isaac Co. (FICO) generates credit-based insurance scores, which are variants of standard credit scores. Job and income data do not matter in a credit-based insurance score. Instead, insurers add up factors from a person's credit history to project the likelihood of that person having an insurance loss. When a retiree consistently makes bill and loan payments on time, that helps her or his credit-based insurance score. The score is hurt when bill or loan payments are missed or delinquent or when debt levels become excessive.[2,3]

A strong credit rating can come in handy in other financial situations. It can help a retiree qualify for another credit card, should the need arise. If a senior wants to buy a smaller home (or move into an assisted living facility), a credit score may be a make-or-break factor. If a senior co-signs a loan for children or grandchildren, a credit rating will matter.

How can retirees boost their credit scores? Some obvious methods come to mind as well as less obvious ones. Besides paying bills on time and keeping credit card balances low, wiping out small debts can help lower a retiree's credit utilization ratio. Asking a card issuer to raise a debt limit on a card can have the same effect, provided the monthly balance stays low and is paid off routinely.[4]

Too few retirees review their credit reports, and about 20% of individual credit reports have errors. More retirees ought to ask the three big credit bureaus – Equifax, TransUnion, and Experian – for a free copy of their credit report. Every 12 months, they are entitled to one.[4]

Credit cards held for decades should be kept active, especially if they have good payment histories. The same goes for high-limit cards. Closing these accounts out can do more harm than good to a credit rating.

Remember that good credit counts at any age. TransUnion recently surveyed baby boomers and discovered that nearly half thought their credit scores would become less important after they turned 70. As you can see by the above examples, that is not true. A high credit score can help you buy and borrow long after your working days are done.[5]

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