May 26, 2016

Keeping High Credit Score in Retirement

Q. Now that I am retired (six years, this year), how do I maintain my credit rating and the credit cards/spending limits that I have now? A couple of the cards have recently asked for "income re-verification" but have not demanded it, so I have not responded. I am afraid that if I report my reduced personal income, they will take away the cards or substantially reduce the card spending limits. I have no late payments and I pay in full every month.
— Retired

A. Congratulations on your retirement.

Even though you're retired, you're right to want to maintain a good credit score.

"A good credit rating is essential when a consumer applies for a mortgage or other form of loan, but the score can also affect costs for insurance premiums, cell phone plans and the ability to rent an apartment," said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**. "Therefore, it's always important to know what causes credit scores to change and how to keep them at their highest level."

Retirement alone should not impact a credit score because employment is not a factor that is used in the calculation, Mott said.

Each individual's credit score is calculated based on these five components:

Percent	Score Category
35%	Payment History
30%	Amount Owed
15%	Length of Credit History
10%	Credit Mix
10%	New Credit

To maintain that outstanding credit score, you should keep two goals in mind, Mott said you should make all payments in a timely fashion and keep outstanding balances within reason.

"Because payment history is the biggest component of a credit score, even one late payment can cause a score to drop," she said. "The impact will be felt greatest by those with higher scores."

Mott said the "credit utilization ratio," or CUR, which makes up 30 percent of a credit rating, compares the balances on revolving debt to the credit limit on the card.

"A CUR under 7 percent is a very good ratio and will favorably impact an individual's credit score," she said. "A ratio between 10 and 20 percent is deemed acceptable, while anything exceeding the 30 percent range will negatively affect a credit score."

Holding on to your current credit limits is a separate issue and may be something that changes through no fault of your own, Mott said. While a reduction in your credit card limits could cause a drop in your score if your CUR jumps to an unacceptable level, keeping low outstanding balances could greatly reduce the risk of that occurring.

Each credit card comes with an agreement which details the terms, interest rates, fees, penalties and conditions which accompany ownership of the card, she said. Written in many credit card agreements is the ability for the issuer to increase or decrease a cardholder's credit limit, revoke the card and ask for income verification to ensure that the customer is still credit worthy. Some of these conditions arose from the 2008 financial crisis and were formalized with the Credit CARD Act of 2009, Mott said.

As a cardholder, she recommends you review your credit card agreement to see what conditions pertain to your particular card, noting that a credit card that is inactive has a greater chance of being closed by the issuer because it is no longer generating fees that occur each time you swipe it.

"If you are being asked to verify your income, a call to the company may provide you with an answer as to why they are asking at this particular time," she said. "You may also want to find out what would happen if you didn't give them the information they are asking for."
Email your questions to ask@njmoneyhelp.com