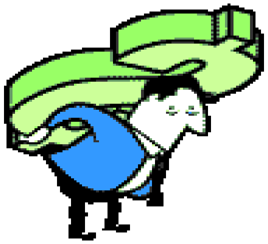
Debt and Debt Management among Older Adults



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Research Goals

- Evaluate factors associated with debt/debt management practices for those on verge of retirement.

- Evaluate if/why patterns changed over time.

- Empirical strategy:
  - Health and Retirement Study (HRS)

    3 cohorts of people (age 56-61) at three different time periods: 1992, 2002 and 2008.
  - National Financial Capability Study (NFCS)

    2009 and 2012

Previous Literature

SCF:

- Bucks/Kennickell/Mach/Moore (2009)
- EBRI: Debt of the Elderly and Near Elderly, 1992–2010.

HRS:

- Delavande/Rohwedder/Willis (2008) –cognitive function and preparation for retirement
- Lusardi/Mitchell (forthcoming), Journal of Economic Literature

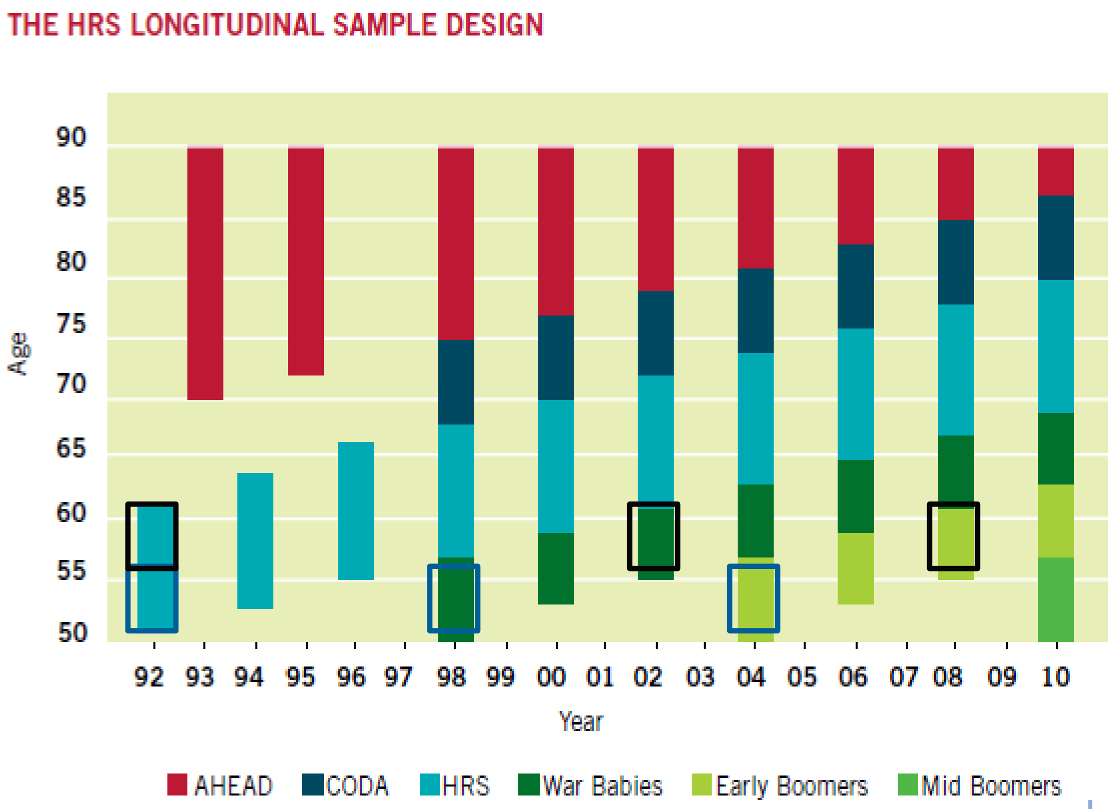
➔*Our paper: What's happened to debt over time?*

Health & Retirement Study

- 3 cohorts of 56-61 year olds: *Baseline* HRS; *War Babies*; *Early Boomers*.

- Different N's as 1992 HRS survey larger than subsequent groups.

- Results unweighted.



Debt Patterns in HRS

	% debt owners in sample	*p50 ($)*	*Mean ($)*
Total debt			
HRS	63.8%	6,218	37,514
War Babies	67.6%	19,147	66,228
Baby Boomers	71.4%	28,259	87,835
Value of all mortgages/land contracts (1y residence)			
HRS	40.5%	0	26,196
War Babies	47.2%	0	52,766
Baby Boomers	47.8%	0	66,326
Value of other home loans (1y residence)			
HRS	10.0%	0	4,365
War Babies	12.0%	0	4,674
Baby Boomers	16.0%	0	7,924

More on Rising Debt by Cohort

	% debt owners in total sample	*p50*	*Mean*
Value of other debt			
HRS	36.9%	0	3,634
War Babies	37.0%	0	5,358
Baby Boomers	44.4%	0	8,364

Financial Fragility in the HRS

Total debt/Total assets > 0.5	
HRS	9.6%
War Babies	16.0%
Baby Boomers	22.9%
All 1ry res. loans/1ry res value > 0.5	
HRS	17.0%
War Babies	26.4%
Baby Boomers	29.3%
Other debt/Liquid assets >0.5	
HRS	17.5%
War Babies	21.4%
Baby Boomers	28.8%
Respondents with < $25,000 in savings	
HRS	18.0%
War Babies	16.4%
Baby Boomers	24.3%

Multivariate Regression Analysis of Financial Fragility

We study four outcomes:

- Total debt/asset ratio > 0.5,
- Ratio of 1ry residence loans to value > 0.5;
- Other debt/liquid asset ratio > 0.5;and
- Total net worth < $25,000.

Findings

1. Early Boomers *significantly more* financially fragile and War Babies too, than reference group (1992 cohort).

2. Magnitudes of cohort differences conform to tabulations.

3. Directional conclusions confirmed after controlling on socio-demographic factors (age, marital status, sex, number of children, race, education, household income, and whether in poor health).

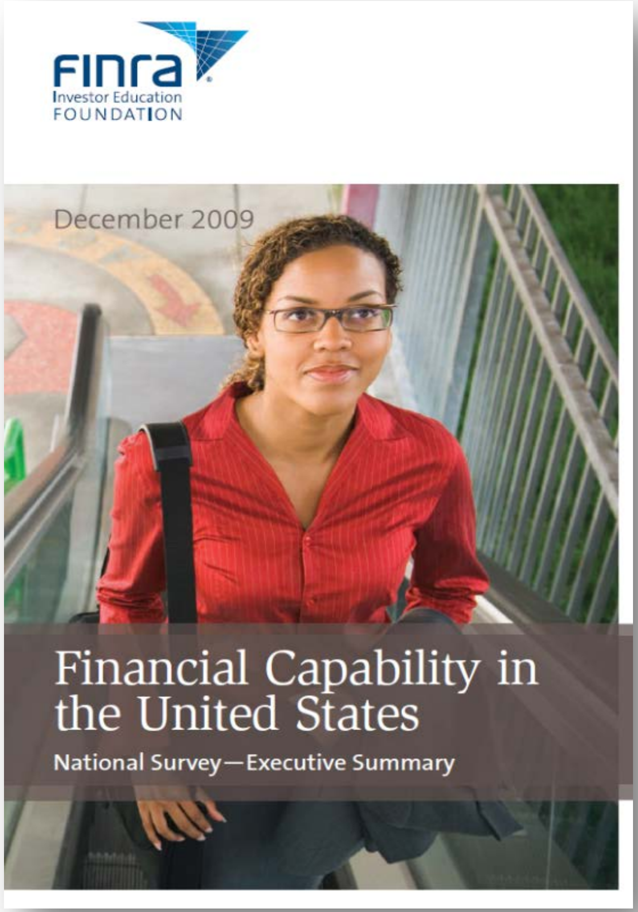
More findings

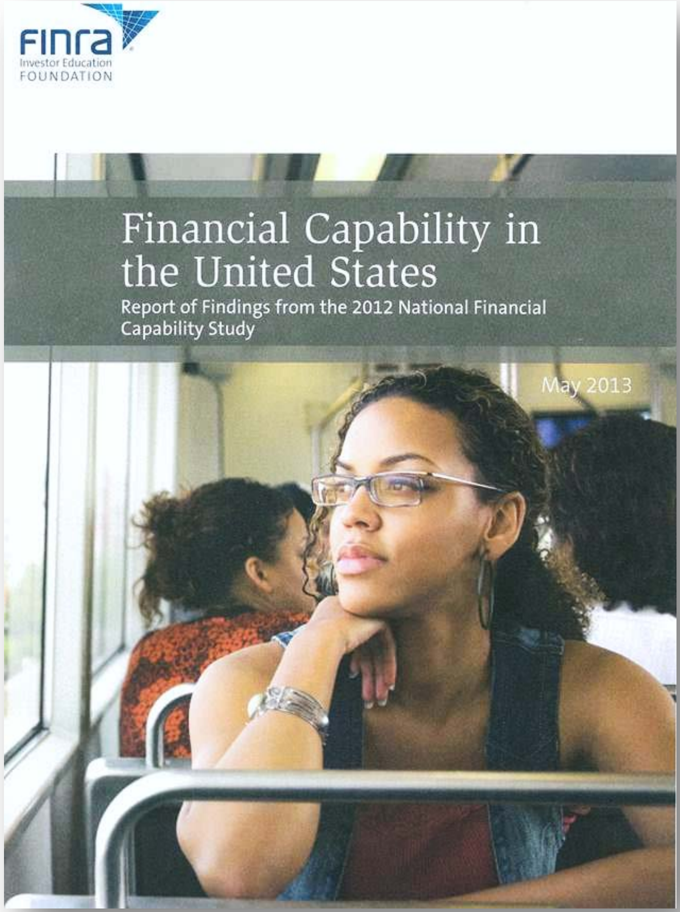
Factors associated with LESS financial fragility: being married, White, better educated, and higher income.

Factors significantly associated with MORE fragility: having had more children and being in poor health.

National Financial Capability Study (NFCS)

The 2009 and 2012 NFCS





2009 NFCS

The 2009 wave aligns with 2008 HRS respondents 56-61 to show similarities.

- Over ½ of homeowners approaching retirement with mortgages.
- Downpayments ↓ over time: recent home buyers put down only 5-10%.
- Many older respondents pay only minimums on credit cards.
- Many use high-cost methods of borrowing, such as payday loans, pawn shops, etc.

Evidence from the 2012 NFCS

- Near-retirement respondents a few years after housing market/financial collapse.
- Again focus on respondents age 56-61.
- Many older respondents have high mortgage debt and other debt.

Level and Composition of Self-Reported Household Debt and Debt Concerns

	Age 56-61
Underwater with home value*	17.0%
Credit card fees, at least one type*	31.4%
Loan on retirement accounts*	7.0%
Hardship withdrawal from retirement accounts*	5.7%
Unpaid medical bills	23.4%
High-cost borrowing	21.2%
Too much debt	39.9%
Cannot come up with $2,000	35.5%
N	2,983

Note: The sample includes all age-eligible individuals age 56-61 in the 2012 NCFS. Statistics related to hardship withdrawal and loan and retirement account are conditional to owning a retirement account. Statistics weighted using sample weights.

*** Values conditional on holding the asset or debt.**

Multivariate regression analysis

Dependent variables:

- "I have too much debt right now" (1=strongly disagree, 7=strongly agree). Proxies for problems with debt (instead of HRS ratios)
- Indicator = 1 if could not (probably/certainly) come up with $2,000 in an emergency within a month.

Controls:

- Socio-demographic controls + whether respondents experienced large/unexpected income drop previous year + financial literacy.
- All age-eligible individuals age 56-61 in the 2012 NCFS; use sample weights.

Multivariate Regression Model of Self-assessed Debt
(N= 2,940).

How strongly do you agree or disagree with the following statement? 'I have too much debt right now.'"		
	(1)	(2)
Age	-0.080***	-0.079***
	(0.026)	(0.026)
Number of dependent Children	0.236***	0.233***
	(0.056)	(0.056)
Ed. High School	-0.120	-0.071
	(0.221)	(0.221)
Ed. Some College	-0.117	-0.036
	(0.222)	(0.223)
Ed. College or More	-0.237	-0.128
	(0.229)	(0.233)
Income$50k-$75k	-0.418**	-0.365*
	(0.193)	(0.195)
Income $75k-$100k	-0.760***	-0.691***
	(0.221)	(0.224)
Income $100k-$150k	-0.820***	-0.751***
	(0.224)	(0.227)
Income >$150k	-1.359***	-1.280***
	(0.232)	(0.236)
Income Shock	0.750***	0.750***
	(0.107)	(0.107)
Fin. Lit. Index		-0.080**
		(0.038)
Constant	8.986***	9.006***
	(1.572)	(1.571)
R-squared	0.085	0.086

Multivariate Regression Model of Financial Fragility:
Dep: R certainly/probably cannot come up with $2K in next month

	Marginals (se)	Marginals (se)
White	-0.090***	-0.077***
	(0.021)	(0.021)
Male	-0.041**	-0.021
	(0.018)	(0.018)
# Dep. Children	0.021*	0.021*
	(0.012)	(0.012)
Some College	-0.109***	-0.078*
	(0.040)	(0.040)
College or More	-0.160***	-0.117***
	(0.041)	(0.042)
Income$50k-$75k	-0.360***	-0.337***
	(0.032)	(0.033)
Income $75k-$100k	-0.459***	-0.430***
	(0.037)	(0.038)
Income $100k-$150k	-0.573***	-0.543***
	(0.042)	(0.042)
Income >$150k	-0.594***	-0.561***
	(0.053)	(0.053)
Income Shock	0.127***	0.128***
	(0.018)	(0.018)
FinLit Index		-0.031***
		(0.007)

Implications and policy relevance

- Recent cohorts: more debt, face more financial insecurity
- Why?
  - Bought more expensive homes with smaller down payments.
  - Use alternative financial services (payday loans, etc.) ; carried credit card debt; borrowed on retirement accounts
- <u>Less debt exposure</u>: higher income, more education, and greater financial literacy
- <u>More financial fragility</u>: more children, poor health, and unexpected large income declines.
- Shocks do play a role in debt accumulation near to retirement. But people also need the capacity to manage those resources

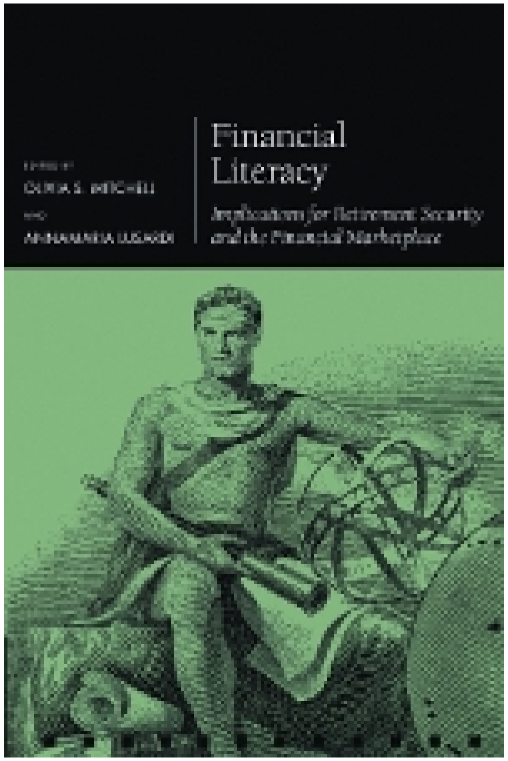
Implications for research on debt

- Theoretical models focus on savings/portfolio choice but do NOT devote much attention to debt.
- Analysts/policymakers: incorporate *debt and debt management* into factors driving retirement security.

Thank you!

Financial Literacy: Implications for Retirement Security and the Financial Marketplace

Olivia S. Mitchell and Annamaria Lusardi, Eds. Oxford University Press.



http://www.pensionresearchcouncil.org/publications/0-19-969681-9.php