



THE INCREASING DEBT OF OLDER AMERICANS

The growing percentage of older Americans with dangerous levels of debt, face the very real threat of a financially insecure retirement. Many of them put their homes at risk by cashing out equity during the real estate bubble.

In *Debt of the Elderly and the Near Elderly, 1992-2007*, Craig Copeland's analysis of data in the Federal Reserve's Survey of Consumer Finances, he reports that older Americans, 55 and older, have not only more debt but also higher debt than their parents or grandparents had as they approached retirement a generation or two ago. What this debt means for borrowers who are overextended is the prospect of living less comfortably than they anticipate as they grow older.

Specifically, Copeland notes that not only did the percentage of families with any debt increase, but that the average total debt grew by 118.6% (from \$32,191* in 1992 to \$70,370 in 2007) and the median debt level during that period increased as well by 170% (from \$15,923* in 1992 to \$43,000 in 2007). Much of the increase in both cases occurred since 2001.

Copeland also observes that the situation in which older borrowers find themselves in late 2009, in light of the current economy, is likely to be even more serious than the data from 2007 show.

PERSPECTIVES ON DEBT

Copeland discusses two types of debt in this study. Housing debt is money owed on the value of the borrower's residence, typically a mortgage or

→ A QUICK LOOK

- The median debt level of people 55 and older increased 170% from 1992 to 2007
- 13% of people 55 to 64 had debt-to-income ratio above 40% in 2007
- More people in debt danger zone in 3rd quartile of income (middle class earners in \$50,000 to \$99,000 range) than in the 2nd quartile
- Debt payments as a percentage of income are also highest for those in the 3rd quartile, outpacing even the lowest quartile

home equity loan. In the 2004-2007 period, the debt increased as homeowners cashed out equity as market prices rose or purchased new properties at inflated prices. The debt persists although the value of the homes has dropped. Consumer debt, in this context, is primarily money owed on credit cards.

In brief, households headed by someone between 55 and 74 took on increased levels of housing debt in the study period, with the largest increase in the 65 to 74 year old group. The near-elderly (55-64) also took on increased consumer debt. Households headed by someone 75 or older, in contrast, actually saw a decrease in debt, driven by a drop in their exposure to consumer debt.

YMCA Retirement Fund's RESOURCE TOOLKIT

VOL 1 NUMBER 3 DECEMBER 2009

Copeland evaluates the impact of this debt from two perspectives: the ratio of debt payments to income and the ratio of total debt to total assets. And while he points out that debt in itself doesn't necessarily mean the borrower is at financial risk, he makes it clear that a high proportion of either debt service relative to income or debt load relative to assets should be a red flag. When both these

Not only can this group expect to earn less, but they will also begin to tap their assets as a source of income.

ratios are high, the problem can be particularly serious, especially for people approaching or already in retirement. Not only can this group expect to earn less, but they will also begin to tap their assets as a source of income.

WHEN DEBT IS A PROBLEM

In Copeland's words, the "threshold level ... for determining whether a family has a problem with excessive debt is when debt payments exceed 40% of income." The study reveals that this problem is growing. Of households headed by someone 55 to 64, 12.5% were spending more

than 40% of income to meet debt obligations in 2007, up from 7.9% in 2004. In the 65 to 74 group, the figures were comparable: 11.2% in 2007, up from 7.9% in 2004.

Looking at the elderly as a group, there are pockets where debt appears to be most problematic. As you might expect, the poorest people, minorities, and those who aren't working are all at higher risk than the most affluent. Surprisingly, however, there are more people in the danger zone among those in the third income quartile, or next-to-highest income group (\$50,000 to \$99,999), than in the second quartile. In addition, total debt payments as a percentage of income are also highest for those in the third quartile, outpacing even the lowest quartile.

The inescapable fact is that troublesome debt was more serious in 2007 than in any other time in the study period: debt levels, debt payments as a percentage of income, and the percentage of families with debt payments in excess of 40% of income all were up. So was the prospect of greater numbers of people losing their homes or being forced to downsize because they could no longer afford to live as they expected.

** Amounts for years previous to 2007 stated in 2007 dollars.*

This study, written by Craig Copeland, appears in the October 2009 edition of Employee Benefit Research Institute Notes, a monthly newsletter from the EBRI Education and Research Fund. The Federal Reserve's Survey of Consumer Finances (SCF) for 2007 was the source of debt data.