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Debt among older Americans

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Introduction

Our recent research has found that older Americans are increasingly likely to carry debt into retirement.[1] Moreover, older households' debt to income ratios are rising. This trend has prompted concerns regarding retirement security, since a higher debt burden can affect how much older persons can contribute to their retirement accounts and how they manage their retirement drawdowns. Furthermore, should interest rates rise, older Americans will need to spend more of their incomes to service their debts.

Our new research on this topic examines two new data sources: a debt module in the 2018 U.S. Health and Retirement Study (HRS) and the 2018 National Financial Capability Study (NFCS). Our goal in designing and analyzing these two datasets was to better understand older persons' attitudes toward and understanding of debt, including questions about how older persons perceive their financial situations and how debt influences their financial circumstances.

We have six main findings. First, we find that debt among older Americans is a matter of grave concern in both surveys we examined. Second, many older respondents feel that their debt is excessive, say they are financially distressed, are contacted by debt collectors, and feel unsatisfied about their financial situations. Third, many people close to retirement carry debt, including unpaid medical debt and student loans. Fourth, we find that few older persons had given any thought to debt they might accrue, 10 years previously. Fifth, having dependent children contributes to peoples' feeling

1 See for instance Lusardi and Mitchell (2013, 2017); Lusardi, Mitchell, and Oggero (2018, 2019); and Mitchell and Lusardi (forthcoming).

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over-indebted, as does having a negative income shock. Women, African Americans, and lower-income individuals are also more financially stressed than their male, white, and higher income counterparts. Sixth, financial literacy contributes to positive financial perceptions and behaviors among older adults, including reporting better credit records and planning for retirement.

Data and methodology

In what follows, we briefly describe the 2018 HRS debt module, after which we turn to the NFCS. The age group on which we focus in both cases is persons age 51-61, to shed additional light on the effects of debt close to retirement.

The HRS is a nationally representative longitudinal survey following older Americans over the age of 50 every other year, until they die or otherwise attrite from the sample. Our 2018 HRS experimental module on debt was offered to 1,679 survey participants; of these, 1,336 individuals agreed to fill it out, an 80% response rate. Our experimental module sought to shed light on the causes and consequences of debt late in life and whether, in the spirit of basic intertemporal models of decision making, people anticipated having the amount of debt they currently have. To this end, we incorporated questions about whether people were satisfied with their financial conditions, whether they believed they had too much debt, how they rated their credit records, and whether they had student loans outstanding (on their own account or for partners/children/grandchildren). In addition, we asked whether they had unpaid past due medical bills and whether they had been contacted by a debt collector. We also asked whether these respondents had anticipated having the level of debt they currently held, to focus on this specific component of a balance sheet. Finally, our module asked a question about interest rates in the context of debt, namely whether people knew how many years it would take for a loan at 20% to double, to assess whether basic financial knowledge that is most relevant for debt and debt management matters. We then linked the responses to a rich variety of other variables available in the HRS for these same respondents to generate insights into which socioeconomic groups face most trouble with regard to debt and the extent to which they know it.

The NFCS dataset included some, but not all, of the HRS module questions in an online survey commissioned by the FINRA Investor Education Foundation. Here we used the 2018 survey to assess the quality of the data using the same age range as in the HRS but for a larger set of observations. In addition, the 2018 NFCS asked several questions measuring financial anxiety, stress and concern, whether people were just getting by financially, and whether they had no money left at the end of the month. The NFCS also asked individuals a set of questions aimed to measure financial well-being, as well as the financial literacy questions known as the Big Five. Here we focus on 4,422 respondents age 51-61 who provided information on financial literacy and financial capability.

Debt at older ages: What the evidence shows

In what follows, we first provide a descriptive overview of the HRS findings, followed by results from the NFCS.

HRS results

Table 1 reports the demographic characteristics of our HRS sample, where we see that 58% of the respondents were women; most were married, white, and had at least a high school degree. Moreover, many respondents (69%) stated they were in good health or better. Household income averaged $103,000 and average net assets amounted to $274,000. The top panel of Table 1 summarizes key financial perceptions and behaviors, differentiating between positive versus negative financial perceptions. Starting with the positive outcomes, we find that only about one-quarter (24%) of the HRS respondents in our age range (51-61) were completely/ very satisfied with their personal financial situations, and only around two-fifths (39%) believed they had very good/ excellent credit scores.

Table 1. Descriptive statistics on key variables: HRS			
	N	Mean	St Dev
Positive financial perceptions and behaviors			
Personal finance satisfaction	444	0.24	0.43
Good credit score	419	0.39	0.49
Negative financial perceptions and behaviors			
Too much debt	444	0.41	0.49
Contacted by a debt collector	442	0.23	0.42
Unpaid medical bills	445	0.24	0.43
Own/partner student loan	445	0.15	0.36
No debt thought	436	0.66	0.47

	N	Mean	St Dev
Female	446	0.58	0.49
Age	446	56.71	2.81
Married	446	0.57	0.50
Number of children	446	2.52	1.74
White	446	0.57	0.50
Hispanic	446	0.18	0.39
<High school	446	0.13	0.34
High school	446	0.30	0.46
Some college	446	0.29	0.45
≥College	446	0.27	0.44
Good health	446	0.69	0.46
HH income (/100k, 2018$)	446	1.03	3.92
Interest compounding knowledge	446	0.31	0.46
Total net assets (/100k, 2018$)	446	2.74	7.61

Source: N=446 HRS respondents to the 2018 Module age 51-61.

Turning to the negative perceptions, about two-fifths (41%) of respondents agreed/strongly agreed that they had too much debt, and almost one-quarter (23%) said that they had been contacted by a bill collector in the last year. These are high percentages given that these are older respondents who should be close to the peak of their wealth accumulation. About one-quarter (24%) indicated that they had unpaid past due bills from a healthcare or medical service provider, while 15% had outstanding student loans for themselves or partners. We consider outstanding student loans as a negative behavior because of the age range we are considering, with only limited possibilities to take advantage of long-term payoffs from education. Overall, we find that debt looms large for substantial groups of pre-retirees, perhaps because of their inability to manage their debt appropriately.

This interpretation is supported by our additional evidence about older persons' lack of understanding regarding interest compounding, in the context of debt. When they were asked how long it takes for debt to double if a loan's interest rate was 20%, fewer than one-third (31%) of our older respondents could answer this correctly. Evidently, financial illiteracy regarding compound interest is a widespread phenomenon, even in the older population, despite the fact that this group had likely already dealt with several types of debt over their lifetimes.

The top portion of Table 2 reports the extent of heterogeneity in positive financial perceptions and behaviors among this older population. Generally speaking, those who were more financially satisfied were men, the college educated, those with higher incomes, and whites. A similar pattern applies to peoples' beliefs that they had a good credit score; in fact, whites were twice as likely to report having a good credit score compared to nonwhites. The least educated systematically reported less satisfaction with personal finance and worse credit scores.

Table 2. Demographics of self-reported financial behaviors and perceptions: HRS (%)

	Subsample	Male	Female	≤High school	Some college	≥College	Income <$35K	Income $35K-75K	Income >$75K	White	Non-white
Positive financial perceptions and behaviors											
Personal finance satisfaction	23.6	25.3	22.5	21.6	20.0	30.8	13.7	25.0	30.8	26.8	19.5
Good credit score	38.7	39.0	38.4	26.4	43.2	52.9	18.2	34.1	55.5	50.6	22.2
Negative financial perceptions and behaviors											
Too much debt	41.0	38.2	43.0	45.1	39.2	36.1	50.6	38.5	34.5	36.6	46.8
Contacted by a debt collector	23.3	20.4	25.4	27.6	23.1	16.7	30.7	26.3	16.0	21.4	25.8
Unpaid medical bills	23.8	16.7	29.0	23.6	30.0	17.5	32.5	31.3	13.3	20.5	28.3
Own/partner student loan	15.3	12.4	17.4	7.2	16.9	26.7	9.7	26.0	14.4	14.6	16.1
No debt thought	66.3	63.7	68.1	76.0	63.0	53.8	78.5	71.3	54.4	58.3	76.7
N	*446*	*187*	*259*	*196*	*130*	*120*	*154*	*96*	*196*	*254*	*192*

Sample: HRS respondents to the 2018 Module age 51-61.

The lower portion of Table 2 reports which types of respondents felt they had too much debt. Women, the less educated, those with low income, and nonwhites are all far more likely to report feeling that they are overburdened by debt, with the largest difference between whites (37%) and nonwhites (47%).

Whereas almost one-quarter (23%) of this population had been contacted by a debt collector, the rate was higher (31%) among low-income households and high school dropouts. Women were much more likely (29%) to report having unpaid medical bills than men (20%), low-income respondents were more likely (33%) than their highest paid counterparts (13%), and nonwhites (28%) than whites (21%). Differences by sociodemographics were narrower for student loans, though again 17% of the women said they held these, versus 12% of the men. Unsurprisingly, the college educated and higher paid were more likely to have student loans. The final row of Table 2 shows that two-thirds (66%) of the respondents indicated that 10 years earlier, they had given no thought to how much debt they would hold today, and the lack of thought to debt was more prevalent among the least educated (76%), those with low income (79%), and nonwhites

(77%). In sum, a majority of the HRS respondents confirmed that they devoted very little attention to financial planning, including planning related to debt, for later life.

NFCS results

The NFCS has a larger number of observations and additional questions to help us understand other facets of debt behavior close to retirement. We start by examining the questions most similar to those in the HRS module. The top portion of Table 3 shows that only 33% of the older NFCS respondents were satisfied with their personal financial conditions (answering 8 to 10 out of a 10-point scale), a percentage that is similar to that reported in our HRS module. Almost three-fourths of the NFCS sample (70%) believed it had above-average credit scores, and more than half (55%) had ever tried to figure out how much to save for retirement.

Table 3. Correlation of self-reported financial behaviors and perceptions: HRS

	Personal finance satisfaction	Good credit score	Too much debt	Contacted by a debt collector	Unpaid medical bills	Own/partner student loan	No debt thought
Personal finance satisfaction	1.00						
Good credit score	0.27	1.00					
Too much debt	-0.30	-0.30	1.00				
Contacted by a debt collector	-0.21	-0.35	0.26	1.00			
Unpaid medical bills	-0.21	-0.34	0.35	0.55	1.00		
Own/partner student loan	-0.08	-0.15	0.15	0.08	0.08	1.00	
No debt thought	-0.13	-0.29	0.19	0.06	0.17	0.07	1.00

Sample: HRS respondents to the 2018 Module age 51-61.

Table 3 also reports negative situations. Once again, the NFCS data confirm the HRS results: over one-third (36%) of older adults reported being over-indebted. Specifically, on a scale from 1 to 7, they answered 5, 6, or 7 to the question: "How strongly do you agree or disagree with the following statement: 'I have too much debt right now.'" Finally, 15% had been contacted by a debt-collection agency in the previous year, 20% had unpaid medical bills that were past due, and 9% had student loans for themselves or spouses and partners. Again, these percentages are consistent with the HRS results and confirm that older Americans are likely to carry debt into retirement.

The NFCS also asked respondents the interest compounding question cited above. Here we find that fewer than one-third (32%) of older adults could answer the question correctly, and 43% overestimated the amount of time it would take for debt at 20% to double (consistent with the percentage reported in the HRS, i.e., 45%). Accordingly, both datasets confirm that older people have limited knowledge about interest compounding, even though many hold debt close to retirement. When we look at the Big Five financial literacy questions, we find that older respondents are also uninformed about simple economic concepts such as the working of inflation, risk diversification, mortgages, and basic asset pricing. On average, older respondents were able to answer only 3.25 of the five financial literacy questions.

Additional tabulations of NFCS findings showed in panel B of Table 3 also provide additional insight into these older respondents' financial situations and well-being. Half (50%) of respondents on the verge of retirement reported that they were anxious about their personal finances, and 40% stated they were stressed about financial matters. More than one-fourth (27%) said they lacked things they wanted due to insufficient money, while almost a third (32%) indicated they were only "getting by" financially. Moreover, 40% were concerned about running out of money, 28% believed that finances controlled their lives, and over a quarter (29%) said they had no money left over at the end of the month. Finally, 8% reported that they were uncomfortable asking questions about financial products. Thus, as with the HRS results above, we again see signs of poor financial well-being among the older population.

An additional appeal of the NFCS survey is that it included the questions required to construct respondents' financial literacy index (lacking in the HRS module). Results (not detailed here) indicate that people scoring higher on this index were more likely to report good credit scores and planning for retirement. For instance, being able to answer one additional financial literacy question correctly was associated with a 3-6 percentage point higher probability of reporting these two positive financial perceptions and behaviors.

Interestingly, people who could answer the interest compounding question correctly were not systematically more likely to express positive views of their financial conditions, but they were more likely to say they planned for retirement. We conclude, therefore, that the interest compounding question is insufficient to capture financial knowledge affecting older persons' debt outcomes. Instead, a more comprehensive set of financial literacy questions is needed to explain debt at older ages.

Conclusions

This study on two new datasets on older Americans confirms that many older respondents continue to carry debt close to retirement, and they are not sanguine about it. The debt they hold is seen as excessive, creates problems and stress, and often involves being contacted by debt collectors. We also confirmed that having children, being nonwhite, having low income, and having low education are drivers of negative outcomes, as is being hit by negative income shocks. Financial literacy is associated with less financial stress, having better credit records, and being more likely to plan for retirement. Accordingly, it is clear that older people also require financial knowledge if they are to better manage their debt exposure.

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