

The Impact of Rising Household Debt Among Older Americans

By Zahra Ebrahimi, Ph.D., Employee Benefit Research Institute

AT A GLANCE

As older households transition into retirement, their labor income, as well as their ability to accumulate more income-producing assets, declines and they will need to primarily live off their retirement plans and Social Security income. Carrying debt through retirement affects retirees' financial security as they have more expenses to cover with limited resources. As such, having debt at older ages can affect the timing of retirement and Social Security claiming. This in particular is important as Baby Boomers continue to enter retirement in large numbers and, according to many studies, are known not to be well prepared financially for retirement.

To explore the phenomenon of debt in retirement, the Employee Benefit Research Institute (EBRI) uses the Health and Retirement Study (HRS) to examine the debt status of older Americans preretirement and postretirement between 1992 and 2016, biennially. Three groups are examined between 2008 and 2016: pre-retirees (ages 50–64), early retirees (ages 65–74), and late retirees (ages 75 and older). Key findings are:

- The three age groups show very different trends in terms of whether debt is present and the debt levels undertaken.
 - Among those ages 50–64, the average (and median) total debt sharply increased from \$80k in 1992 to \$120k in 2016 with a peak of \$140k in 2010.
 - Among those ages 65–74, both the share of households having debt and the amount of debt increased over the period. The percentage of those with debt increased from 47 percent to 57 percent between 1998 and 2016. Meanwhile, the average and median amounts of debt had an upward trend that peaked in 2010 and slightly decreased afterward.
 - Among those ages 75 and older, the percentage of those having debt as well as average and median debt stayed relatively the same during this period.
- Older households in all age groups have become more leveraged¹ between 1992 and 2016. For instance, the average total debt-to-total-net-wealth ratio of those ages 50–64 increased from 16 percent in 1992 to 27 percent in 2016.
- Married households had a higher probability than single households of having debt but were less leveraged. Further, single female households were more likely to have debt than single male households and had the highest median debt-to-net-wealth ratio at ages 54–62.
- Households with debt worked longer than those without debt, and highly leveraged households were more likely to work compared with those with lower debt-to-net-wealth ratios.
- Providing financial support to children and grandchildren increased the likelihood of having debt for parents at older ages.

Health and Retirement Study (HRS), public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI (1992–2016).

Zahra Ebrahimi is a Research Associate at the Employee Benefit Research Institute (EBRI). This *Issue Brief* was written with assistance from the Institute’s research and editorial staffs. Any views expressed in this report are those of the author and should not be ascribed to the officers, trustees, or other sponsors of EBRI, Employee Benefit Research Institute-Education and Research Fund (EBRI-ERF), or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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Introduction

As older households transition into retirement, their labor income, as well as their ability to accumulate more income-producing assets, declines and they will need to primarily live off their retirement plans and Social Security income. Carrying debt through retirement affects retirees' financial security as they have more expenses to cover with limited resources.² As such, having debt at older ages can affect the timing of retirement and Social Security claiming. This in particular is important as Baby Boomers continue to enter retirement in large numbers and, according to many studies (e.g., Streeter and Harrati 2018; VanDerhei 2015), are known not to be well prepared financially for retirement.

The Employee Benefit Research Institute (EBRI) has published several studies on the status and implications of the elderly's debt. For instance, a recent brief using the Federal Reserve's Survey of Consumer Finances (Copeland 2018) examined debt status and repayment ability of households with heads ages 55 and older. The findings of this research show an upward trend in the share of households in debt between 1992–2016. Besides, among families with heads 75 and older, the share of those with high debt-to-asset and debt-to-income ratios increased from 2007–2016.

Following this line of research, using data from the Health and Retirement Study (HRS) 2004–2016 and the RAND HRS Family Data 1992–2014, EBRI reports the status of debt among households headed by those 50 and older (hereinafter referred to as older households). The discussion is focused on the share of households in debt (total debt as well as types of debt), the level of households' indebtedness, and how leveraged households are over time and across different ages and demographic groups. All dollar amounts are converted to 2016 dollars using the Consumer Price Index (CPI). This report also analyzes potential correlations between households' indebtedness, labor force participation, and timing of Social Security claiming and explores how parents' financial support to their children or grandchildren impacts the likelihood of having debt among older households.

The variables used in this study are as follows:

Value of all mortgages/land contracts (primary and secondary residences): mortgages, land contracts, second mortgages, or any other loan that uses the property as collateral not including any home equity lines of credit.

Value of other home loans: sum of the reported or imputed value of all other home loans other than the first or second mortgages plus the balance on an equity line of credit.

Consumer debt (named "value of other debt" in RAND HRS): credit card balances, medical debt, life insurance policy loans, loans from relatives, and so forth.

Total debt: sum of value of all mortgages/land contracts, value of other home loans, and value of other debt.

Total net wealth: sum of primary residence, all other real estate, and net value of vehicles owned; individual retirement accounts (IRAs), stocks, and mutual funds; checking, savings, and money market accounts; certificates of deposit (CDs), government savings bonds, Treasury bills, and bonds and bond funds; and any other source of wealth minus total debt.

Non-housing assets: sum of gross value of all other real estate and net value of vehicles owned; individual retirement accounts (IRAs), stocks, and mutual funds; checking, savings, and money market accounts; certificates of deposit (CDs), government savings bonds, Treasury bills, and bonds and bond funds; and any other source of wealth.

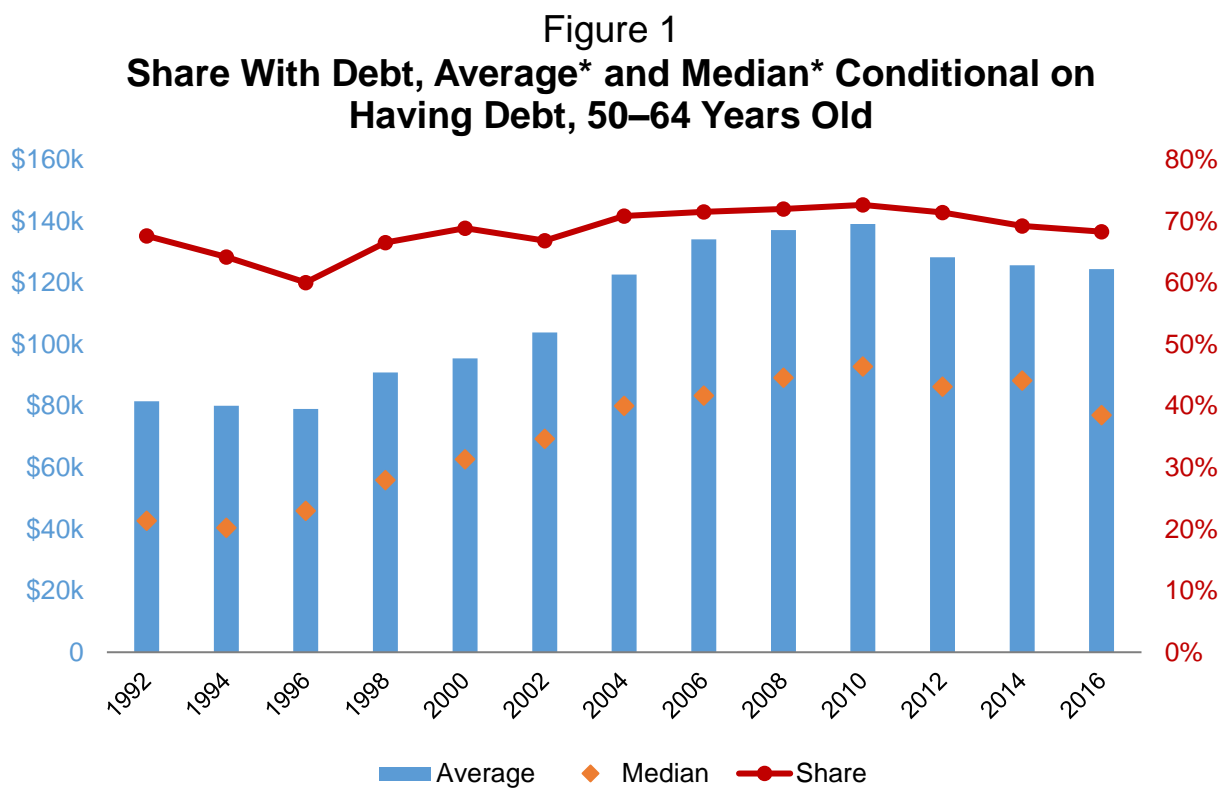
(Financial) transfer: The definition of transfers as defined in the survey instrument is as follows: "By financial help we mean giving money, helping pay bills, or covering specific types of costs such as those for medical care or insurance, schooling, down payment for a home, rent, etc. The financial help can be considered support, a gift or a loan."

Older Americans' Debt Over Time

We start by examining the share of households in debt and the average and median total debt (figures 1–3) over time by age group. The age groups of older households examined are 50–64 (pre-retirees), 65–74 (early retirees), and 75 or older (older retirees). The period examined is 1992–2016, biennially. Total debt is the total of mortgage loans, other home loans, and consumer debt as reported in HRS RAND.

Figure 1 shows that the share of households with debt in the 50–64 age group slightly increased starting in 1996 and leveled off between 2004 and 2016. However, the average (and median) total debt sharply increased from \$80k in 1992 to \$120k in 2016 with a peak of \$140k in 2010. In contrast, as shown in Figure 2, for those ages 65–74, both the share of households with debt and the median amount of debt increased over the period. The percentage of those with debt increased from 47 percent to 57 percent between 1998 and 2016. Meanwhile, the average and median amounts of debt had an upward trend that peaked in 2010 and slightly decreased afterward. At the same time, the share of those 75 and older with debt who were observed between 2008 and 2016 and their levels of average and median debt stayed relatively the same during this period (Figure 3).

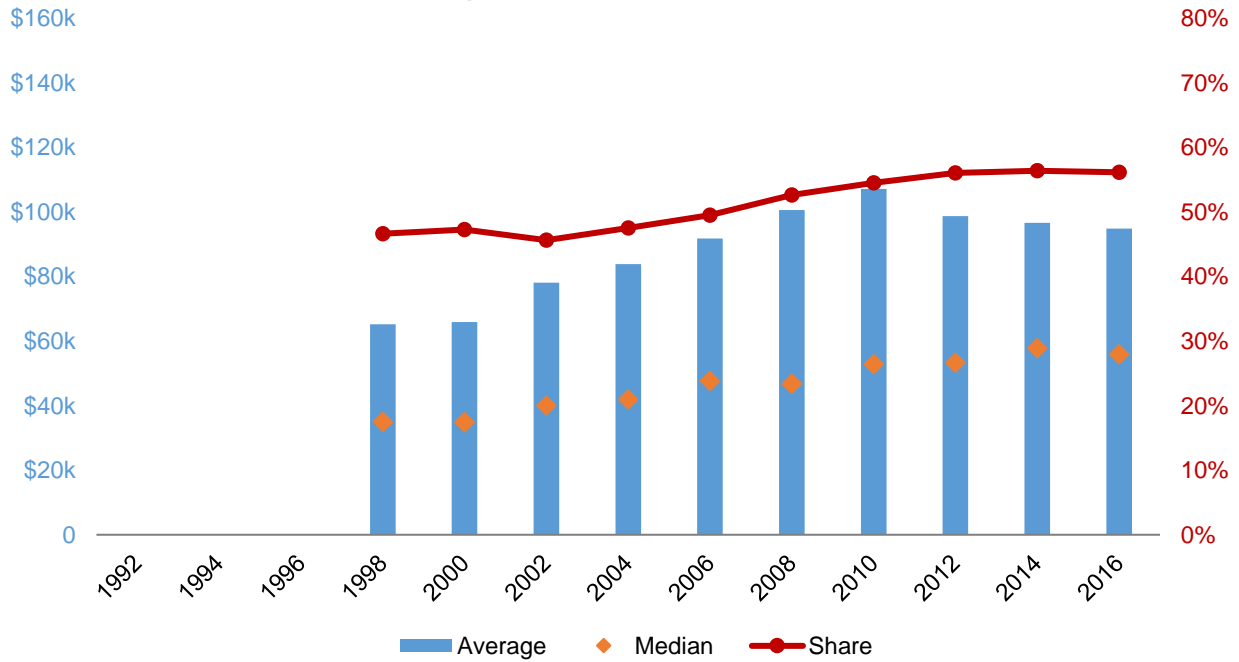
In other words, the share of older households ages 65–74 with debt increased by about 10 percentage points, and the median value of total debt increased by 80 and 60 percent for the 50–64 and 65–74 age groups, respectively.



Note: * In 2016 dollars; HRS household weight applied for analysis.

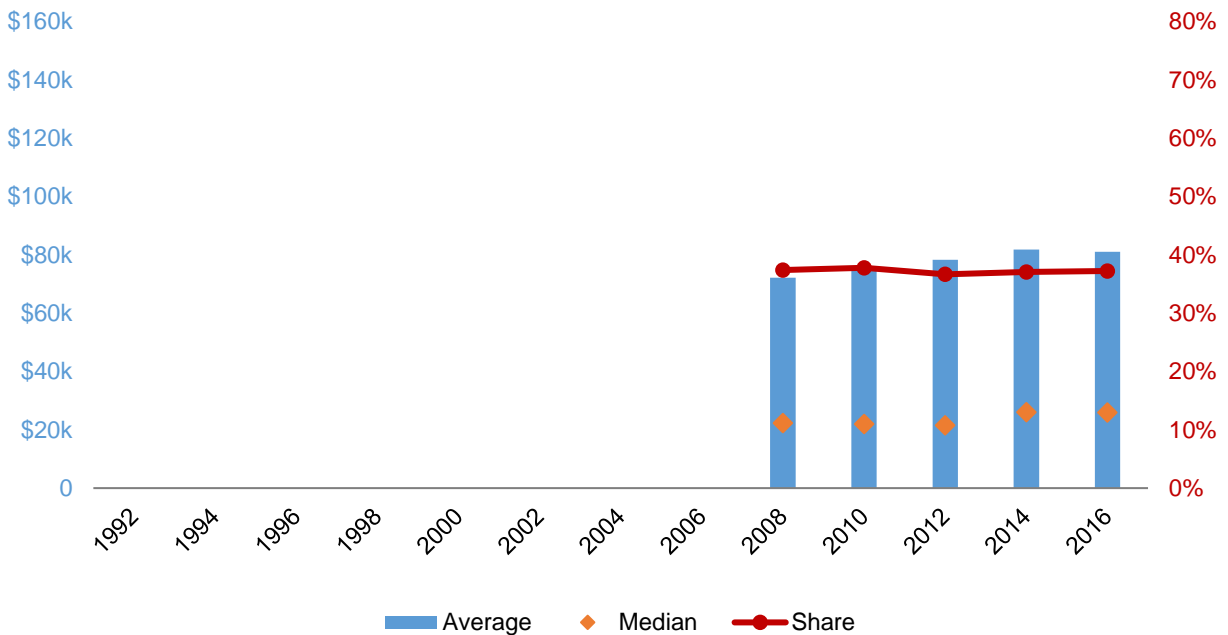
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 2
Share With Debt, Average* and Median* Conditional on Having Debt, 65–74 Years Old



Note: * In 2016 dollars; HRS household weight applied for analysis.
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

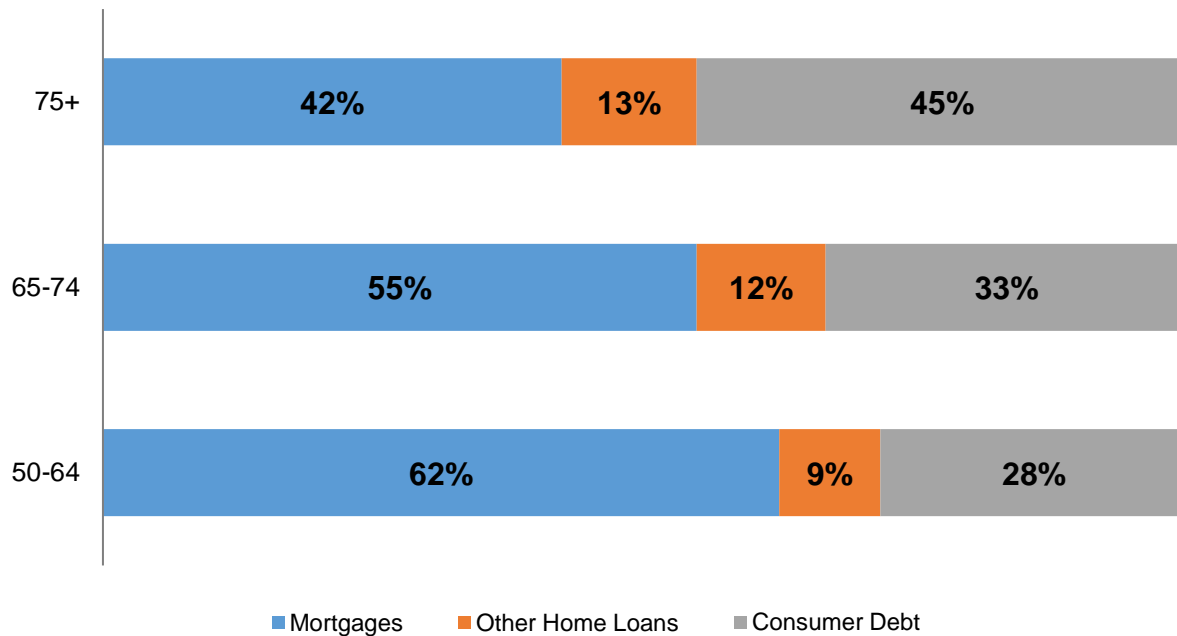
Figure 3
Share With Debt, Average* and Median* Conditional on Having Debt, 75+ Years Old



Note: * In 2016 dollars; HRS household weight applied for analysis.
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 4 compares the average type of debt among age groups using all survey years. Mortgage debt was the greatest source of debt for those younger than 75 (62 percent for the 50–64 age group and 55 percent for the 65–74 age group). In contrast, for the oldest cohort — those ages 75 or older — it was consumer debt (which includes credit card balances and medical debt, among other things) that was the primary source of debt.

Figure 4
Average Type of Debt, by Age



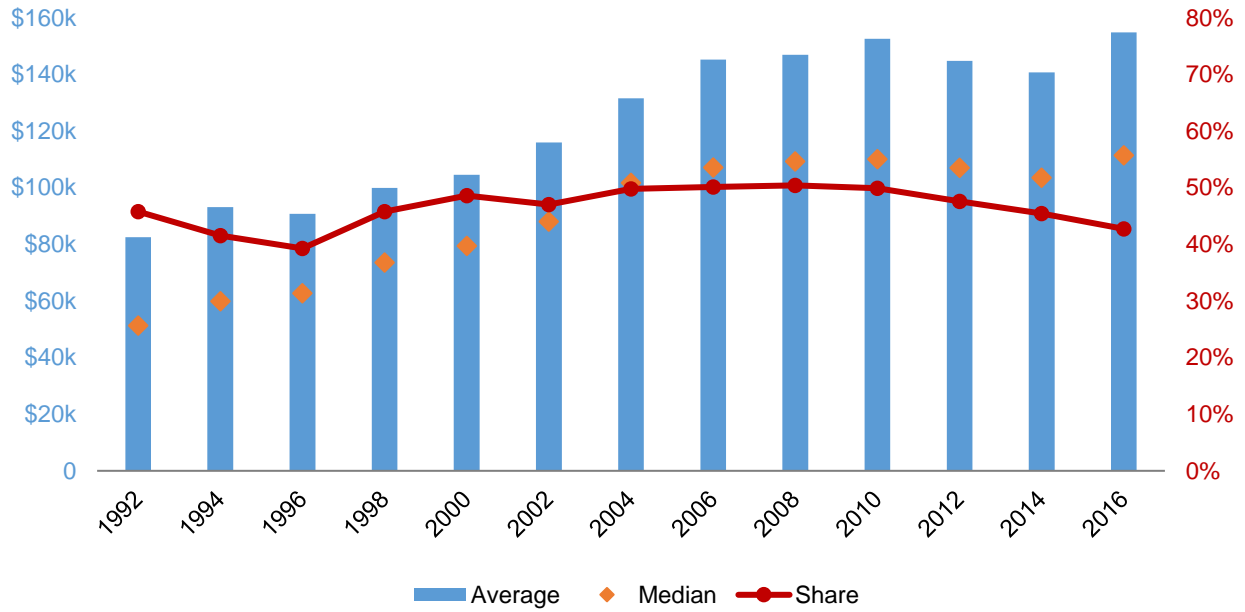
Note: Based on debt data 1992–2016.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Focusing on mortgage debt, we find that — similar to total debt — the share of households with this type of debt and the average and median amounts of debt are lower for older age groups compared with the younger age cohorts (figures 5–7). The average amount of mortgage debt of those 50–64 almost doubled between 1992 and 2016. Looking at those ages 65–74 and 75 or older, the average and median amounts of mortgage debt increased for both age groups. However, while the share of households with mortgage debt slightly increased for early retirees, it stayed relatively constant for older retirees.

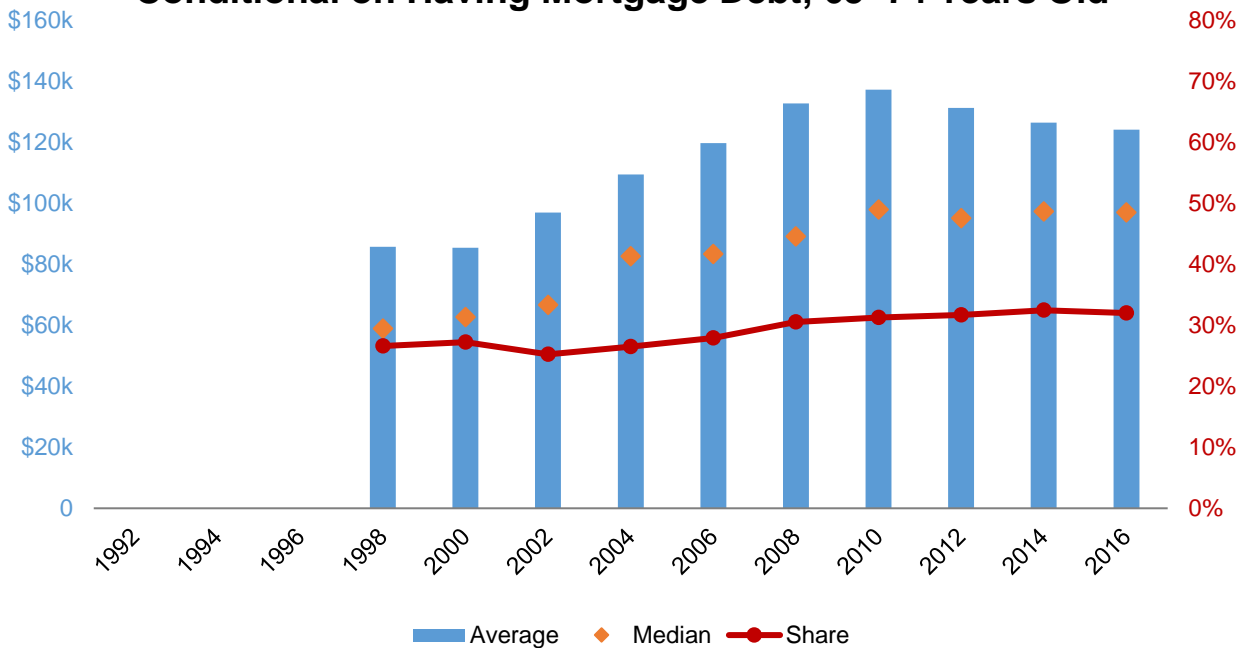
Further, Figure 8 shows that older households’ leverage increased across all age groups between 1992 and 2016. For example, the average debt-to-total-net-wealth ratio of those ages 50–64 increased from 16 percent in 1992 to 27 percent in 2016. In other words, not only are older Americans increasingly likely to have debt and not only has their level of indebtedness grown rapidly — it has also grown relative to their wealth.

Figure 5
**Share With Mortgage Debt, Average* and Median*
 Conditional on Having Mortgage Debt, 50–64 Years Old**



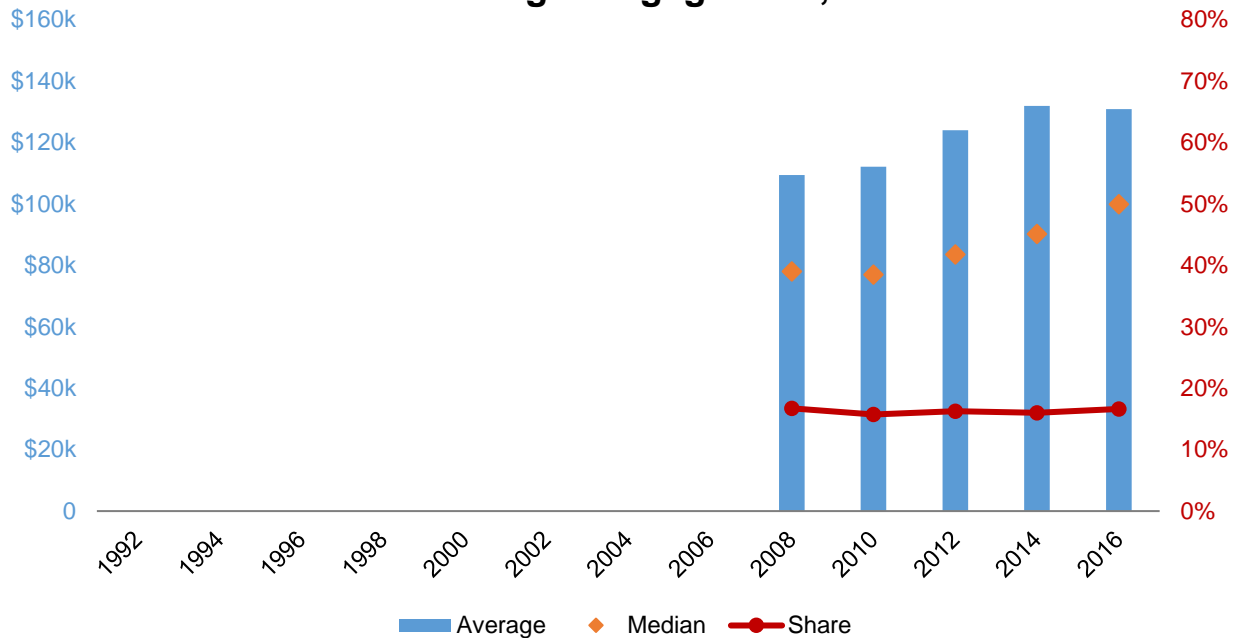
Note: * In 2016 dollars; HRS household weight applied for analysis.
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 6
**Share With Mortgage Debt, Average* and Median*
 Conditional on Having Mortgage Debt, 65–74 Years Old**



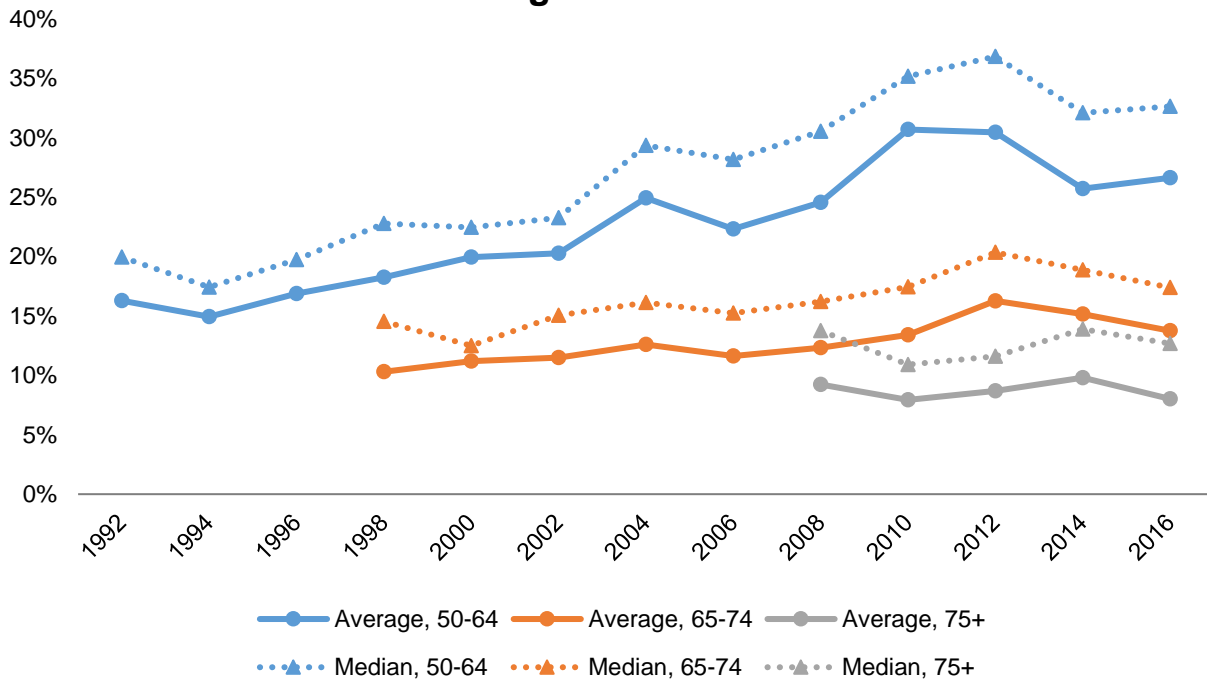
Note: * In 2016 dollars; HRS household weight applied for analysis.
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 7
**Share With Mortgage Debt, Average* and Median*
 Conditional on Having Mortgage Debt, 75+ Years Old**



Note: * In 2016 dollars; HRS household weight applied for analysis.
 Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 8
**Average and Median Debt-to-Total-Net-Wealth Ratio, by
 Age and Year**



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

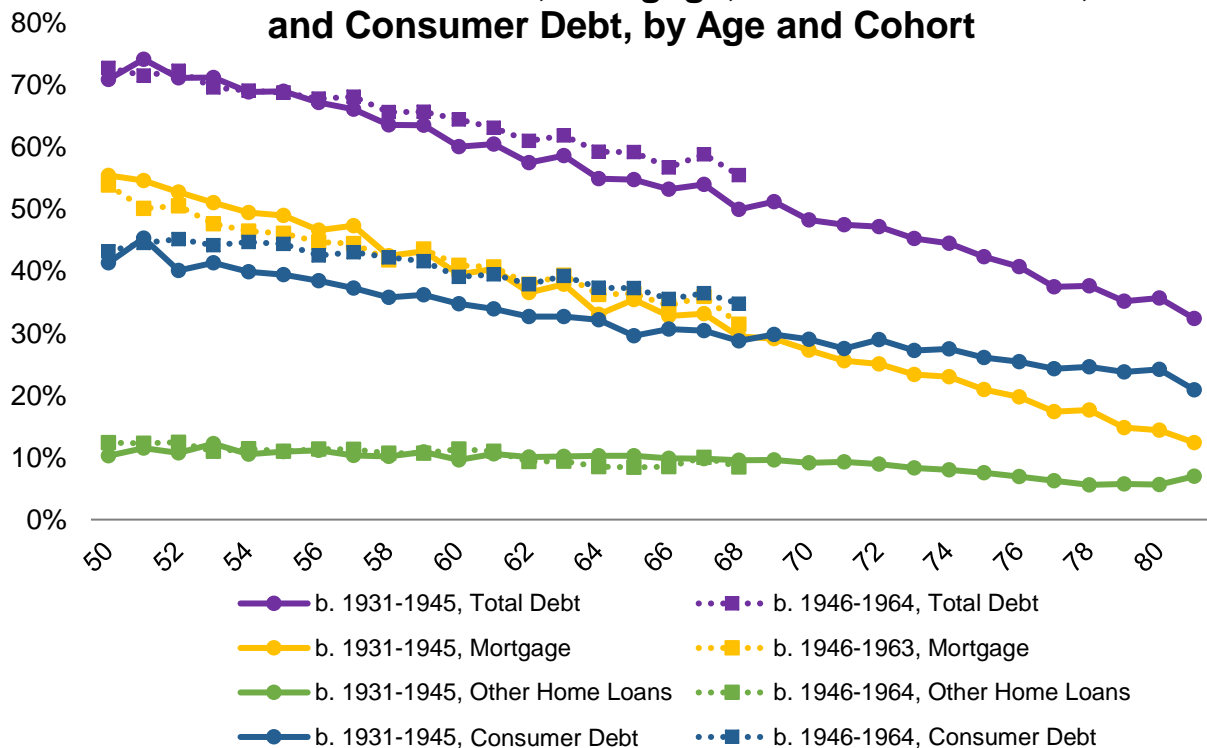
Households' Debt; Cohort Analysis

Many studies, including EBRI's extensive analysis based on its Retirement Security Projection Model® (VanDerhei 2015; VanDerhei and Copeland 2010), suggest that a large share of Baby Boomers have insufficient or nonexistent savings to cover their expenses during retirement. This is especially concerning considering that Baby Boomers are the second largest living cohort (next to Millennials), and they are either well into their retirement or on the cusp of retirement with much higher life expectancy compared with previous cohorts. According to a report by the Stanford Center on Longevity using HRS (Streeter et al. 2018), in 2014, mid-Baby-Boomers had less home equity, financial wealth, and total wealth than retirees who were 10 years older. In addition, compared with prior generations, they had less money in retirement funds, and those Baby Boomers 55–60 had less savings compared with previous cohorts at the same age. The report also concludes that the 2008 housing market crash worsened the situation for the Baby Boomers who were already ill-prepared for retirement and highly leveraged, making their post-recession recovery much slower. Continuous monitoring of the current status of debt for this cohort helps to assess how financially vulnerable this retiring generation is and what policymakers, employers, providers, and Boomers themselves need to do in response.

Therefore, in this section, we compare Baby Boomers with a subgroup (b. 1931–1945) of the Silent Generation³ observed between 1992 and 2016. Figure 9 compares the shares with total debt, mortgage debt, other home loans, and consumer debt as each cohort gets older.

In the early part of their preretirement years (ages 50–57), the shares of Baby Boomers and members of the Silent Generation having debt were comparable at around 70 percent (Figure 9). After that, however, Baby Boomers were more likely to have debt than their Silent Generation counterparts at a given age. The driver here, however, was not mortgage debt or other home loans but consumer debt, which includes credit card balances and medical debt among other items. The share of Baby Boomers with consumer debt was up to 7 percentage points higher than those of the Silent Generation at ages 52–68.

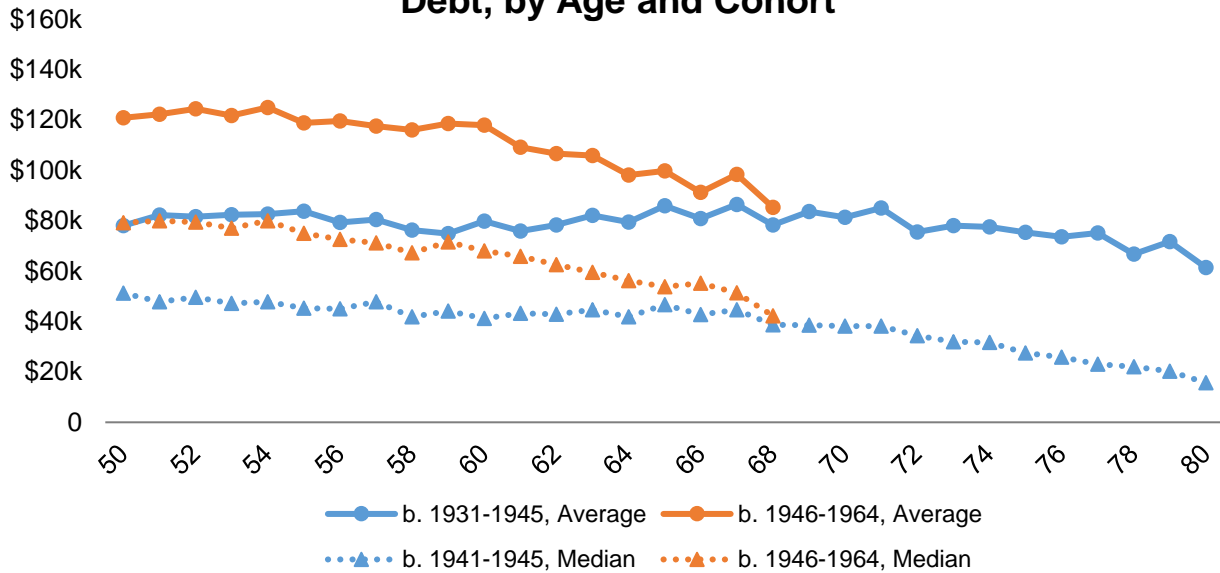
Figure 9
Share With Total Debt, Mortgage, Other Home Loans,
and Consumer Debt, by Age and Cohort



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 10 further reveals that the average and median levels of households' debt were much higher for Boomers than for those of the Silent Generation at every age. Figures 11–13 break out the average and median levels of various components of household debt. They show that, while mortgage debt may not drive the proportion of older households with debt, it does drive the level of indebtedness of Boomers.

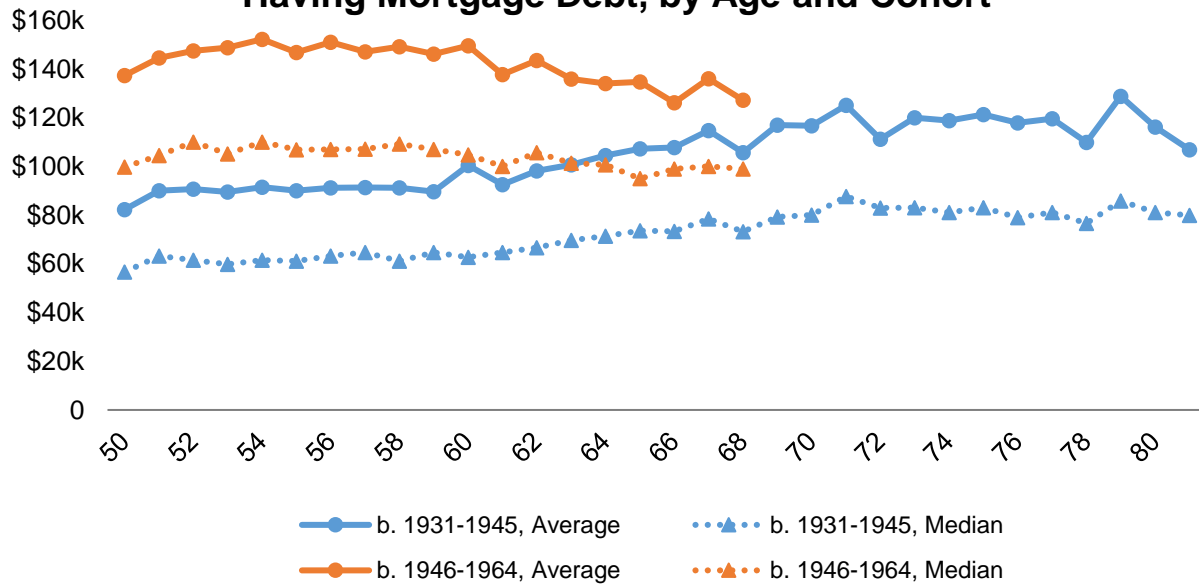
Figure 10
Average* and Median* Debt Conditional on Having Debt, by Age and Cohort



Note: * In 2016 dollars.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

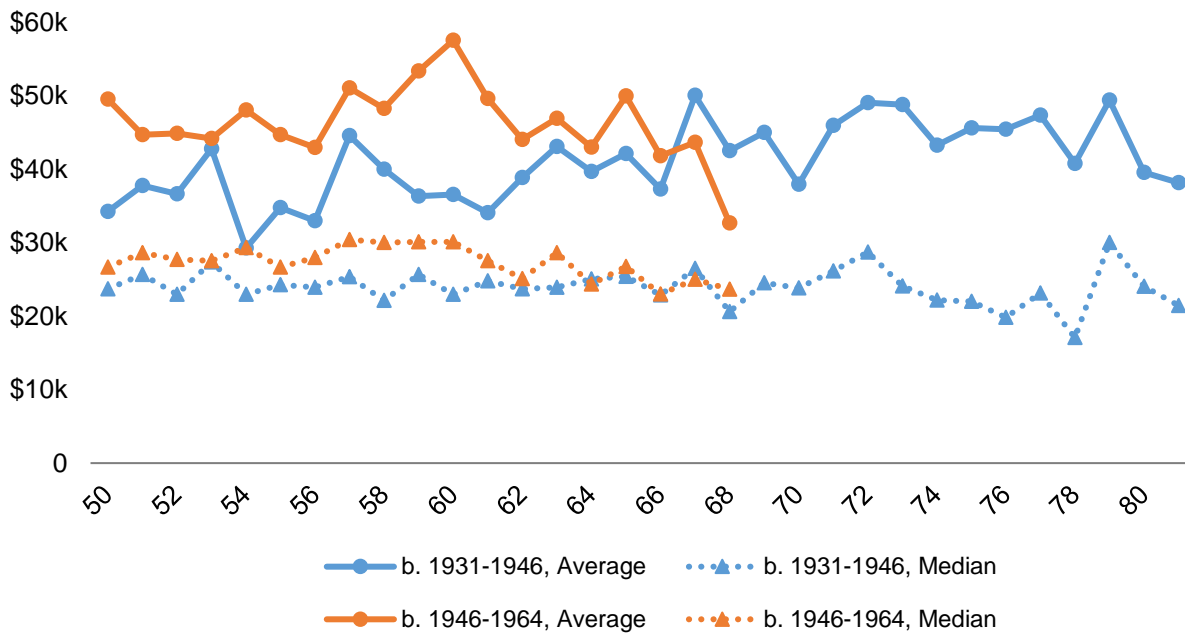
Figure 11
Average* and Median* Mortgage Debt Conditional on Having Mortgage Debt, by Age and Cohort



Note: * In 2016 dollars.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

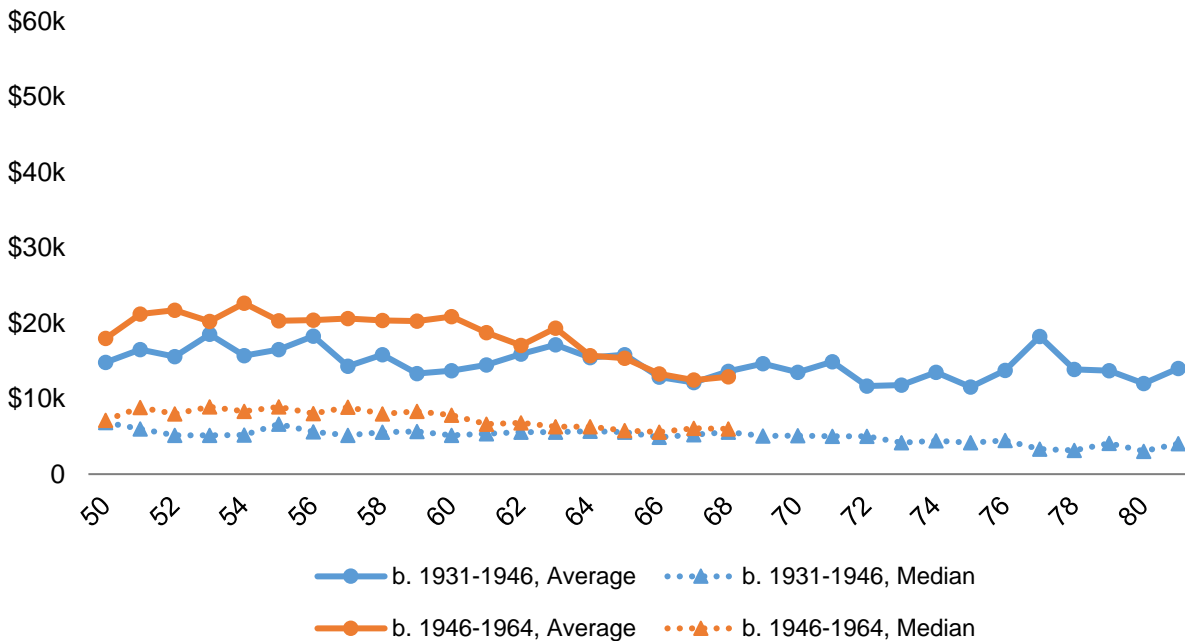
Figure 12
Average* and Median* Other Home Loans Conditional on Having Debt, by Age and Cohort



Note: * In 2016 dollars

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

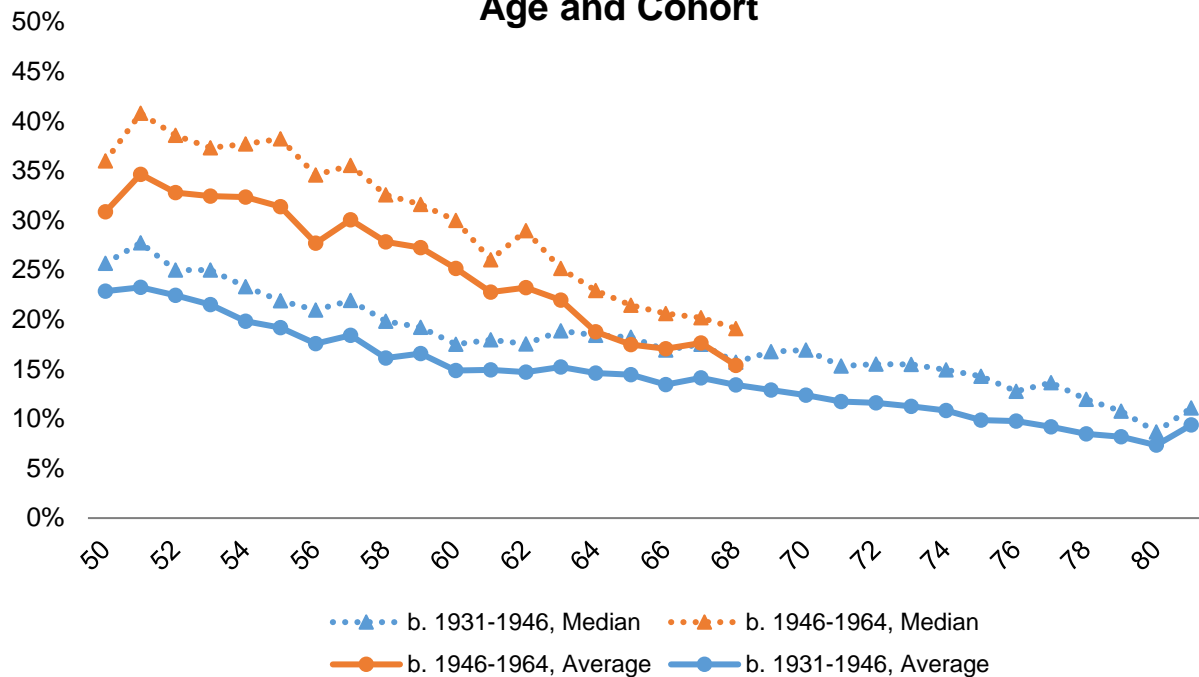
Figure 13
Average* and Median* Consumer Debt Conditional on Having Consumer Debt, by Age and Cohort



Note: * In 2016 dollars.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 14
Average and Median Debt-to-Total-Net-Wealth Ratio, by Age and Cohort



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 14 shows that Boomers ages 50–68 are more leveraged at every age leading up to and in early retirement compared with the older cohort. While the debt-to-net-wealth ratio declined as households grew older, the average and median debt-to-net-wealth ratios for Boomers were up to 12 and 16 percentage points higher than their Silent Generation predecessors, respectively.

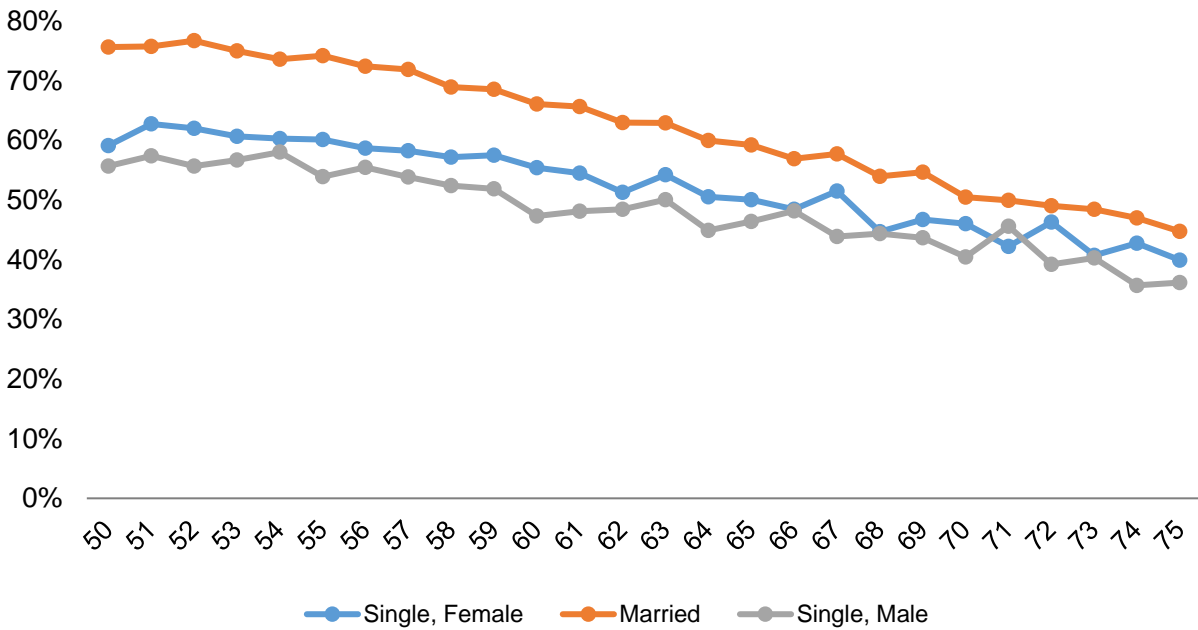
Debt and Demographic Factors

In this section, we explore the marital status, gender, and race disparity in retirees’ and near-retirees’ debt. Figure 15 reveals that married households were more likely to have debt than single households. This is most likely associated with larger expenses and financial support of children or grandchildren. The gap is more pronounced between ages 50 and 70 and begins to diminish after that. The likelihood of having mortgage debt (Figure 16) shows a similar pattern. Further, single female households were generally somewhat more likely to have total debt compared with single male households.

The probability of single women carrying mortgage debt was generally relatively similar to that of single men. However, Figure 17 shows that single women were more likely to have consumer debt than single men at all observed ages between 50 and 75. They were also more likely to do so than married couples.

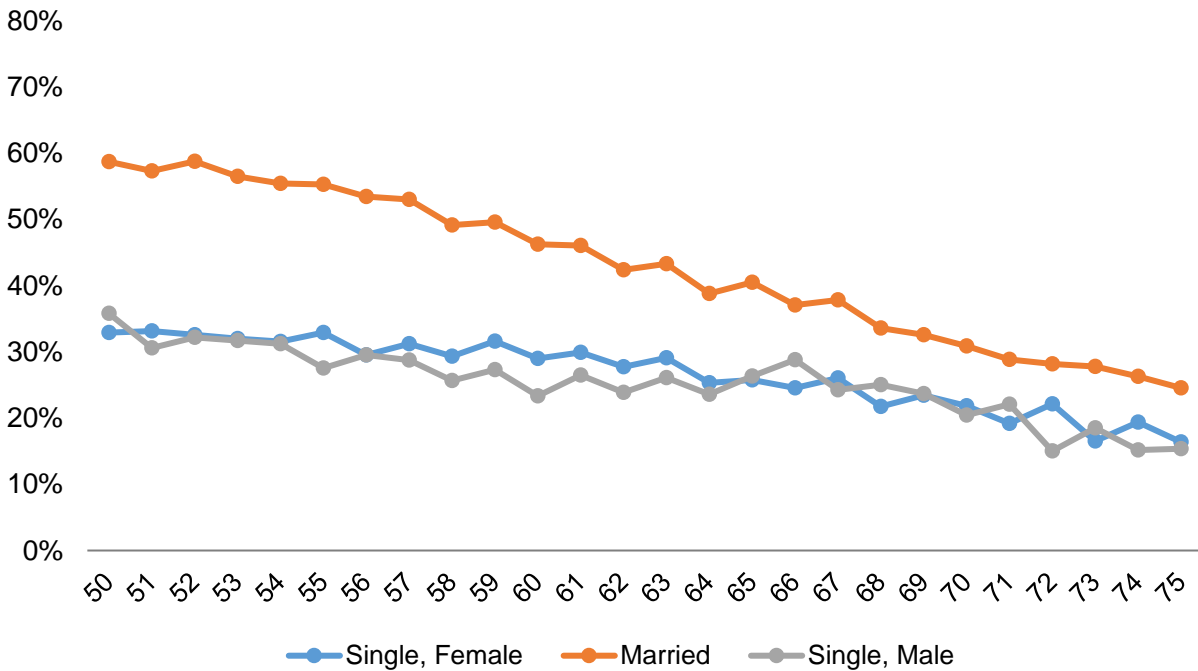
Despite being more likely to have debt and having greater mortgage debt than other cohorts, married older households generally had lower median debt-to-net-wealth ratios (Figure 18) until late in life. Single females had a particularly high median debt-to-net-wealth ratio at ages 54–62, although it was more similar to single men of other cohorts.

Figure 15
Share With Debt, by Age, Marital Status, and Gender



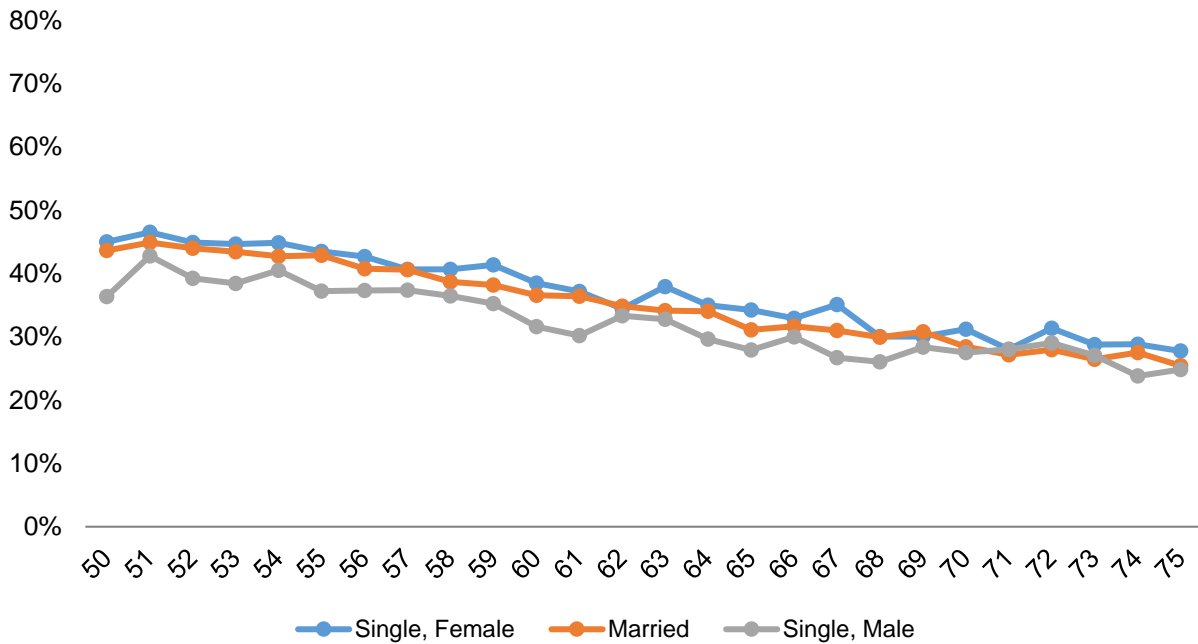
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 16
Share With Mortgage Debt, by Age, Marital Status, and Gender



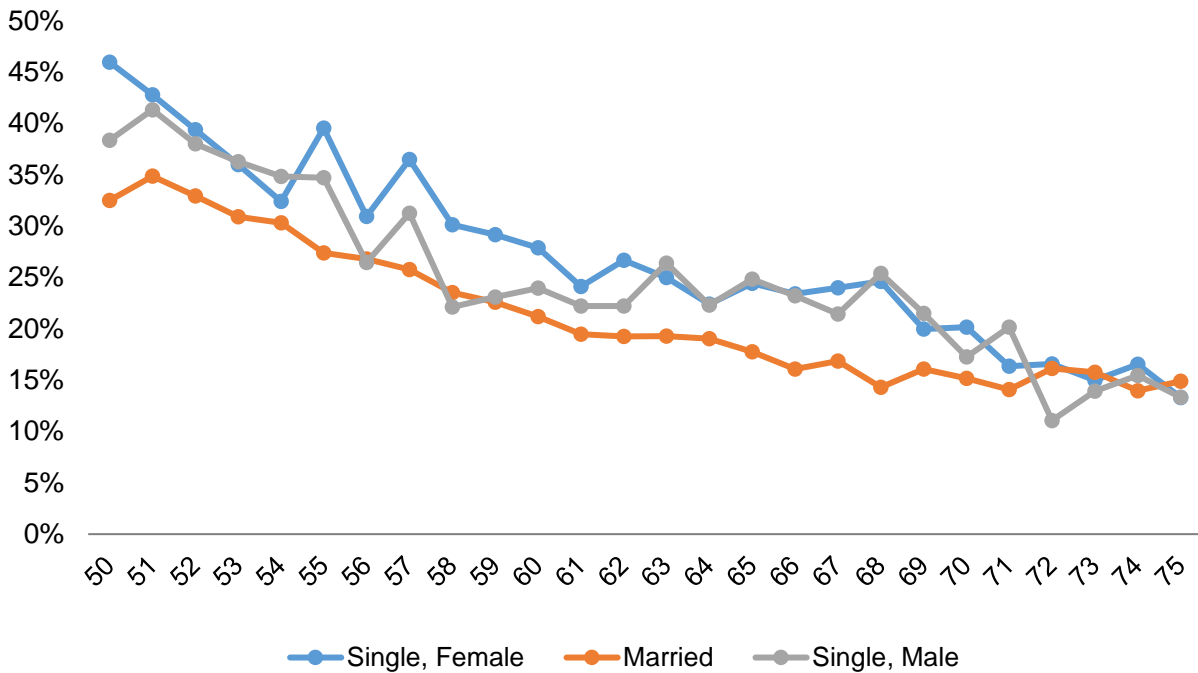
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 17
Share With Consumer Debt, by Age, Marital Status, and Gender



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

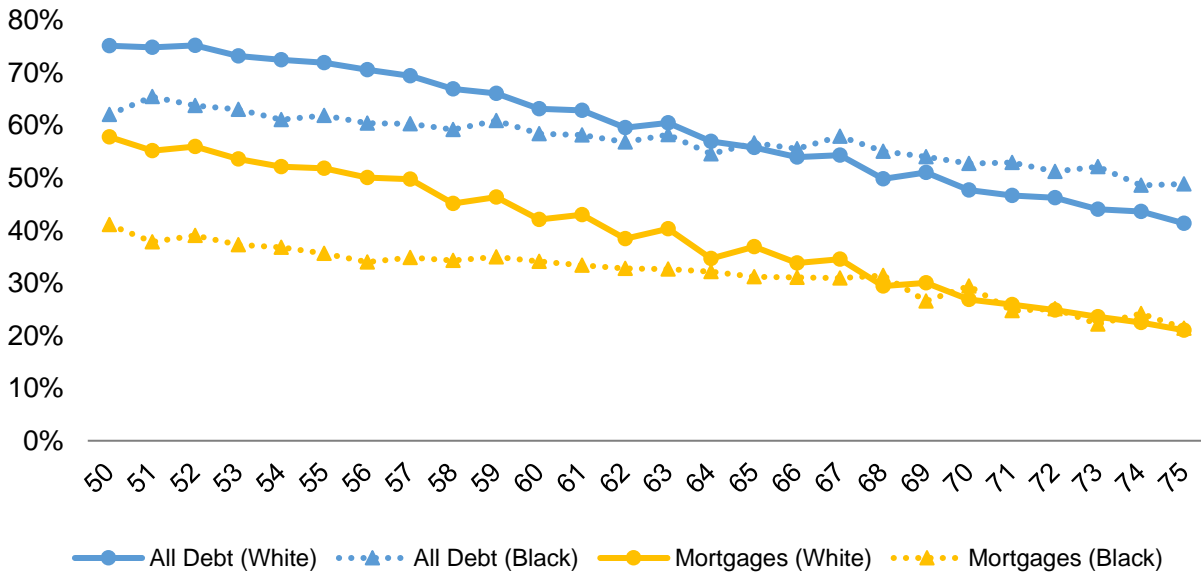
Figure 18
Median Debt-to-Total-Net-Wealth Ratio, by Age, Marital Status, and Gender



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

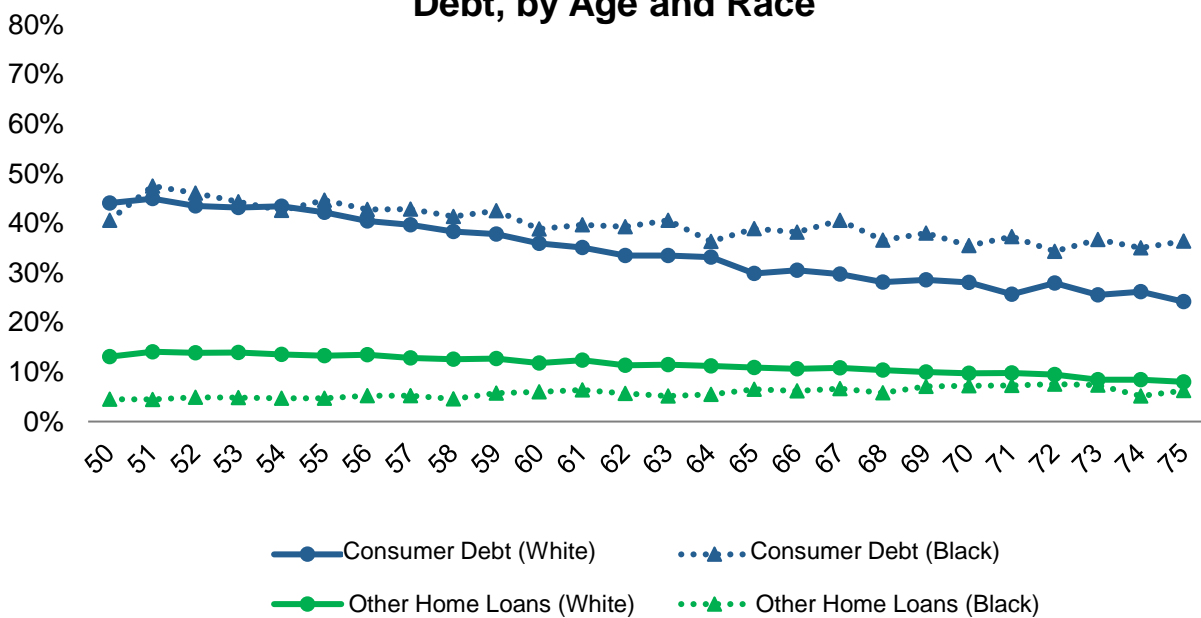
Figures 19–21 compare households’ debt patterns by race. As shown in Figure 19, prior to retirement and in early retirement, the share of households with any type of debt, as well as those with mortgage debt, was greater for white households compared with black households (ages 50–68). However, as shown in Figure 20, while the consumer debt category decreased for older white households over time, it remained consistent for older black households. Figure 21 shows that while both average and median debt-to-net-wealth ratios declined by age for both groups, black households were more leveraged at every age before and during retirement compared with white households.

Figure 19
Share With Debt and Mortgage Debt, by Age and Race



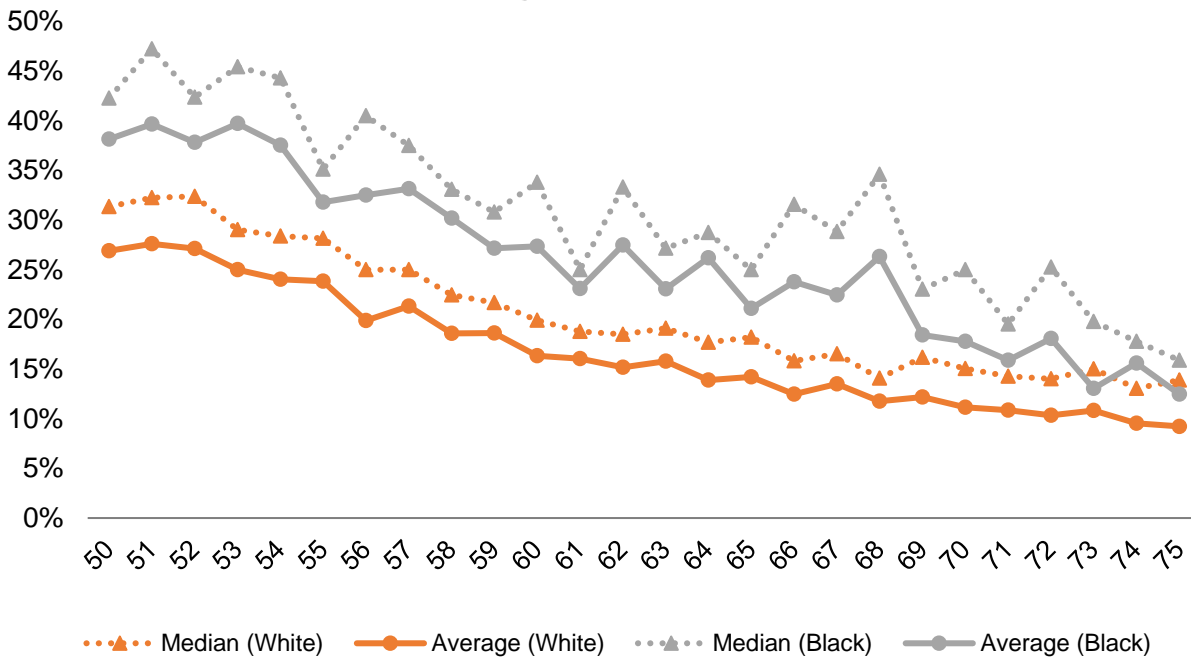
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 20
Share With Consumer Debt and Other Home Loans Debt, by Age and Race



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 21
Average and Median Debt-to-Total-Net-Wealth Ratio, by Age and Race



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Debt and Retirement

Labor force participation of older households has grown substantially in recent decades and is expected to continue. EBRI’s study (Copeland 2018) on labor force participation using the Census Bureau’s Current Population Survey (CPS) shows that Americans 65 and older had the largest growth in the labor force participation rate since 1991. According to the Bureau of Labor Statistics’ projections (Toossi and Torpey 2017), compared with the younger age groups, labor force participation of the oldest segment (65 and older) of the population is expected to increase the fastest over the years 2014–2024, and this growth is mostly due to the aging of Baby Boomers. This shift in the likelihood of staying in the labor force for Baby Boomers has been associated with several factors in the literature, including better health and longer life expectancy, higher levels of education, a cohort effect, and changes to Social Security policy that have increased full retirement age for younger cohorts, in addition to changes in employer-sponsored pension plans from defined benefit to defined contribution plans.

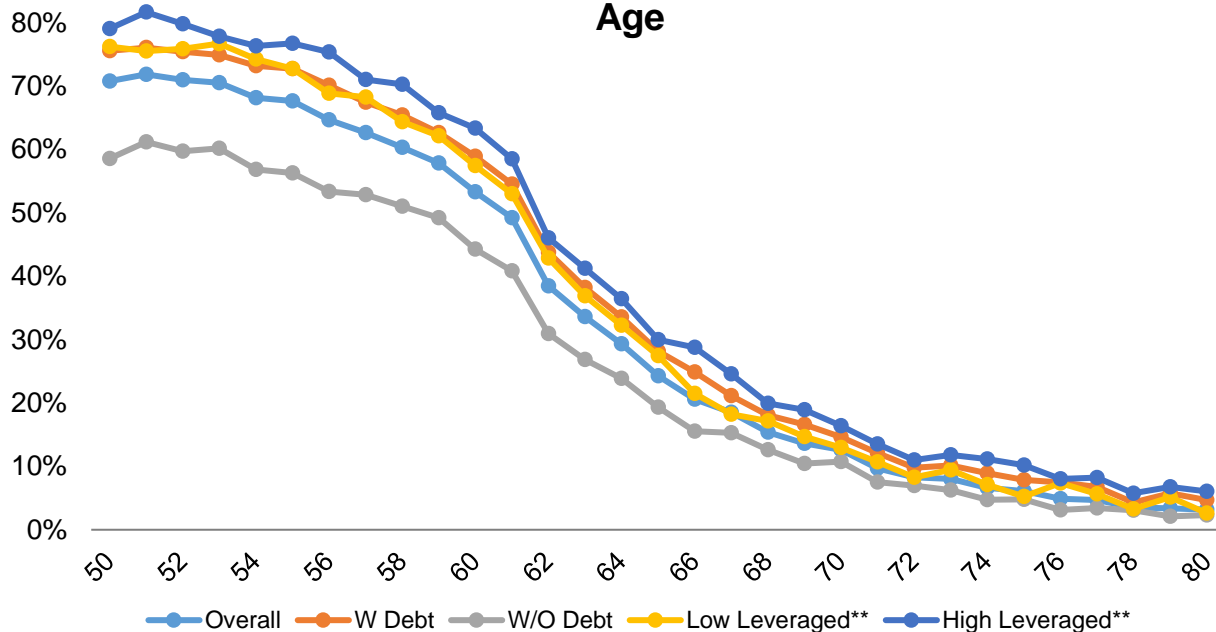
The role of households’ debt status when it comes to retirement age has received less attention. Indebted older households have incentives to delay retirement or change the timing of their Social Security claiming to avoid the inability to repay their debt. In this section, we use the HRS dataset to study whether households’ debt is correlated with their full-time and part-time employment as well as the claiming decisions of older households.

Figures 22 and 23 show full-time and part-time and only full-time employment rates at ages 50–80 and how they are correlated with households’ indebtedness, respectively. Both figures reveal that those households with debt worked longer relative to those without debt. A lesser effect is found when considering the debt-to-net-wealth ratios of those with debt: Households with higher than median debt-to-net-wealth ratios were somewhat more likely to work relative to those with lower than median debt-to-net-wealth ratios. In other words, the more leveraged households are, the higher their probability is of being in the labor force at every age leading into retirement and vice versa.

Figure 24 compares the age at which individuals first claim Social Security benefits by age and cohort (since Baby Boomers are subject to an older normal retirement age). As shown, those with debt were less likely to receive their Social Security benefit before full retirement age in both cohorts. This could be because households have no or not

enough financial resources to pay their debt; therefore, they forgo retirement and the receipt of their benefit at earlier ages to work and pay off their loans or other types of debt. The impact of debt is more pronounced for the Silent Generation compared with Baby Boomers.

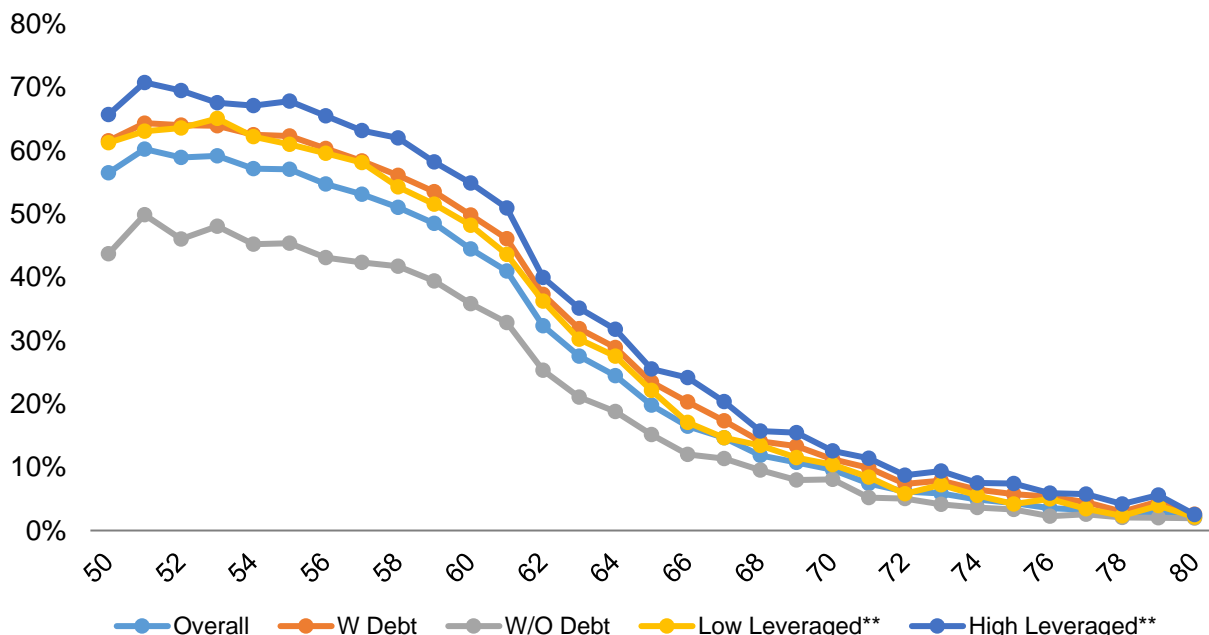
Figure 22
Full- and Part-Time Employment, by Debt Status and Age



Note: **Low and high leveraged are defined as having less and more than the median debt-to-net-wealth ratio, respectively.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

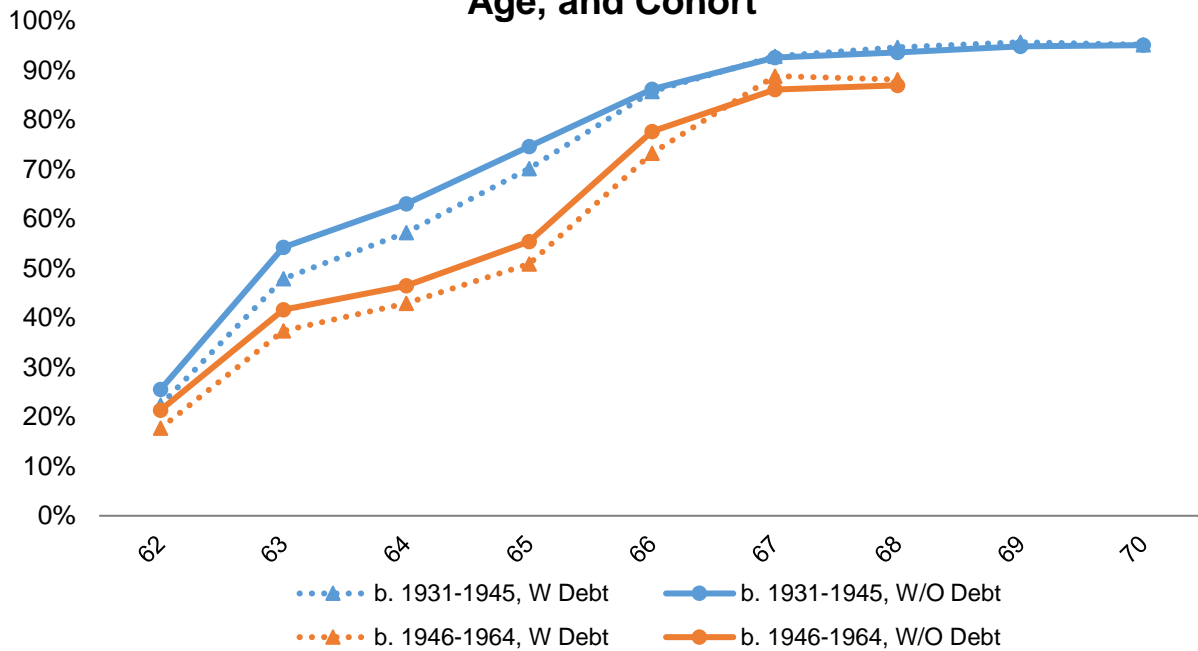
Figure 23
Full-Time Employment, by Debt Status and Age



Note: **Low and high leveraged are defined as having less and more than the median debt-to-net-wealth ratio, respectively.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 24
Share Receiving Social Security Benefits, by Debt, Age, and Cohort



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Debt and Intra-Family Cash Transfers

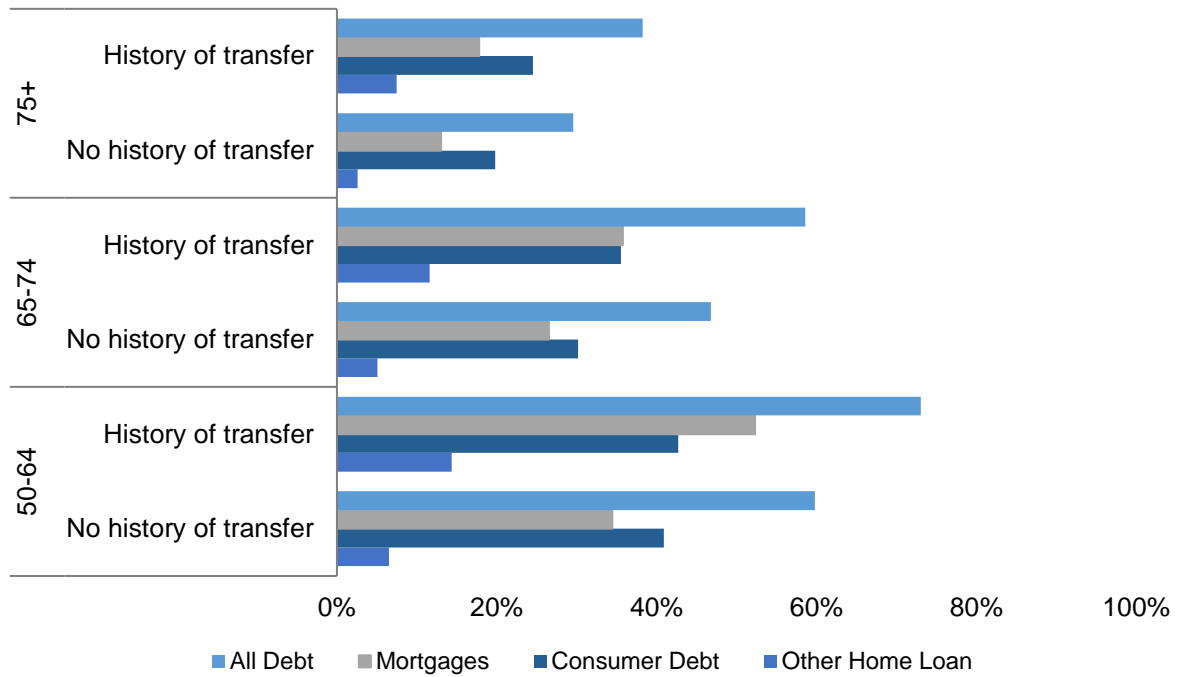
Some households might be willing to borrow money or assume debt to help their children or grandchildren with expenses. To explore this further, in this section we add RAND HRS Family Data to our dataset in order to analyze the effect of such transfers on older households' debt. First, we look at households' debt status in 2014 (the last year available in the RAND HRS Family Data). Then we check whether the households have reported any history of transfers between 1992 and 2014.

Figure 25 shows the share of households with any type of debt, as well as the debt components in 2014, by age group and by history of cash transfers to their children (or grandchildren). As shown, across all age groups, those with at least one transfer were more likely to have debt compared with those who made no transfers to their children or grandchildren. For instance, 60 percent of those 50–64 years old with no history of transfers had debt; in contrast, 73 percent of those with at least one transfer had debt. The trend for individual types of debt followed a similar pattern.

Figure 26 reports the median ratio of total transfers made (from the time each household entered the survey to 2014) to the initial size of their non-housing assets. Among those 65 or older, this ratio was significantly larger when the household had debt compared with those without debt. For example, conditional on having a transfer history, half of those 75 and older with debt transferred as much as 44 percent of the value of their initial non-housing assets to their children or grandchildren. However, for such households that didn't have debt, no more than 27 percent of assets were transferred. The pattern of these ratios across age could mean that larger transfer amounts (relative to households' assets) increase the likelihood of carrying debt at older ages.

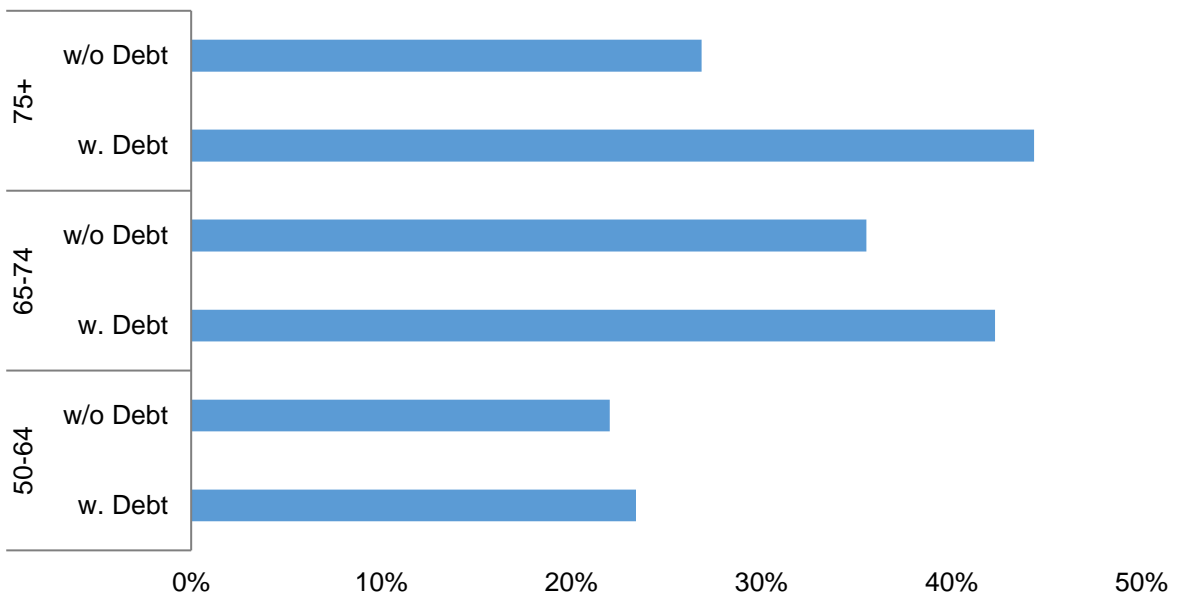
In the second part of the analysis, we choose a subgroup of households at age 55 who are present in the sample for 10 survey waves (20 years) and analyze their debt status between ages 55 and 75 by their transfer history (Figure 27). Those with transfers are divided into low and high transfer groups based on having lower and higher than the median ratio of total transfers (made between ages 55 and 75) to non-housing assets at age 55, respectively. The likelihood of having debt declined by age regardless of transfer history. However, those that had made no transfers were the least likely to have debt, followed by those with a low transfer. Further, those with high transfers appear to have had the highest probability and most persistent trend relative to those with lower levels of transfers or no transfers at all for those ages between 55 and 75.

Figure 25
Share With Debt in 2014, by History of Financial Transfer to Children and Grandchildren



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

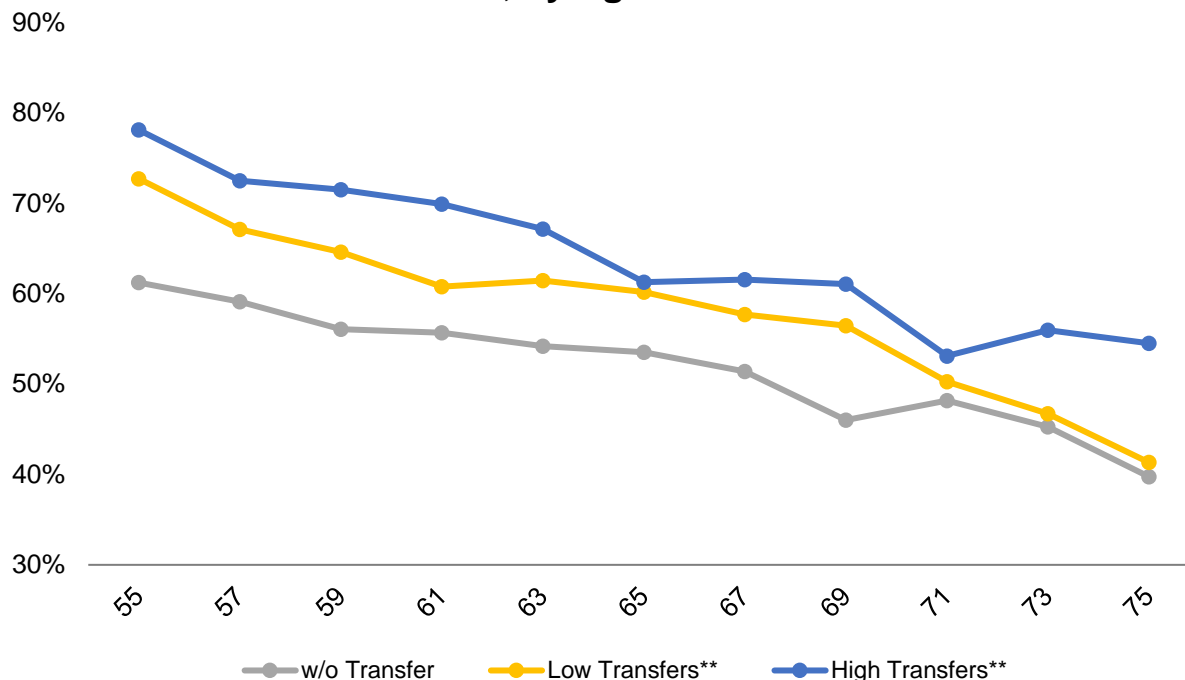
Figure 26
Median Ratio of Total Transfers Made From 1992–2014 to Initial Non-Housing Assets*, by Age and Debt Status in 2014



* Conditional on having a transfer history.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 27
Share With Debt, by Age and Transfer Status



Note:** Low and high transfers are defined as having less and more than the median ratio of total transfer (made between ages 55 and 75) to non-housing assets at age 55, respectively.

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Conclusion

This study documents that both the likelihood and level of debt of older Americans have increased over the past 25 years. As shown, older Americans have become increasingly more leveraged, with single women and black households being in the worst situation. This is clearly an indication of increased financial vulnerability, especially for those with limited financial resources.

Carrying high levels of debt at older ages has implications for retirees' financial security and pre-retirees' decision to retire and claim Social Security. Our findings show that staying in the labor market longer and delaying claiming Social Security benefits could be ways that older Americans choose to deal with increasing levels of debt. Also, our analysis of intra-family cash transfers shows older parents who have been observed to financially support their children are more likely to have debt.

Along with previous studies on retirement readiness of Baby Boomers, these findings point to the importance of financial education and support when it comes to maintaining reasonable debt levels going into retirement and throughout retirement.

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Endnotes

¹ Leverage has been used interchangeably with debt-to-asset ratio.

² Income replacement ratio (which generally is used to help determine how much retirement savings are needed) usually assumes a fraction (70–80 percent) of preretirement income is needed to cover the expenses in retirement due to lower taxes and expenses as well as paid-off mortgages and lower levels of other debt.

³ Born 1925–1945.