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Notes

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Debt of the Elderly and Near Elderly, 1992–2001

by Craig Copeland, EBRI

The most widely used statistics for predicting retirement income security are those concerned with retirees' accumulated financial assets, particularly within tax-qualified retirement plans (e.g., 401(k) plans and individual retirement accounts (IRAs)), and coverage by supplemental health insurance to Medicare provided through a former employer. However, any debt that an elderly family has going into retirement will offset its asset accumulations, resulting in a lower level of retirement income security.

The Employee Benefit Research Institute in collaboration with the Milbank Memorial Fund developed the Retirement Security Projection Model (RSPM)® to assess the ability of future retirees to cover the same level of basic expenses throughout their retirement, given their present savings and projected savings through tax-qualified retirement plans, participation in defined benefit pension plans, and Social Security benefits.[1] The model does not look at assets (or the lack of assets) saved outside of tax-qualified saving vehicles. Yet, retirement security is affected not only by assets saved outside these plans but also by the debt a family has accumulated. This article examines the level of debt held by American families with an elderly or near elderly (age 55 or older) family head. These results provide additional information to supplement the results from RSPM® on retirement income security by showing the obligations faced by families going into retirement before they even start paying the basic expenses of life.

The Federal Reserve's Survey of Consumer Finances (SCF) is used to determine the level of debt in this article.[2] The debt is examined in two ways: 1) debt payments relative to income and 2) debt relative to assets.[3] Each measure provides some insight into the ability of these families to cover this debt before or during retirement. For example, for younger families with long working careers ahead of them, higher debt-to-income ratios may be acceptable, since their incomes are likely to rise and their debt (housing or child debt) is likely to fall in the future. For older families, a higher debt-to-income ratio may be more serious, as they could be forced to reduce their accumulated assets to service the debt when their earning years are ending. However, if these high debt-to-income older families have low debt-to-asset ratios, the effect of paying off these debts may not be as financially harmful as it would be for those with both high debt-to-income and debt-to-asset ratios.

Percentage With Debt

The percentage of American families with a head age 55 or older who have some level of debt was 56.0 percent in 2001 (Figure 1). This is basically unchanged from the 1992 level of 53.8 percent. Furthermore, the percentage of families with debt decreases significantly with the family head's age, i.e., in 2001, 76.2 percent of families with heads ages 55–64 held debt, compared with 29.0 percent of those ages 75 or older. The presence of debt also increases with the family's income. In 2001, 38.1 percent of families in the lowest income quartile were in debt, compared with 72.4 percent of those in the top income quartiles (Figure 2). These results have been consistent across years both at the overall level and between age and income groups of the families.

Debt Levels

While the percentage of families with a head age 55 or older with any debt was essentially unchanged from 1992 to 2001, the average total debt level increased from $27,517 in 1992 to $38,771 in 2001 and the median increased from $13,611 to $23,000 (Figure 3). This was a real increase in the average and median debt level of 40.9 percent and 69.0 percent, respectively, from 1992.[4] However, the debt levels were significantly different across various family characteristics. Families with younger heads, higher income, more educated heads, and higher net worth had significantly higher average and median debt levels. Furthermore, families with working family heads and married families also had significantly higher average levels of debt. The one characteristic of the family heads that was not consistent for the average level of debt during the 1992–2001 period was race. In most years, families headed by a white, nonHispanic had a higher average and median debt level than those families without one. However, in 2001, the median debt level of families headed by a white, nonHispanic was lower than the level of families who did not have a white, nonHispanic head.

While substantial increases in debt levels from 1992 to 2001 can be construed to be a negative result for these families, debt levels do not tell the full story of their financial well-being. If income and assets grew at a pace faster than these debt levels, these families would actually be in a better financial position despite the increased debt levels.[5] The next two sections of this article examine these debt levels relative to income and assets. For income, the amount of debt service is examined by using required debt payments relative to family income. In contrast, for assets, outstanding debt is measured relative to total assets.

Debt Payments

The first measure of the near elderly's and elderly's indebtedness is the percentage of family income that debt payments represent. From 1992 to 2001, debt payments were approximately 9 percent of family income, ranging from a low of 8.5 percent in 1995 to a high of 10.0 percent in 1998 (Figure 4). This debt payment percentage decreased significantly with the age of the family head, going from 10.5 percent for families with heads ages 55–64 in 2001 to 3.6 percent for those ages 75 or older. Across the three lowest income quartiles of these families, the percentage of income that debt represented was consistent and was essentially the same from 1992 to 2001 (Figure 5). The families in the highest income quartile consistently had a lower percentage of debt payments than those in the lower three quartiles.

While the overall *ratios* of debt payments to family income were similar from 1992 to 2001, the *composition* of this debt between housing and nonhousing shifted. Housing debt payments grew in relative magnitude versus nonhousing debt payments after 1992, increasing from 56.5 percent of debt payments in 1992 to 62.5 percent in 2001. For families with a head age 65–74, a noticeable jump in the percentage of income that housing debt payments represent occurred in 2001 (Figure 6).[6]

Not only has housing become a larger share of family debt payments, there also has been an increase in the percentage of heavily indebted families, with debt payments exceeding 40 percent of income. This is particularly clear for families in the two oldest groups and somewhat apparent for the families in the middle two income quartiles (Figures 7 and 8). Consequently, while overall debt *levels* were relatively constant from 1992 to 2001, the *type* of debt (housing versus nonhousing) shifted to housing for families with younger heads, and the percentage who face substantial debt payments relative to *family income* (larger than 40 percent) increased for the families with older heads.

Debt as a Percentage of Assets

Debt as a percentage of *total assets*[7] for these families (with 55 or older family heads) was virtually unchanged at approximately 7.0 percent from 1992 to 1998, but decreased in 2001 to less than 6.0 percent. Almost all of this decrease appears to be a result of a lower percentage of nonhousing debt relative to assets (Figure 9). Nonhousing debt from 1992 to 1998 was in the 3 percent range of assets before falling to nearly 2 percent of assets in 2001, while housing debt remained around 3.5 percent of assets from 1992 to 2001.

As with the debt levels, the percentage of family income that debt represents varies significantly across many characteristics of the families' heads (Figure 10). This percentage decreased significantly as both the family head's age and the family's net worth increased. For age of the family head in 2001, the debt-to-asset ratio decreased from 8.2 percent for those ages 55–64 to 1.9 percent for those age 75 or older. The lowest net worth families stand out as having by far the highest debt-to-asset ratio, at 45.3 percent in 2001. This has been virtually constant since 1995, when it increased from the 1992 level of 32.2 percent. Two other groups of families have high debt-to-asset levels relative to the rest of the families (but not anywhere near the lowest net worth families)—the second net worth quartile of families and families that do not have a white, nonHispanic head.

Despite having an overall debt-to-asset ratio that is comparable to those of other income groups, families in the lowest income group had a significantly higher median debt-to-asset ratio. This result did not appear until 1998 and persisted in 2001. Thus, the families in this lower income group with debt had a lesser ability to cover their debt by selling their assets.

Conclusion

American families with heads age 55 or older had approximately the same level of debt payments relative to income and of debt to assets in 2001 as they did in 1992. In fact, relative to *assets*, the level of debt decreased somewhat. However, some troubling issues arose over this period: One of the most prominent findings was an increase in the percentage of the oldest families with the greatest debt burden—debt payments in excess of 40 percent of their income. The increase in the median debt-to-asset ratio for those families having debt and in the lowest income quartile was also significant. Another important finding is that a larger percentage of debt among these older families was related to housing.

This may not be surprising, for several reasons: In many parts of the nation (especially urban and suburban), housing prices in recent years have posted sharp increases; low interest rates have sparked a flood of home mortgage refinancing in recent years; and home equity loans make it easy to wrap otherwise nondeductible consumer and nonhousing debt into a deductible home mortgage loan.

This changing nature and level of family debt has obvious and serious implications for the future retirement security of many Americans. The major implication is more families having at risk what for many families is their most important asset—their home. Consequently, the actions that families take in regard to debt that is tied to their homes is likely to be an important factor in their ability to avoid a major lifestyle change in living arrangements for the remainder of their retirement.

As far as retirement preparedness is concerned, these results on the whole are positive in that most older families did not appear to be overburdened by debt in 2001. Furthermore, the finding that the cohort that was age 55–64 in 1992 was able to decrease the percentage of their debt payments relative to income and debt relative to assets as they moved into the 65–74 age group is a good sign that families are able to lower debt even during the ages when most are retired. Some of this is certainly a result of paying off mortgages: The oldest families had a smaller relative percentage of debt related to housing in recent years. However, not all of the reduced debt is related to housing, as families in the middle age group shed a relatively higher amount of nonhousing debt.

Despite these positive developments, there still remains the 5 percent to 10 percent of families in the near elderly or elderly category significantly burdened by debt (debt payments larger than 40 percent of income), a category that has grown significantly recently. Thus, not only have some families not saved enough, others are overextended going into retirement because of debt, making a comfortable retirement unlikely.

Endnotes

[1] See Jack VanDerhei and Craig Copeland, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief*, no. 263 (Employee Benefit Research Institute, November 2003).

[2] See Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence From the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin* (January 2003) www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf (last reviewed February 2004) for more information on the Survey of Consumer Finances.

[3] AARP researchers used debt payments in an extensive study of those age 50 or older using the SCF through 1998. See John Gist and Carlos Figueiredo, "Deeper in Debt: Trends Among Midlife and Older Americans," *AARP Public Policy Institute Data Digest*, April 2002 research.aarp.org/econ/dd70_debt.pdf (last reviewed February 2004)

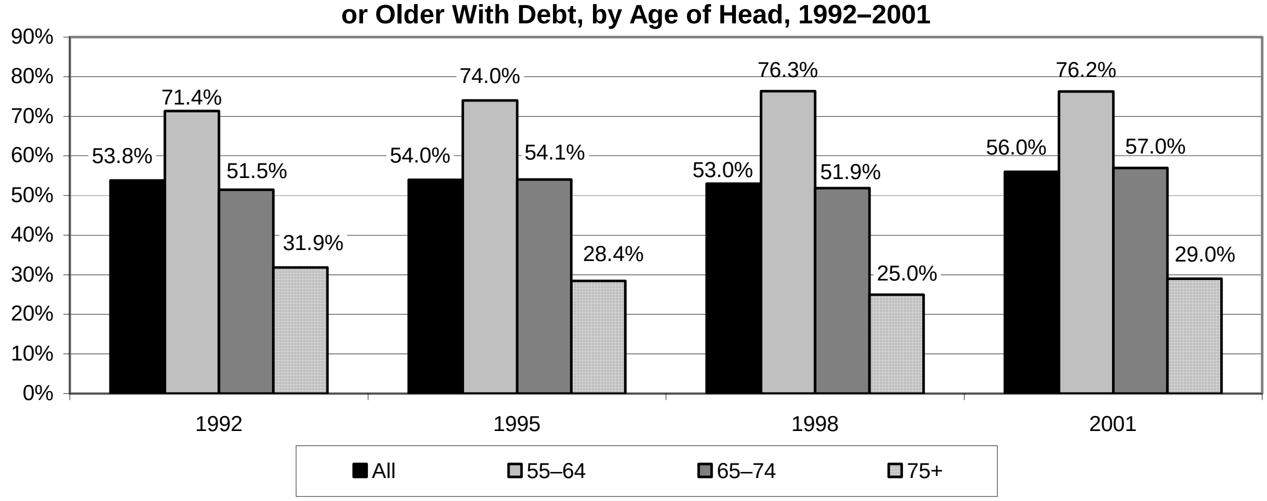
[3] All dollar amounts in this report are in 2001 dollars.

[5] Just because the families may be in a better financial position does not mean that they are in an "ideal" financial position.

[6] This trend toward more housing debt has likely continued with increased refinancing of mortgages and increasing housing prices subsequent to 2001.

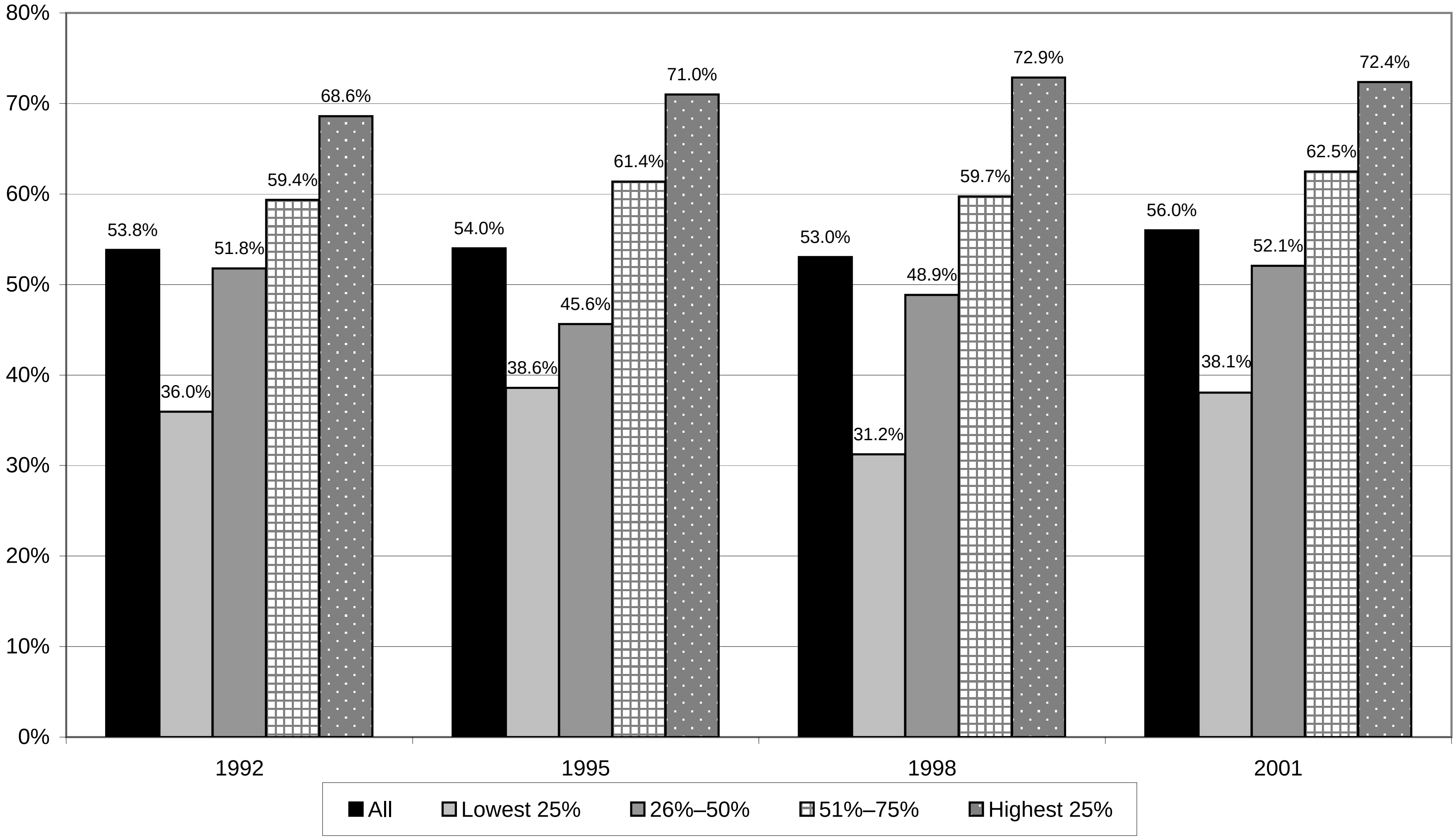
[7] Assets include all financial and nonfinancial household assets, including primary residence. They also include tax-favored individual accounts (i.e., individual retirement accounts and 401(k) plans), but not benefits from defined benefit pension plans or Social Security.

Figure 1
Percentage of American Families With Head Age 55 or Older With Debt, by Age of Head, 1992–2001



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 2
Percentage of American Families With Head Age 55 or Older With Debt, by Income Quartile, 1992–2001



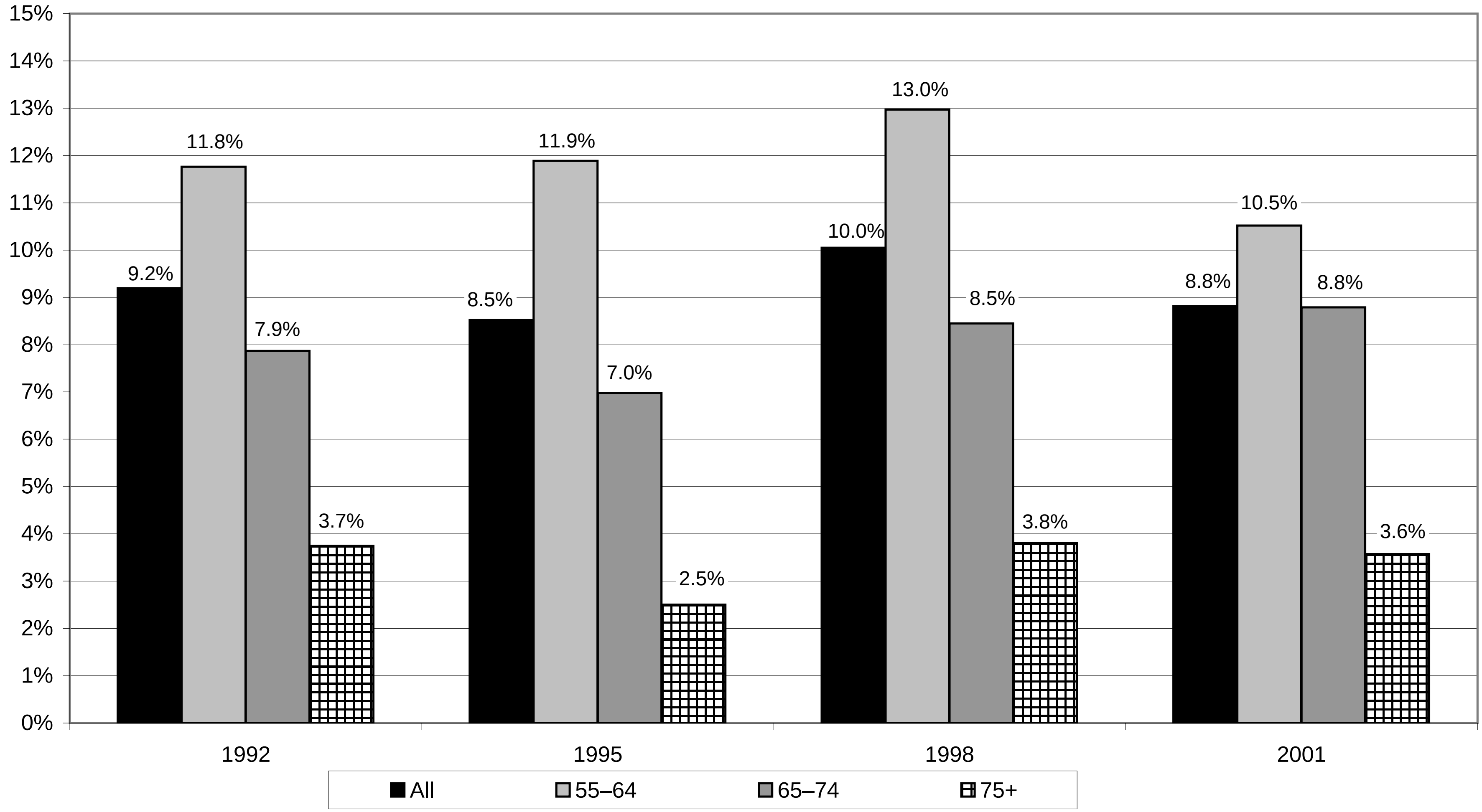
Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 3
Average Total Debt and Median Total Debt of Those With Debt For Families With Head Age 55 or Older, by Various Characteristics, 1992–2001

	1992		1995		1998		2001	
Category	Average Total Debt	Median With Debt	Average Total Debt	Median With Debt	Average Total Debt	Median With Debt	Average Total Debt	Median With Debt
All	$27,517	$13,611	$29,133	$12,714	$37,777	$24,187	$38,771	$23,000
Age of Family Head								
55–64	47,829	24,748	53,315	24,330	67,451	38,206	65,163	35,000
65–74	20,926	6,187	23,500	8,784	30,440	13,062	34,914	13,100
75 or older	7,294	3,960	5,238	2,196	8,505	8,795	8,965	5,000
Race of Family Head								
White, nonHispanic	27,582	14,849	30,847	14,448	38,856	25,471	39,149	21,800
Other	27,227	7,363	20,617	10,171	31,828	16,871	36,793	25,000
Family Income (2001$)								
Less than $10,000	4,057	1,386	3,739	1,849	4,241	3,919	3,464	3,200
$10,000–$24,999	7,332	4,083	10,222	6,415	12,459	7,620	11,309	7,200
$25,000–$49,999	20,627	15,839	22,552	15,488	26,878	27,975	21,772	14,870
$50,000–$99,999	33,881	34,524	38,296	21,960	49,816	43,540	47,086	39,000
$100,000 or more	177,583	96,517	166,380	92,348	183,040	125,178	163,126	125,000
Family Status								
Married	41,318	20,566	43,316	20,885	54,284	33,090	52,889	28,000
Single male	25,094	12,622	28,804	5,791	41,792	33,744	33,594	26,000
Single female	9,424	4,220	9,012	5,432	13,852	9,470	15,402	9,000
Education of Family Head								
Below HS diploma	10,622	5,135	11,748	8,784	9,758	8,817	11,245	8,620
HS diploma	17,349	9,219	23,310	12,587	21,152	20,682	19,490	16,010
Some college	29,938	19,093	32,236	11,558	41,341	33,090	35,695	21,000
College degree	63,465	37,122	61,739	28,895	82,119	45,978	83,847	60,000
Net Worth Percentile[a]								
Lowest 25%	5,502	2,908	8,693	4,912	12,500	6,966	14,298	6,480
25%–49%	11,055	7,932	17,937	12,598	26,692	22,423	18,343	14,900
50%–74%	18,799	18,771	17,082	14,794	21,064	27,213	31,481	34,600
75%–90%	31,718	33,967	28,051	20,804	35,219	40,275	43,815	33,000
Top 10%	139,110	50,238	139,908	106,334	174,153	91,434	162,045	124,000
Working Status of Family head								
Works for someone else	39,840	22,100	41,264	16,528	56,118	35,921	53,956	32,340
Self-employed	119,460	49,620	125,085	48,544	116,035	34,832	115,576	61,000
Retired	12,632	7,424	12,903	7,050	17,299	10,994	16,172	10,000
Other nonwork	8,943	1,856	17,195	4,623	25,215	16,328	17,014	5,000

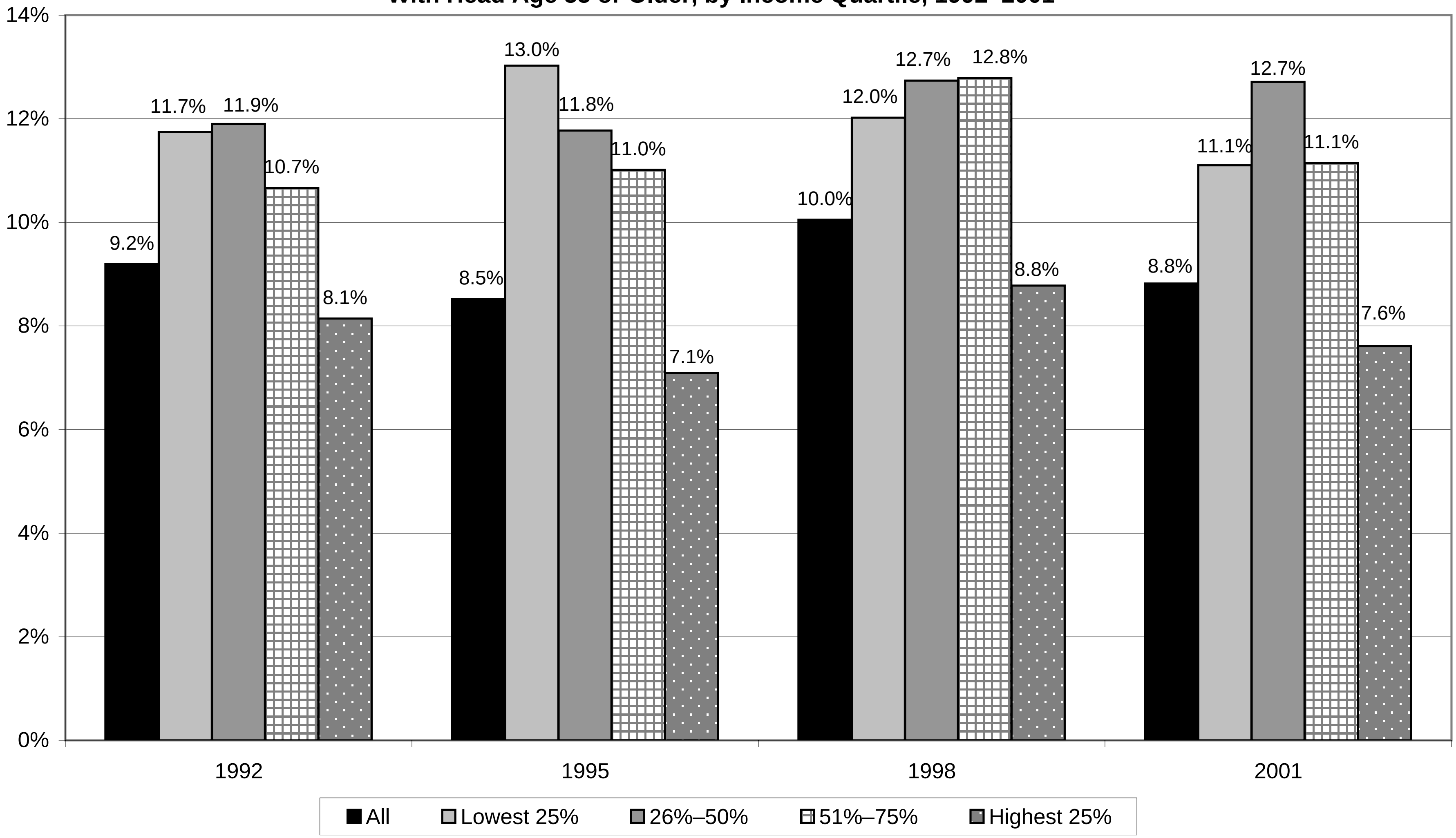
Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.
[a] Net worth percentiles are for the families with a head age 55 or older, not for all families.
Note: All dollar amounts are in 2001 dollars.

Figure 4
Total Debt Payments as Percentage of Family Income Among Families With Head Age 55 or Older, by Age of Head, 1992–2001



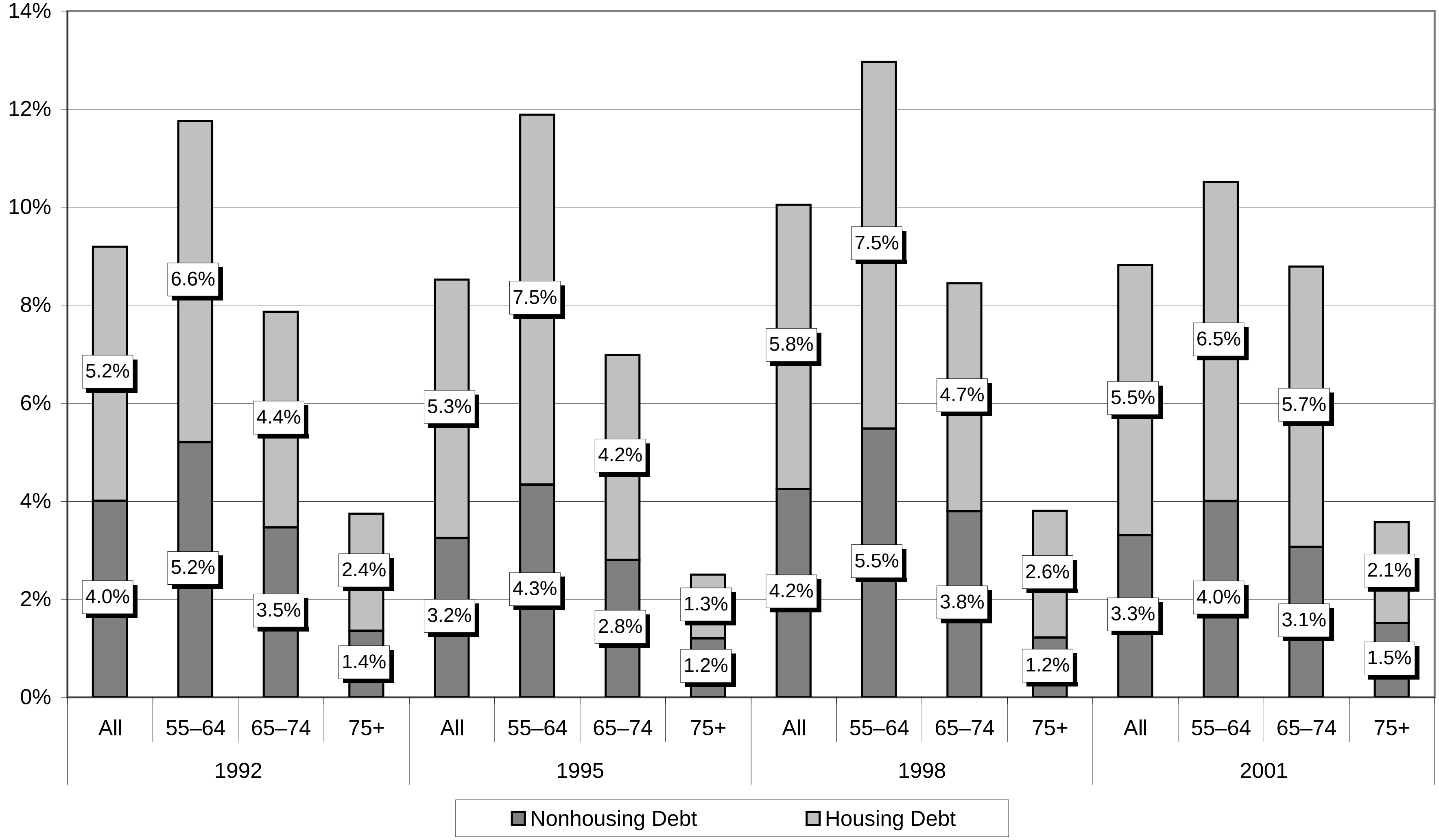
Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 5
Total Debt Payments as a Percentage of Family Income for Families With Head Age 55 or Older, by Income Quartile, 1992–2001



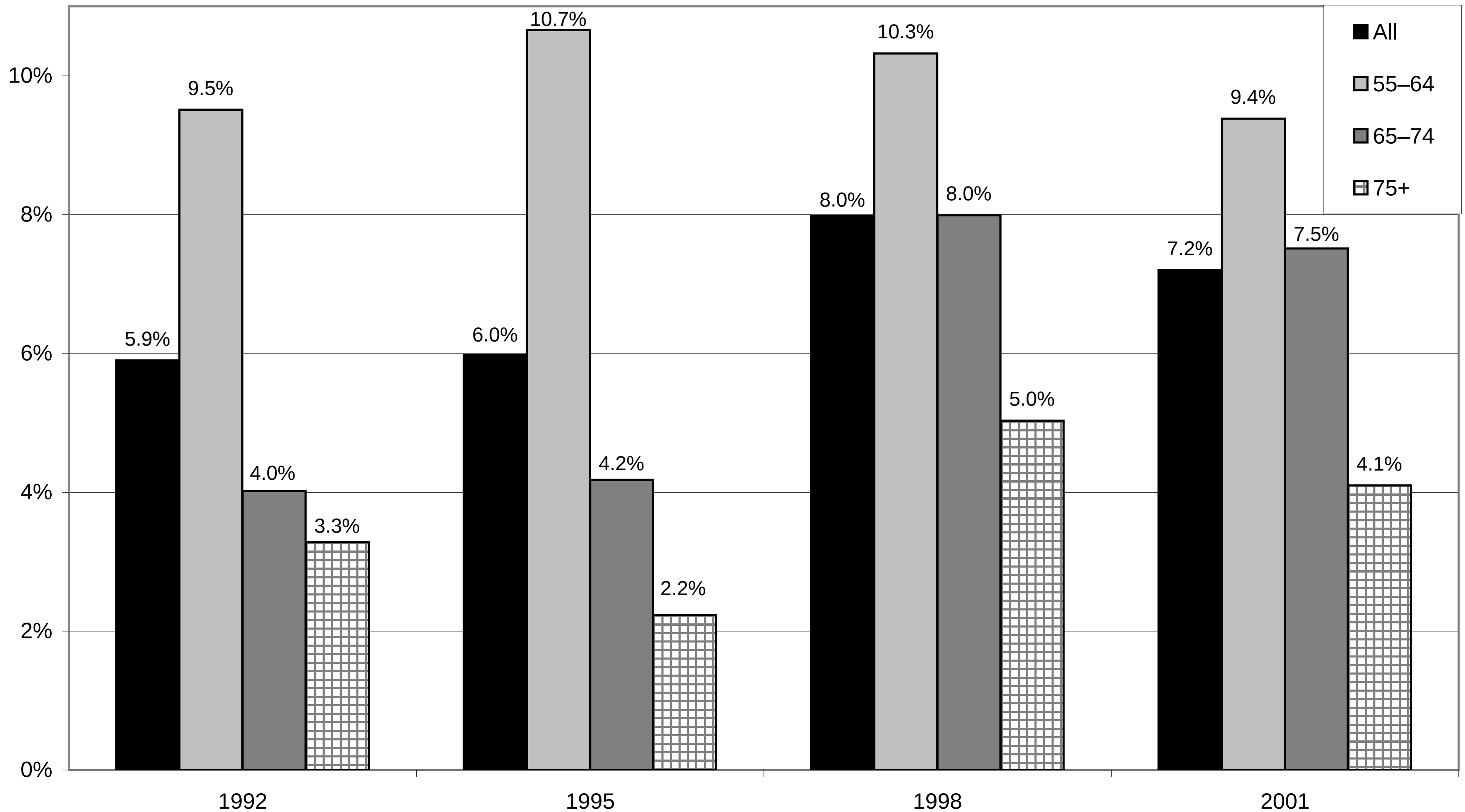
Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 6
Total Housing and Nonhousing Debt Payments as Percentage of Family Income Among Families With Head Age 55 Or Older, by Age of Head, 1992–2001



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

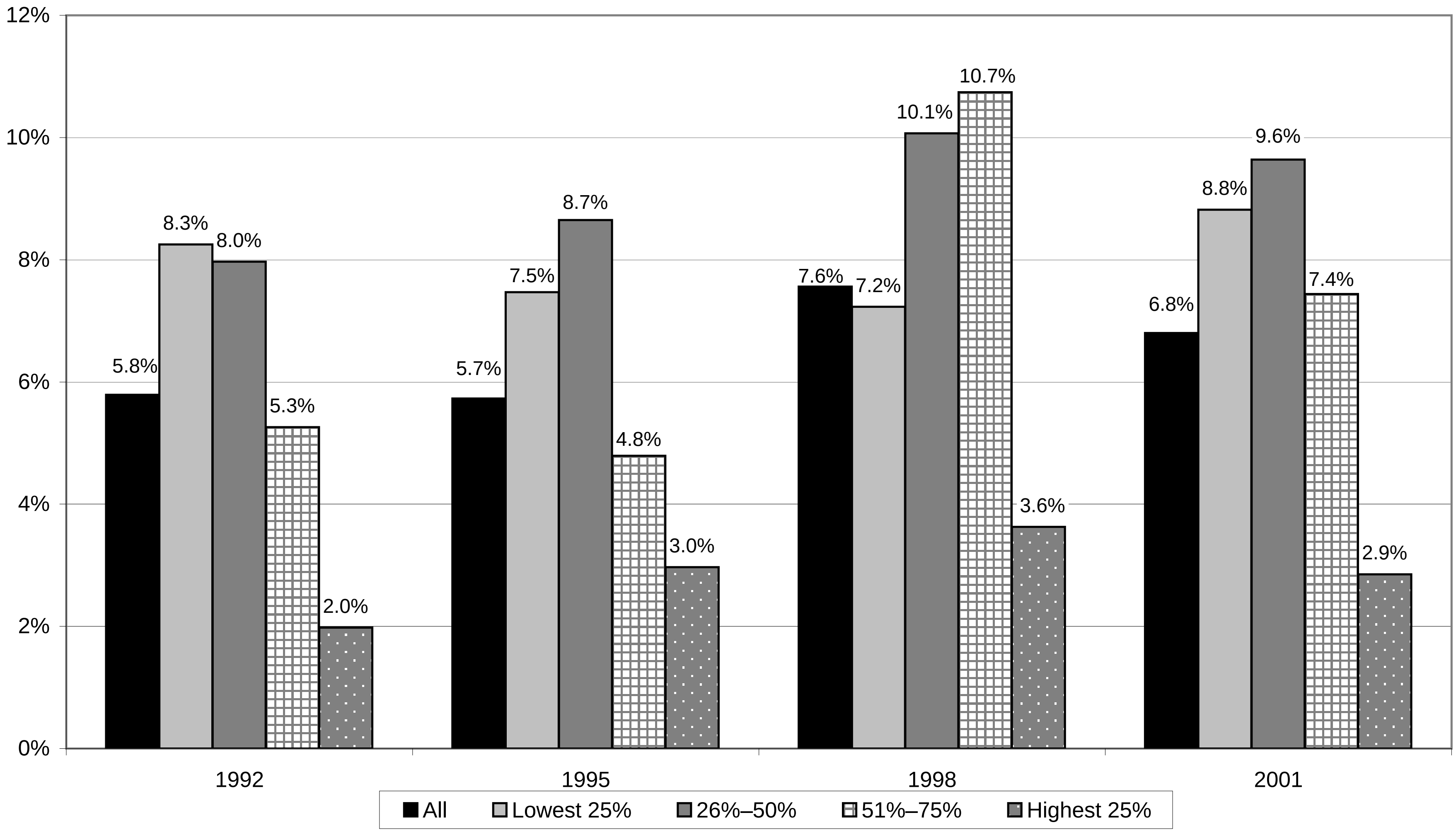
Figure 7
Percentage of American Families With Head Age 55 or Older Who Have Debt Payments of Greater Than 40% of Income, by Age of Head, 1992–2001



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

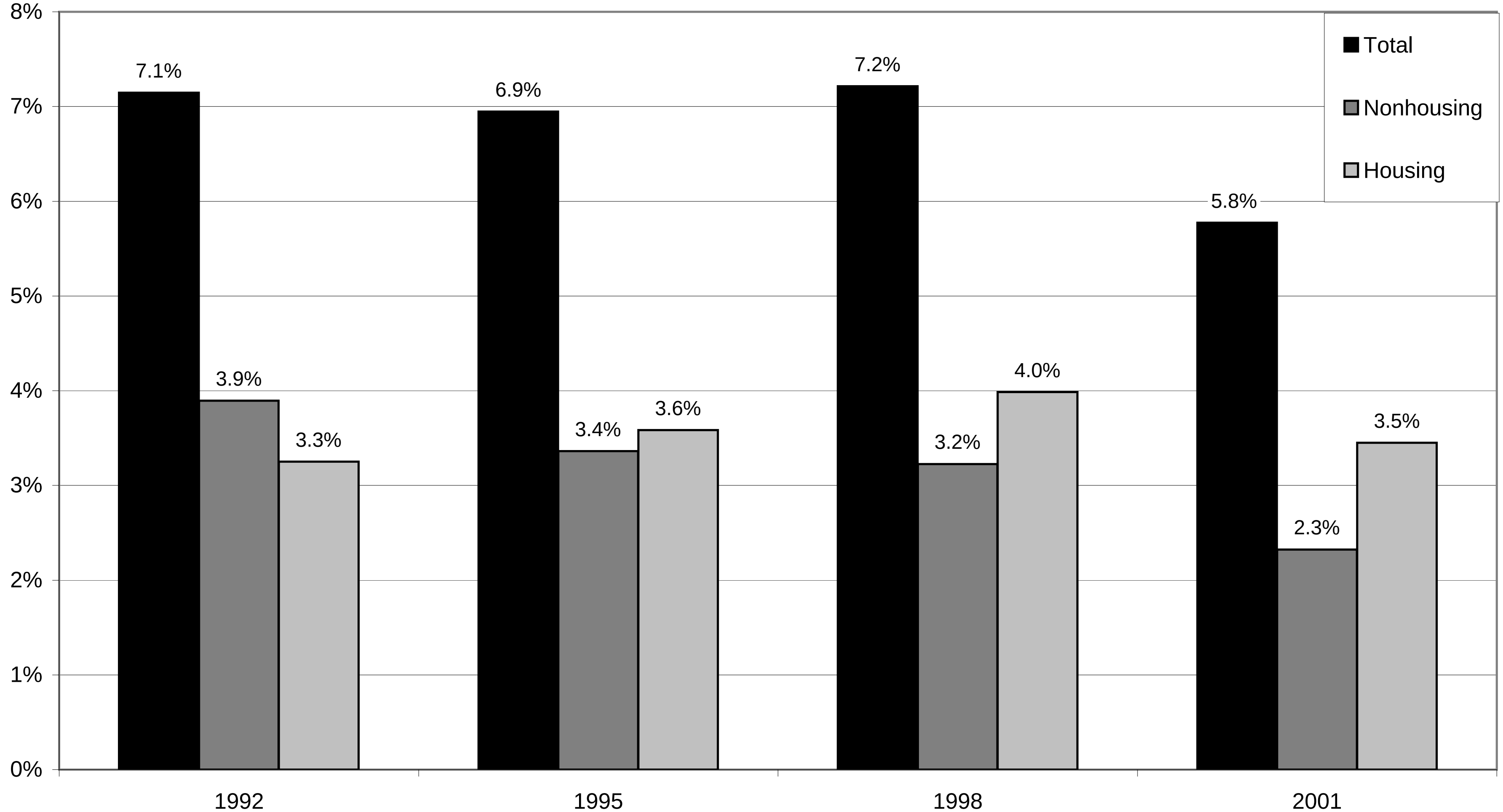
Figure 8

Percentage of American Families With Head Age 55 or Older With Debt Payments Greater Than 40% of Their Income, by Income Quartile, 1992–2001



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 9
Total, Nonhousing, and Housing Debt as a Percentage of Assets for American Families With Head Age 55 or Older, 1992–2001



Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

Figure 10

Total Debt as a Percentage of Assets, Percentage With Debt, and Median Total Debt-to-Asset Ratio For Those With Debt For Families With Head Age 55 or Older, by Various Characteristics, 1992–2001

	1992			1995			1998			2001		
Category	Debt as a Percent of Assets	Percent With Debt	Median Debt-to-Asset Ratio[a]	Debt as a Percent of Assets	Percent With Debt	Median Debt-to-Asset Ratio[a]	Debt as a Percent of Assets	Percent With Debt	Median Debt-to-Asset Ratio[a]	Debt as a Percent of Assets	Percent With Debt	Median Debt-to-Asset Ratio[a]
All	7.1%	53.8%	10.4%	6.9%	54.0%	11.6%	7.2%	53.0%	13.1%	5.8%	56.0%	12.2%
Age of Family Head												
55–64	10.2	71.4	15.8	10.8	74.0	15.8	10.4	76.3	17.7	8.2	76.2	14.9
65–74	5.6	51.5	5.3	5.5	54.1	7.5	5.6	51.9	8.8	4.9	57.0	9.3
75 or older	2.6	31.9	5.2	1.7	28.4	4.0	2.4	25.0	6.1	1.9	29.0	5.1
Race of Family Head												
White, nonHispanic	6.4	51.6	9.2	6.5	51.6	10.2	6.7	51.7	12.1	5.2	55.0	10.4
Other	15.7	64.0	15.0	12.9	65.8	21.0	14.7	60.3	21.8	15.0	61.3	21.6
Family Income (2001 $)												
Less than $10,000	7.7	36.2	11.8	5.4	36.5	11.5	5.5	27.5	16.8	6.0	32.1	16.0
$10,000–$24,999	6.0	48.2	9.4	7.2	46.3	11.9	7.0	46.0	10.1	7.2	47.3	13.5
$25,000–$49,999	7.1	59.9	9.6	8.2	61.0	12.3	8.5	57.6	17.2	6.8	60.2	12.9
$50,000–$99,999	7.0	63.0	11.3	6.6	73.0	8.1	9.0	73.6	15.5	7.1	69.0	12.1
$100,000 or more	7.4	79.6	11.6	6.7	69.5	13.6	5.2	72.0	8.9	5.0	72.5	8.9
Family Status												
Married	7.4	62.8	10.7	7.4	62.5	12.3	7.2	62.6	12.5	5.5	63.7	11.0
Single Male	7.8	43.6	12.9	6.9	46.3	11.5	8.2	46.8	17.5	6.8	54.9	17.5
Single Female	5.5	45.1	8.4	4.9	44.4	9.4	6.6	42.0	13.4	6.4	42.4	12.0
Education of Family Head												
Below HS diploma	8.0	45.0	11.9	8.2	47.4	18.1	7.2	41.0	12.4	6.8	46.1	15.0
HS diploma	6.5	55.8	7.4	7.8	57.1	11.1	6.8	47.6	13.5	5.9	53.6	13.9
Some college	6.5	49.3	12.4	6.8	57.8	11.5	7.0	62.1	15.7	6.5	60.0	10.2
College degree	7.4	67.2	11.2	6.3	56.9	8.5	7.4	66.1	12.2	5.5	64.9	11.4
Net Worth Percentile[b]												
Lowest 25%	32.2	48.3	29.1	45.0	49.1	49.0	45.3	48.5	41.7	45.3	56.0	44.4
25%–49%	12.3	53.1	9.9	18.4	57.7	14.1	21.5	60.0	19.4	15.0	56.5	14.0
50%–74%	9.0	56.3	9.1	8.2	54.3	7.8	8.3	45.6	10.8	9.8	54.1	11.4
75%–90%	7.0	54.4	7.3	6.2	52.9	4.9	6.5	52.2	7.0	5.8	54.9	4.8
Top 10%	5.8	62.5	3.5	5.2	57.7	7.2	5.1	66.5	4.1	3.7	61.2	4.7
Working Status of Family Head												
Works for someone else	10.1	78.5	13.0	10.3	78.3	14.1	13.5	80.5	17.9	10.9	79.2	15.8
Self-employed	8.8	71.1	11.3	8.3	69.7	12.3	6.6	74.2	10.8	6.2	73.5	10.4
Retired	4.7	44.9	8.4	4.3	43.3	9.8	4.5	38.7	9.2	3.2	42.8	8.7
Other nonwork	5.0	35.4	7.2	8.0	49.0	16.1	9.9	37.7	16.5	4.0	22.7	4.0

Source: Employee Benefit Research Institute estimates from the 1992, 1995, 1998, and 2001 Survey of Consumer Finances.

[a] This only includes those that have debt.

[b] Net worth percentiles are for the families with a head age 55 or older, not for all families.

■ Washington Update

by Jim Jaffe, EBRI

Congress vs. Clock on Pension Benchmark Revision

Congressional conferees were slowly working to come up with a compromise replacement for the pension benchmark interest rate that became effective on Jan 1. On that date, a temporary fix expired and the rate paid for 30-year Treasury bonds, which haven't been issued in several years, again became the norm. Legislators want to replace it with a blended corporate bond rate, at least for the next few years.

Both houses of Congress have passed legislation backing the blended bond rate, but the Senate-passed bill also includes a pension-funding holiday for ailing industries, particularly airlines and steel firms. There was some sympathy for that in the House, but the Bush administration initially resisted and several cabinet members said they'd recommend that the President veto the bill if such relief was included.

A standoff on the issue ended in mid-March when the White House backed down and said it could live with such relief. But progress in resolving other issues continued to be slow.

Corporate plan sponsors had to use the old rate in reporting to the SEC by their March 15 deadline, but they have until mid-April for actual contribution and tax purposes.

New CMS Director On Board

Mark McClellan was confirmed by the full Senate March 12 to head the Centers for Medicare & Medicaid Services (CMS), overcoming continued delays caused by the political tug-of-war over prescription drug imports. Previously, as head of the Food and Drug Administration, McClellan aggressively resisted drug imports on the basis that the safety of imported drugs could not be guaranteed. As a price for winning confirmation, McClellan agreed to appear before the Senate Commerce Committee to discuss the prescription drug import issue, which increasingly is pitting the federal government against state and local governments that are seeking to lower their Medicare prescription drug costs.

With McClellan now in office, he can turn away from the distraction of drug imports and devote attention to the big job of implementing the Medicare prescription drug benefit law enacted by Congress last year.

Back on Capitol Hill, however, debate over the program rages on, with congressional Democrats demanding an investigation into claims by a senior CMS career budget analyst that the Bush administration ordered him to remain silent about projections showing the cost of the new program far exceeding the publicly announced estimates. The issue is already a presidential campaign issue and is certain to remain a hot topic through the election.

CMS Gears Up for Drug Discount Card

The Centers for Medicare & Medicaid Services received more than a hundred applications from potential sponsors of the new Medicare drug discount card that will be available in June. The card is the first phase of the new Medicare drug benefit and would provide buyers with discounts on various drugs. Medicare beneficiaries may be required to pay a modest fee for the program, which will end at the start of 2006, when Medicare's new drug subsidy program becomes effective.

Social Security, Medicare Trustee Reports Hot Reading

Normally low on the popular reading charts, the 2004 trustee reports for the Social Security and Medicare programs are suddenly getting a lot of attention, due to their projections for huge shortfalls in each program. The full reports are available online at www.ssa.gov/OACT/TR/index.html (Social Security) and www.cms.hhs.gov/publications/trusteesreport/ (Medicare).

■ New Publications & Internet Sites

[*Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications published by GPO, call (202) 512-1808. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809.*]

Health Care

American Express Retirement Services. *Health Care Cost Increases: Impact on Worker Financial Health and Retirement Savings: Results of a National Omnibus Survey*. An electronic copy of the research report is available at no cost by contacting Todd Wold at (612) 671-6583 or via e-mail at todd.wold@aexp.com.

Murphy, Kevin M., and Robert H. Topel. *Measuring the Gains from Medical Research: An Economic Approach*. $27.50. University of Chicago Press, Order Dept., 11030 S. Langley Ave., Chicago, IL, 60628, (800) 621-2736, fax: (800) 621-8476.

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