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EBRI News

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New Research from EBRI:

Rising Levels of Debt Could Endanger the Elderly's Ability to Finance Retirement

WASHINGTON—Families near or in retirement are falling deeper in dept, and the nation's oldest families—those with family heads age 75 or older—have substantially increased their debt levels, potentially putting their ability to finance their remaining retirement at risk, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

Both housing debt and consumer debt levels are rising for elderly families. In the oldest age group, the percentage of income that debt payments represented more than doubled from 2001 to 2004, the study finds. It adds that rising debt could be the first sign that older Americans are not able to maintain their current standard of living and are taking on debt to do so.

"Although rising debt levels are not necessarily a sign of danger for all elderly or near-elderly families—especially if they are high income—rising housing debt is of particular concern," said the study's author, Craig Copeland of EBRI. "Housing typically is the major asset elderly families have, and leveraging it at this point in their lives may leave them without a major source to finance an adequate retirement."

Copeland added: "The changing nature and level of family debt has obvious implications for the future retirement security of many Americans, chiefly that more families have at risk their most important asset—their home."

The study, published in the September 2006 *EBRI Notes*, is available online at www.ebri.org It is based on the Federal Reserve's Survey of Consumer Finances, and makes these key points:

- The percentage of American families with heads age 55 or older that had debt increased from 1992–2004, reaching 61 percent, almost 5 percentage points higher that in 2001.
- The average total debt level also rose, from $29,309 in 1992 to $51,791 in 2004. The median debt level (half above, half below) of those with debt rose from $14,498 to $32,000. This represented a real increase in average and median debt levels of about 77 percent and 121 percent, respectively, from 1992–2004.
- Families with a head age 75 or older with debt increased substantially, to 40 percent in 2004 from 29 percent in 2001. The increase in the 75 or older group accounted for most of the overall increase in debt among families with a head age 55 or older.
- The average debt with a family head age 75 or older rose to $20,234 in 2004 from $7,769 in 1992, up 160 percent. The median debt rose to $14,800 in 2004 from $4,218 in 1992, up more than 250 percent.

Housing debt was a big factor in the increases, the study reports. Families with a head age 55 or older with housing debt increased steadily, from 24 percent in 1992 to 36 percent in 2004.

Not only did the percentage of individuals with housing debt increase, but also the median amount of this debt increased from $53,255 in 2001 to $60,000 in 2004, the study says. This increase was attributable to homeowners refinancing their mortgages, cashing out equity in their home or facing rapidly increasing home values during 2001–2004 when buying a home. The largest increases in debt were among families with the oldest heads—age 75 or older. However, this group's debt was not only from housing debt but also from a sharp increase in non-housing debt.

The study notes that debt tends to increase with a family's income, but that debt is growing fastest among lower-income families. In 2004, 47 percent of families in the lowest income quartile had debt, compared with 75 percent of those in the top income quartile. Families in the lowest quarter of the income scale had the largest percentage point increases in debt from 2001–2004—from 38 percent to 47 percent.

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