EBRI Fast Facts

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Debt and American Families: Areas of Improvement and Trouble Spots

Much of the attention to retirement preparedness focuses on asset accumulation in individual account retirement plans and the presence of defined benefit plans, but the other side of the balance sheet — debt — can potentially have a significant impact on the financial success of an individual's retirement. Any debt that a family may have accrued entering or during retirement can offset any asset accumulations, resulting in lower levels of retirement income security.

This *Fast Fact* compares the debt held by families with heads ages 55 or older to that of families with heads ages younger than 55. The Federal Reserve's Survey of Consumer Finances (SCF) is used to determine the debt levels. The most recent data are for 2019, so they establish a pre-pandemic baseline.

Younger Households More Indebted

The SCF shows that households headed by younger individuals are more indebted than households headed by older individuals by every measure. More than 8 in 10 (83.5 percent) families with heads younger than age 55 had debt in 2019. That is significantly above the percentage for families with heads ages 55 or older, which was 68.4 percent.

Not only was the percentage with debt higher for the families with younger heads, but so was the percentage of income that was represented by debt. The debt-payment-to-income ratio for families with heads younger than age 55 was 14.0 percent in 2019 compared with 9.2 percent for families with heads ages 55 or older. Furthermore, the percentage of families with debt payments in excess of 40 percent of their income was higher among all families with heads younger than age 55 than it was for the families with heads ages 55 or older (8.1 percent vs. 6.5 percent).

Some Evidence of Improvement

Nevertheless, the SCF shows that since 2010, the overall debt situation of American families has improved in many ways. Both the median debt-to-asset ratios of those having debt and the debt as a percentage of assets showed marked improvement in both groups. Specifically, the median debt-to-asset ratio of those having debt among families with heads ages younger than 55 declined from 55.2 percent in 2010 to 47.8 percent in 2019, while the percentage for families with older heads fell from 19.6 percent to 16.5 percent. The exception in terms of improvement was that the incidence of debt overall increased across both groups of families (see figure).

Trouble Spots

A trouble spot across both groups — those with heads younger than 55 and those with heads 55 or older — was the increased incidence of credit card debt. Between 2010 and 2019, the percentage of families with household heads younger than age 55 with credit card debt grew nearly 15 percent (from 43.5 percent to 49.8 percent). For those with heads 55 or older, the increase was 21 percent (from 33.0 percent to 40.0 percent). Moreover, median credit card debt increased for those with older heads. If the families with credit card debt only pay the minimum amount due, such debt could continue to accumulate. In addition, holding more of this debt going into retirement makes funding retirement more difficult.[1] Thus, credit card debt needs to be monitored in future years, especially in light of the pandemic.

Most concerning, families with the oldest heads — ages 75 or older — did not experience the areas of improvement generally observed. Indeed, in the most recent years, families with the oldest heads saw increases in their incidence of debt, their median housing and credit card debt, and their debt as a percentage of their assets. This has important ramifications for retirement security. As family heads reach the oldest ages, their families' ability to offset debt with other sources of assets or income tends to decline.[2]

Comparison of Debt Measures of Families With Heads Ages 55 or Older vs. Younger Than 55

	Heads Ages Younger Than 55		Heads Ages 55 or Older	
Category	2010	2019	2010	2019
Percentage With Debt	82.5%	83.5%	63.4%	68.4%
Average Debt	$131,562	$128,085	$88,245	$82,481
Median Debt of Those Having Debt	$96,377	$87,550	$65,272	$44,350
Total Debt Payments as a Percentage of Income	17.3%	14.0%	11.4%	9.2%
Percentage With Debt Payments Greater Than 40% of Income	12.4%	8.1%	8.5%	6.5%
Debt as a Percentage of Assets	27.9%	23.1%	8.4%	6.8%
Median Debt-to-Asset Ratio of Those Having Debt	55.2%	47.8%	19.6%	16.5%
Percentage With Housing Debt	50.4%	44.9%	42.0%	39.0%
Percentage With Credit Card Debt	43.5%	49.8%	33.0%	40.0%
Median Housing Debt of Those Having It	$142,562	$154,000	$96,375	$97,000
Median Credit Card Debt of Those Having It	$3,299	$2,500	$2,856	$3,000

Source: Employee Benefit Research Institute estimates from the 2010 and 2019 Survey of Consumer Finances.
Note: All dollar amounts are in 2019 dollars.

Conclusion

An important time to start good financial habits is when individuals are working. A number of employers — especially large employers — have introduced financial wellbeing programs to help employees reduce stress associated with their finances.[3] Such programs help may build sound financial skills that can be carried over to retirement, potentially addressing the growing issue of debt among the elderly.

The EBRI report, "Who Is Most Vulnerable to the Ticking Debt Time Bomb in Retirement: Families With the Oldest, Black/African American, and Hispanic Family Heads," is published as the December 2020 *EBRI Issue Brief*, and is available online here.

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[1] Lucas, Lori, "Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey," *EBRI Issue Brief*, no. 522 (January 14, 2021).
[2] For more information, see "Debt Is on the Rise for Families With the Oldest Heads," *EBRI Infographics*, no. 68 (February 4, 2021).
[3] Copeland, Craig, "2020 EBRI Financial Wellbeing Employer Survey: COVID-19 Driving Benefit Offerings and Potentially Forcing Tough Budget Decisions," *EBRI Issue Brief*, no. 515 (Employee Benefit Research Institute, October 22, 2020).