Retiring in the Red

The Growth of Debt Among Older Americans

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Borrowing to Make Ends Meet Briefing Paper #1
Second Edition

Over the 1990s, credit card debt among older Americans rose dramatically—leaving many seniors overextended and vulnerable to financial collapse. This briefing paper documents the rise in credit card and mortgage debt between 1992 and 2001 and examines the factors contributing to this age group’s increased reliance on credit cards. Rising costs for housing and health care, combined with low incomes and declining retirement wealth, have eroded the economic security of older households. Retiring in the Red is part of a series of Borrowing to Make Ends Meet Briefing Papers documenting trends in credit card debt among subgroups of the U.S. population.

Key Findings

SENIORS (OVER AGE 65)

- Average self-reported credit card debt among indebted seniors increased by 89 percent between 1992 and 2001, to $4,041.
- Seniors between 65 and 69 years old, presumably the newly-retired, saw the most staggering rise in credit card debt—217 percent—to an average of $5,844.
- Female-headed senior households experienced a 48 percent increase in credit card debt between 1992 and 2001, to an average of $2,319.
- Among seniors with incomes under $50,000 (70 percent of seniors), about one in five families with credit card debt is in debt hardship—spending over 40 percent of their income on debt payments, including mortgage debt.

TRANSITIONERS (AGES 55–64)

- Transitioners experienced a 47 percent increase in their credit card debt between 1992 and 2001, to an average of $4,088.
- The average credit card-indebted family in this age group now spends 31 percent of its income on debt payments, a 10 percentage point increase over the decade.
- The credit card debt of middle- to low-income transitioner families without health insurance increased by 169 percent, as opposed to by only 37 percent for like-income families with health insurance.
Introduction

The average credit card debt of Americans over 65 increased by 89 percent between 1992 and 2001, to a self-reported household average of $4,041. Other estimates based on aggregate data have the dollar amount as much as three times higher. During the same period, the number of older Americans filing for bankruptcy tripled, making them the fastest growing age group in the bankruptcy courts. How did this happen?

Conventional wisdom suggests that this segment of the population—with lifetimes of financial experience, an over 80 percent homeownership rate, and a generational ethos of thrift—would be immune to the record debt increases of the 1990s. Yet a closer look at the economics of older Americans reveals that the largest share lives on low incomes that stagnated or declined during most of the 90s, while their basic costs increased. Critically, their most important bulwark against debt—savings and assets—also diminished. Finally, older families proved just as vulnerable as the general population to newly deregulated credit industry practices aimed at drawing new customers and increasing revolving balances.

Methodology. The credit card data analyzed in this brief are drawn from the Survey of Consumer Finances (SCF), a triennial Federal Reserve survey of the asset and liabilities of American families. The survey years 1992 and 2001 (the most recent available) were chosen to represent a period of national economic expansion—from the end of the 1990-1991 recession through the beginning of the 2001 recession. All debt amounts are in 2001 dollars.

Dēmos’ Findings: Credit Card Debt Among Older Americans, 1992–2001

Cardholders and Indebtedness. As shown in Figure 1, roughly three out of every four Americans over 65 hold credit cards, a portion that increased slightly between 1992 and 2001. Of these cardholders, nearly one in three carried debt in 2001, a marginal decrease from 1992.

Figure 1. Percent of senior households with credit cards and percent of senior cardholding households with credit card debt, 1992–2001

Higher balances. Although seniors’ cardholding and indebtedness rates changed little over the decade, the amount of credit card debt seniors carried rose dramatically. As Figure 2 shows, average revolving balances among indebted seniors over 65 increased by 89 percent, to $4,041. Seniors between 65 and 69 years old, presumably the newly-retired, saw the most staggering rise in credit card debt—217 percent—to an average of $5,844.

![Figure 2. Average (mean) credit card debt among senior households, 1992–2001](image)


Gender. Senior women living on their own have distinct economic circumstances. As Figure 3 illustrates, their average credit card debt increased by 48 percent between 1992 and 2001, to a household average of $2,319.

![Figure 3. Average (mean) credit card debt among senior female-headed households (65 and older), 1992–2001](image)


Debt hardship. The true financial impact of debt can be seen in the percentage of income people must spend servicing it. A family spending more than 40 percent of their income on debt payments, including mortgage debt, is in a state of debt hardship.

Overall, seniors spend on average less than a tenth of their income on debt payments; however, those in credit card debt bear an increasingly heavy burden. Among seniors with incomes under $50,000 (70 percent of seniors3), Figure 4 shows that roughly one in five families with credit card debt is in debt hardship.

![Figure 4. Percent of credit card indebted senior households in debt hardship (debt to income ratio > 40%)](image)

Source: Demos’ Calculations from the 1992 and 2001 Survey of Consumer Finances

Roughly one in five middle- to low-income indebted seniors is in debt hardship.
What’s Driving Debt?
Industry Practices and Economic Insecurity

Industry Practices. A deregulatory revolution in the financial services industry has coincided with increased economic vulnerability among seniors. State usury laws limiting interest rates and fees were nullified by two Supreme Court cases, in 1978 and 1996. The resulting wave of deregulation drastically changed the way banks market and price credit cards to consumers of all ages. Usuriously high interest rates, sharp hikes in fees, lower minimum payment requirements, relentless credit extension and aggressive marketing all played a critical part in enabling financially vulnerable seniors to take on record levels of credit card debt.

Economic Insecurity among America’s Seniors

Low Incomes and Declining Retirement Wealth. The typical senior household survives on $23,118 per year, and nearly 40 percent of seniors are classified as “low-income” or below. Although there is less economic disparity among seniors than among the general population—most are moderate-to-low income—measurements of retirement wealth reveal striking inequities. As Figure 5 illustrates, retirement wealth (defined as the sum of pensions and Social Security wealth) has fallen for all but the wealthiest seniors over the past twenty years.

- Older families of moderate net worth—between $50,000 and $99,999—experienced a staggering 35.6 percent loss over the same period.
- The only senior families to see gains over the period—those with $1 million or more in net worth—saw their retirement wealth rise by 49.8 percent.

Figure 5. Mean retirement wealth by net worth, senior households (65 and older), 1983–1998

Notes: Households are classified by net worth (HDW) in 1998 dollars.
Key: Retirement wealth = defined contribution pension accounts + defined benefit pension wealth + Social Security
The Importance of Assets. In the traditional “three-legged stool” model of retirement, Social Security and pensions act in concert with income from assets (interest, dividends, and rent) to guarantee economic security in retirement. Yet the value of savings-based sources of income has steadily declined, making Social Security the linchpin of the majority of seniors’ livelihoods.

- Between 1992 and 2001, the average share of seniors’ incomes derived from assets dropped from 21 percent to 16 percent. The share from pensions fell from 20 percent to 18 percent.10
- In 2001, more than one-third of seniors were depending on Social Security for over 90 percent of their income.11
- Medicare data reflects the asset poverty of most seniors. Forty percent of all Medicare beneficiaries have less than $12,000 in “countable assets”—including the value of pensions and IRAs, cash savings, securities, and cash surrender value of life insurance plans.12

When seniors have fewer assets, not only do they lose potential investment income, but they become more vulnerable to the financial stresses of aging. Events like job loss and retirement, illness, death of a spouse, even repairs to aging homes and cars can force seniors to borrow—using credit cards, payday loans, home loans—if they have little savings to rely upon.

Even among seniors who have been able to save substantially for retirement, current economic conditions including pension shortfalls and speculative conditions in the housing market13 threaten to undermine their savings. Historically low interest rates have also adversely affected yields on the certificates of deposit (CDs) and money market accounts seniors tend to prefer. Paradoxically, the rates on their credit card debts have remained high.

Women. Senior women—who constitute 59 percent of all Americans over 65 and more than two-thirds of those over 85—are one of the most economically vulnerable segments of the population. Women’s financial insecurity begins in their working years: despite rising labor force participation among all income classes, American women still average only three-quarters the earnings of men. Women are also more likely to work in low-wage, low-benefit careers punctuated by absences for child-rearing and other forms of caregiving.14

- Nearly 40 percent of senior women are unmarried and living alone, with one in five subsisting below the poverty level.15
- Almost half of all elderly African-American women live in poverty.16
- The three-legged stool of retirement security is especially uneven for senior women: 60 percent receive a small amount of asset income (median $1,330), and only 30 percent receive a pension, in amounts that average half that of men’s pensions.17

Accordingly, 75 percent of senior women depend on Social Security for more than half of their income, and 44 percent depend on it for more than 90 percent of their income.18

- The significant role Social Security plays for women in retirement is especially troubling considering that women’s median annual benefits average only 70 percent of men’s.19
### Rising Costs

Against this backdrop of low incomes and declining savings, costs for seniors’ basic needs, such as health care and housing, rose considerably over the 1990s. The accompanying rise in debt among seniors suggests that increasingly available—and expensive—credit helped make up the difference.

**Health Care.** The real costs and benefits of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 are likely to remain uncertain for some time, as the plan will not be launched until 2006.

Yet the understanding behind the reform impetus—that out-of-pocket medical costs have become an unmanageable expense for seniors—is an ongoing reality. With virtually all medical expenses now payable by credit card, there is evidence to suggest that deductibles, co-pays, dental and vision care, prescription drugs and other uncovered costs played a significant role in the increased credit card balances of many older Americans.

- Of the various supplemental insurance plans available to seniors, employer-sponsored retiree plans consistently cover the most, yet these have steadily declined—from 66 percent of large employers offering in 1988 to only 38 percent in 2003.
- Over the same period, Medicare beneficiaries’ out-of-pocket medical spending consistently rose at a rate faster than their income (5.4 percent on average versus 3.8 percent).
- By 2000, senior citizens were spending on average $3,526 out-of-pocket on health care costs.
- Out-of-pocket medical spending accounts for 22 percent of seniors’ incomes on average, a percentage that increases among those with health problems, older seniors, and seniors with low incomes. As Figure 6 shows, seniors earning less than $10,000 a year spent nearly a third of their income on out-of-pocket health costs.

**Housing.** High housing outlays contribute to tighter budgets and may force seniors to borrow for other essentials.

- The 20 percent of elderly Americans who rent have an average income of $12,233. More than half hold no assets.
- In 2001, the typical elderly renter spent 41 percent of her income on housing costs, up from 38 percent in 1993. The HUD threshold of affordability for housing is 30 percent.
• Among senior homeowners, 35 percent spend more than a quarter of their income on housing costs, including utilities, real estate taxes, mortgages, and miscellaneous fees.29

• Reversing the long-held trend of full ownership in retirement, more and more seniors are now borrowing against their homes. As of 2000, fully 28.3 percent of senior homeowners owed on their homes, up from 20.7 percent in 1990 and 18.9 percent in 1980.30

• Adding to concerns over the rising mortgage debt of seniors is the new danger of predatory lending. According to the AARP, the elderly are three times more likely to be targeted for costly sub-prime mortgage loans, which have also flourished under financial services deregulation.31

Transitioners: A Way to Predict the Future

The financial health of pre-retirees is a critical indicator of future retirement success. Unfortunately, the rising costs of raising a family are now winning out against retirement savings for most parents. This trend has demographic roots: Americans are having children later in life, pushing high-cost expenditures like higher education, family housing, and dependent health care closer to retirement age.

For each of these expenses, there is a correlating form of debt on the rise: college debt, mortgage debt, credit card debt. The effect of these demographic and structural changes has been a total reversal of families’ financial priorities in the span of 20 years. In 1981, families saved on average 11 percent of their incomes and carried 4 percent in credit card debt. In 2000, they carried 12 percent of their incomes in credit card debt and were able to save negative one percent.32

• Recent data indicates that fully 14 percent of 64-year-olds are facing retirement with negative net worth.33

• Nearly one out of every two families headed by someone 47 to 64 will be unable to replace at least half their income after retirement. This reflects a 12.6 percentage point increase in retirement inadequacy between 1989 and 1998.34

• This same age group saw a median home equity decline of 12.5 percent between 1989 and 1998,35 as families borrowed more against their homes (often to pay off higher-interest credit debt).

• Health care costs are also a major concern for this group: 13 percent of near-retirees bear the full cost of their own insurance, and 14 percent are forced to go completely without health coverage.36

In response to these economic pressures, pre-retiree families are increasingly borrowing to make ends meet. According to Demos’ findings:

• Transitioners aged 55–64 experienced a 47 percent increase in their credit card debt between 1992 and 2001, to an average of $4,088.

• The portion of income these families spend servicing debt (including mortgages) grew by ten percentage points between 1992 and 2001.

• The average credit card-indebted family in this age group now spends 31 percent of its income on debt payments.

• Tellingly, the credit card debt of middle- to low-income families without health insurance increased by 169 percent, as opposed to by only 37 percent for like-income families with health insurance. (See Figure 7.)
Policy Recommendations

The economic insecurity of middle-to-low income seniors has become increasingly acute in recent years, with costs for essential goods and services rising as savings have declined. For aging families whose financial tools have included credit cards, the high cost of servicing debt in an era of deregulation has compounded the problem. The following policy recommendations are aimed at addressing economic insecurity as well as reigning in the most egregious industry practices, giving millions of American families the opportunity to climb out of unmanageable debt and support themselves through their retirement years.

ADDRESSING ECONOMIC INSECURITY

Strengthen and Support Social Security. Modest adjustments may need to be made in order to continue delivering full Social Security benefits after 2052, according to CBO projections. The U.S. must maintain its commitment to providing adequate guaranteed benefits that are not subject to erosion by inflation, longevity, or the vagaries of financial markets. The Social Security leg of the retirement stool promises to be even more critical in the future if trends in personal savings (below 5 percent for the past decade), home equity (at its lowest point in 30 years) and retirement wealth (down for all but the wealthiest households over the past 20 years) do not abate or reverse. Any reform that decreases the guaranteed benefit for future retirees or shifts to riskier, individual plans will magnify the nation’s already troubling levels of economic inequality and insecurity.

Develop Universal Retirement Savings Accounts. To address the crisis in household retirement security, Congress should develop universal savings vehicles. These accounts should supplement the guaranteed Social Security benefit. Certain critical elements should be included in any proposal:

- Universal, sustained access throughout working years, regardless of employer.
- Low administrative costs.
- Guidelines to facilitate savings among those currently saving less, including middle- and low-income, contingent, and small-business workers.
- Dedicated funding for progressive matches from a non-regressive revenue source, such as an estate tax.

Increase Scrutiny of Defined- Contribution Plans. The promise of 401(k) and other defined-contribution retirement plans comes with a new degree of risk. Better research is needed to track how people spend the cash balances withdrawn before retirement; how mutual funds can be protected from excessive fees and biased accounting; and how defined-benefit and defined-contribution plans can coexist at large firms without harming older workers.
Erase Inequities for Women in Social Security. A set of outmoded assumptions and measurements have resulted in low Social Security payments to elderly women. Comprehensive reform would increase the benefits of divorced women, widows, women in low-wage and contingent careers, and women with disabilities. In addition, a standard credit should be given to lower-earning spouses or single parents for time spent away from work caring for family members.

Expand Health Insurance Coverage. The 43 million Americans without health insurance should not be forced to borrow on high-cost credit cards to get necessary medical care. The fast-rising percentage of Americans aged 55-64 who are uninsured gives new urgency to the need for broad access to quality, affordable care at all ages, including prescription drug coverage.

Bolster Unemployment Insurance. Job loss is one of the three most commonly cited precursors to bankruptcy. Today, most American workers are ineligible for unemployment insurance benefits, and the benefit levels replace only about one-third of an average worker’s earnings. States need to modernize the rules governing the system, including expanded coverage to more contingent and low-wage workers.

ADDRESSING INDUSTRY PRACTICES

Enact a Borrower’s Security Act. Today there are no legal bounds to the amount of fees and interest credit card companies can charge borrowers. In addition, credit card companies, unlike other lenders, are allowed to change the terms of the contract at any time, for any reason. As a result, cardholders often borrow money under one set of conditions and end up paying it back under a different set of conditions. Legal limits on interest rates and fees have traditionally been established by the states. But because card companies can export interest rates from the state in which the bank is based, consumers are left unprotected from excessive rates, fees and capricious changes in account terms.

A Borrower’s Security Act would restore responsible credit practices to the lending industry by extending fair terms to borrower. Specifically, legislation is needed to:

- Require card companies to provide a reasonable late-payment grace period to protect responsible debtors from being unduly penalized by a run-of-the-mill tardy payment; limit rate increases to 10 percent above the cardmember’s original rate.
- Ensure card companies are accountable to the original contract with the cardmember for all purchases up to any initiated change in terms. Any change to the annual percentage rate should be limited to future activity on the card.
- Establish a floating interest rate ceiling that is indexed to a federal interest rate. A floating limit would ensure the continued profitability of the credit industry during periods of high inflation when interest rates climb. Likewise, it would ensure savings are passed on to customers when national interest rates decline.
- Require disclosure of the full costs of only paying the minimum payments, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders to curtail excessive debt loads and interest payments.

Combat Predatory Home Mortgage Lending. The elderly have become special targets for brokers and lenders selling costly sub-prime home financing products. Congress must pass strong anti-predatory lending legislation modeled on successful state laws, such as the North Carolina Predatory Lending Law (1999).
Maintain Existing Bankruptcy Laws for Families in Severe Economic Distress.
Families filing for bankruptcy will face more barriers to financial recovery if Congress enacts the bankruptcy reform legislation it has considered for the last five years. The growing presence of America's seniors in the bankruptcy courts should warn policymakers of the importance of safeguarding this difficult last resort.

Conclusion

The rising debt levels of the nation's seniors are a signal that economic insecurity is becoming critical for yet another population of Americans. On fixed incomes, unexpected or unaffordable costs present a difficult choice for the elderly: borrow to pay, or go without. There is certainly evidence that many seniors do the latter, often at the expense of their health. But for those who, like most Americans, have seen their relationship to credit change from convenience to safety net, borrowing increasingly means sky-high costs and the very real prospect of endless debt service.
Notes

1. The absolute figures (for example, $4,041 of average debt) are based on data that consumers reported about themselves in surveys. Aggregate data on outstanding revolving credit reported by the Federal Reserve puts the average credit card debt per household at about $12,000—nearly three times more than the self-reported amount.


4. For more information on the effects of deregulation on credit card industry practices, see Tamara Draut and Javier Silva, Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the ‘90s, Démos 2003, page 33.


8. Ibid.

9. Ibid.


16. Ibid.

17. Men’s median pension income is $10,340; women’s is $5,600. Ibid.

18. Ibid.

19. Ibid.


Related Resources from Dēmos

**Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the ’90s**
by Tamara Draut and Javier Silva

Using new data, this report illustrates how families are increasingly using credit cards to meet their basic needs. Also examines the factors driving this record-setting debt and the impact of financial services industry deregulation on the cost, availability and marketing of credit cards.

**Millions to the Middle: Three Strategies to Expand the Middle Class**
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This report on the future of economic security in the New Economy offers long-range ideas in the areas of higher education, income, debt, and assets for creating tomorrow’s vibrant middle class.

**Generation Broke: The Growth of Debt Among Younger Americans**
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**A House of Cards: Refinancing the American Dream**
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An investigation of the risks incurred during the recent refinance boom by American homeowners as they cashed out over $330 billion in home equity to cover rising expenses and credit card debt.

For more information about Dēmos’ work on debt and assets, please contact: Tamara Draut, Director, Economic Opportunity Program, tdraut@demos-usa.org

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