Credit and Debt Portfolios of the Young and Old

The 1992 Survey of Consumer Finances was used to calculate descriptive statistics of debt levels and credit usage of two age groups: under age 65 and 65 and older. A smaller percentage of older household had debt of any type. Balance of outstanding debt was also lower for this age group, but their average nonzero debt balances were unexpectedly large. Compared to the younger group, the older age group, on average, could access a higher amount of credit.

Deanna L. Sharpe, University of Missouri[1]

Introduction

In 1990, 12.5% of the United States population was aged 65 and older compared to 8.1% in 1950 and 4.1% in 1900. Projections are that by 2030, 1 in 5 individuals in the U.S. will be aged 65 or older (Hobbs, 1996). This significant demographic change has spurred research on such economic issues as income, housing cost, and retirement funding among the aged (Duncan & Smith, 1989; Hurd, 1990; Mankiw & Weil, 1989; Ryscavage, 1992; U.S. Congressional Budget Office, 1993). Still, little is known about debt levels and credit usage among this age group.

This paper uses the 1992 Survey of Consumer Finances to explore the type and level of debt and credit used by those aged 65 and older and to compare results with those under age 65. Age 65 is used to divide the sample because it is a common age of retirement in the U.S.

Background

Debt and credit are usually considered financial tools of the young. However, several factors are currently influencing change in debt levels and credit usage among those aged 65 and older: (1) aggressive solicitation of the elderly by a mature credit card market (Ramresearch, 1997), (2) reduced stigma associated with credit use, (3) greater confidence in ability to repay due to increased longevity, health care advances and inflation adjusted post-retirement income, (4) common use of credit cards in markets used by older individuals (e.g. mail order), and (5) convenience of credit card use versus use of cash or check.

Credit card usage has been the focus of the limited research on credit usage of those aged 65 and older. McGurr (1995) found this group was less likely than those under age 65 to hold credit cards. However, being married, having good health, having higher levels of income and education ,being a home owner and having positive attitudes toward credit were positively associated with having credit cards.

Manning (1996) interviewed elderly persons about their credit use. He concluded that, for some, credit card usage was simply an extension of pre-retirement money management practices. For others, credit cards were a financial safety net of last resort, extending low income. This latter group, Manning speculated, was at greatest risk of credit overextension.

This study extends previous research by considering broad descriptions of debt and credit.

Data and Method

Data

This study used the 1992 Survey of Consumer Finances as described in Bozworth & Huston (1997). All five implicates and appropriate weights were used.

Method

The composition of the debt and credit variables used in this study are detailed in Bozworth & Huston (1997). Although individuals over age 65 would not be likely to borrow against their pension fund assets in the same way that younger individuals might, for ease of comparability, the same definition of nonqualified credit was used for both age groups.

Percentages were calculated for categorical variables. Means were computed for dollar holding of debt and credit for the total sample and for those with a nonzero balance in a given category.

Findings and Discussion

Descriptive statistics are reported in Table 1. As expected, the older group had a lower mean income, less education, smaller household size. Region of residence was similar for both age groups. Relatively fewer minorities and married couples were found among the older age group.

Compared to the younger age group, a smaller percent of the older group held any type of debt. Interestingly, over 70% of the older group had a credit card, nearly the same percentage as the younger group. Only 27%, however, carried a balance, compared to 48% of the younger group.

Table 1
Descriptive Statistics

Variables	Age < 65	Age ≥65
	Means	
Age	41.2	74.1
Income	42587.00	25771.0
Education	13.3	11.3
HH size	2.9	1.7
	Percent	
Region		
Northeast	20.7	18.5
Northcental	24.1	25.3
South	34.3	35.3
West	20.9	20.9
Race		
White	72.8	83.5
Black	13.2	11.0
Hispanic	8.8	3.0
Other	5.2	2.5
Marital Status		
Married	61.4	43.2
Separated/Div.	17.6	8.3
Widowed	3.7	44.3
Never Married	17.3	4.3
Had consumer debt	70.0	34.6
Had mortgage debt	46.8	15.3
Had household debt	80.3	40.7
Had other debt	18.5	8.2
Had total debt	82.1	43.5
Nonzero credit card bal.	48.4	27.1
Had credit card	72.4	70.1

Mean debt and credit levels are reported in Table 2. The younger group owed more in each debt category and had a much larger proportion in mortgage debt. More than half of the debt held by the older group is in other debt (51% versus 21%) perhaps because a few in the older group have relatively high levels of business debt.

Qualified credit for the younger group is higher than that for the older group, whereas potential credit (qualified credit + nonqualified credit) is higher for the older group, due to their higher levels of home equity and pension assets.

In general, for both the whole sample and for those with total debt, most debt and credit means are lower for the older group. Mean potential level is similar for both age groups. Thus, although both age groups could "fall in the hole" about the same distance (potential level), given the lower total debt and qualified level of the older group, they may be less likely than the younger group to tap their yet unused credit or maximize their debt load. It is not clear if this is a life cycle or a cohort effect.

Table 2
Debt and Credit Means

Variables	Age < 65	Age ≥ 65
Consumer debt	5564	1668
	(7952)[a]	(4820)
Mortgage debt	27959	4689
	(59717)	(30740)
Household debt	33523	6257
	(41737)	(15609)
Other debt	9043	6544
	(48876)	(80256)
Total debt	42566	12900
	(51816)	(29661)
Qualified credit	7616	5649
	(7786)[b]	(6801)
Nonqualified credit	44032	63437
	(47370)	(70934)
Potential credit	51649	69087
	(55156)	(77741)
Qualified level	50182	18550
	(59603)	(36467)
Potential level	94215	81987
	(106972)	(107402)

[a] means for those with nonzero balance in given debt category
[b] means for those with nonzero debt

Limitations

Differences in debt and credit usage by age group may not be statistically significant and influence of other factors was not controlled. Ability to repay debt from income or assets was not considered. Age related differences in income sources and in type and amount of assets available for collateral was ignored. Life cycle and cohort effects cannot be distinguished with cross sectional data. Future research is needed to address these limitations.

References

Bozworth, C. G. & Huston, S. J. (1997). Household credit and debt portfolio: Variation by definition. In Irene Leech (ed.). Consumer

Interests Annual, Vol. 43. Columbia, MO: ACCI.

Duncan, G. J. & Smith, K. R. (1989). The rising affluence of the elderly: How far, how fair, how frail. Annual Review of Sociology, 15, 261-289.

Hobbs, F. B. (1996). 65+ in the United States. Washington DC: US Government Printing Office. (Current Population Reports, Special Studies, P23-190).

Hurd, M. D. (June 1990). Research on the elderly: Economic status, retirement, and consumption and saving. Journal of Economic Literature, 565-637.

Mankiw, N. G., and Weil, D. N. (May 1989). The baby boom, the baby bust and the housing market. Regional Science and Urban Economics, 19, 235-258.

Manning, R. (1996). Aging into debt. Unpublished manuscript.

McGurr, P. T. (1995). Determinants of credit card holding and usage by older Americans. Proceedings of Association of Financial Counseling and Planning Educators.

Ramresearch. (1997). Big balances - big trouble??? [On-line]. Available http://ramresearch.com/crdflash/cf4_12dd.html

Ryscavage, P. (1992). Trends in income and wealth of the elderly in the 1980s. Washington, DC: US Government Printing Office. (Current Population Reports Series P-60, No. 183).

US Congressional Budget Office. (September 1993). Baby boomers in retirement: An early perspective. Washington, DC: US Government Printing Office.

Endnote

1. Assistant Professor, Consumer and Family Economics Department.