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# ECONOMIC SECURITY OF OLDER ADULTS DURING THE COVID-19 CRISIS: EARLY DATA TO INFORM RESEARCH AND POLICY

*Research conducted by Meta Brown, The Ohio State University*

*J. Michael Collins, University of Wisconsin-Madison*

*Stephanie Moulton, The Ohio State University*

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Older adults in the US have experienced distinct medical and economic impacts of the COVID-19 pandemic, and these pandemic impacts vary meaningfully with pre-pandemic financial position and household structure. This paper describes a new panel data resource on US adults' financial circumstances and uses it to trace the influence of the COVID-19 pandemic on the debt balances, repayment standing, payment accommodations, and credit access of economically advantaged and disadvantaged older households over the course of 2020.

## **How Have Older Households Fared in the Traditional and Alternative Consumer Credit Markets During the Pandemic Recession?**

While there are studies that analyze trends in credit and debt following COVID-19 in the general population (Cherry et al., 2021; Horvath et al., 2021), ours is the first study to focus explicitly on older adults and to examine heterogeneous effects within the population of older adults. To do this, we construct a new national credit panel of older adults measured quarterly from the first quarter of 2019 through the fourth quarter of 2020. The national credit panel includes a sample of 2.5 million adults aged 18 and older, of whom 1.2 million are age 50 and older. Importantly, our credit panel includes information for all members of the household who have credit records. In addition to traditional credit, we supplement our credit panel with data on the use of alternative financial services at the individual level, allowing us to measure changes in reliance on high-cost forms of credit in response to the crisis.

We begin our analysis by documenting changes in debt levels and debt use from the fourth quarter of 2019 (Q42019), immediately prior to the onset of the COVID-19 pandemic, to the fourth quarter of 2020. We report changes overall and for specific subgroups, including by individual age, household size, gender, income, credit score, debt to income ratio, whether or not the household held a mortgage as of the Q42019, race and ethnicity composition of the household's ZIP code, and changes in household composition during 2020.

We then explore the mechanisms underlying the changes in debt levels, including changes in credit approval rates during this time, involuntary closure of and cuts to credit card accounts, and the receipt of payment accommodations, such as forbearance or deferment, related to the COVID-19 pandemic.



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Finally, to better isolate indicators of vulnerability, we estimate a series of regression models predicting the change in debt levels and other credit outcomes from Q42019 to Q42020 while controlling for a vector of demographic and financial characteristics.

### **Diverging Debt Balances for Economically Advantaged and Disadvantaged Older Households**

Using credit data to track indicators of financial distress, we find that, on average, older adults experienced larger reductions in total household debt in the period after the start of the COVID-19 pandemic, relative to adults aged 18 to 49. However, there is significant heterogeneity within the population of older adults, with those with higher incomes, in larger households, with mortgage debt, and with higher credit scores experiencing the largest declines. By contrast, household debt levels increased for older adults with lower incomes, lower credit scores, and from single person households. Reliance on high-cost debt for those with the lowest credit scores (580 or lower) fell by more than a third, raising the question of whether access met demand.

### **Creditors Restrict New Lending and Extend Targeted Accommodations to Older Borrowers**

We also find that older adults are significantly less likely to be approved for new credit in 2020, with the oldest adults (72 and older) experiencing the largest decline in approval rates among those seeking credit. Applicants under 50 had a 5 percentage point decline in approval rates from late 2019 to late 2020, while applicants over 50 saw a 10 to 13 percentage point decline in approval rates.

Lenders also increased the rate at which they cut revolving credit lines and closed revolving credit accounts during 2020. From late 2019 to late 2020, the share of borrowers under 50 experiencing a credit reduction rose 2.1 percentage points, while the share of 50- to 71-year-olds experiencing a credit reduction rose 3.7 percentage points.

Although lenders restricted new borrowing for older consumers, they did provide payment accommodations on existing loans. Our results indicate that a large share of older adults benefited from payment accommodations during the COVID-19 pandemic. These borrowers tend to be more vulnerable in terms of both repayment history and debt obligations relative to income, which raises concerns regarding how well they will manage debt payments when accommodations expire.

### **Mobility Decline is Associated with Balance Decline, and Disease Prevalence with Payment Accommodations**

Our analysis also relates measures of the regional severity of the pandemic to residents' debt behaviors. We find that older adults living in areas with greater mobility declines (measured as the increase in the share of people staying at home) experienced larger reductions in total household debt during the pandemic relative to older adults living in areas with little or no mobility decline. Finally, we find modest but persistent evidence that people in states with higher COVID-19 case rates per capita are also among those most likely to rely on accommodations.



## Implications

- While many older households are emerging from the pandemic in better debt positions, a substantial minority of older households, in particular heavily indebted households, and households with weaker credit histories, have increased their balances or relied on lender accommodations. Their financial stability is uncertain as accommodations end.
- Lenders differentially restricted new lending to older borrowers while nevertheless extending them payment accommodations on existing loans during the pandemic. This type of practice on the part of both public and private creditors may spare older households from immediate default during a crisis, but it does less to sustain older households' consumption.

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