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Research Brief

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Household Debt and Financial Well-Being in Retirement

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Many media stories suggest that Americans are woefully unprepared for retirement. Recent trends in housing and financial asset appreciation appear to be improving the financial well-being of older Americans. However, without also understanding debt, it is impossible to know whether retirees are better off. The study addresses two related topics. First, how have household debt and net asset levels evolved for people past age 50? Second, controlling for net asset levels, have debt-to-asset ratios improved or worsened over time? Increasing debt-to-asset ratios may suggest that retirees will be less financially secure in retirement.

Using the RAND Health and Retirement Study (HRS) panel data from 1992 – 2016, this study investigates debt-to-asset ratios across age cohorts. This analysis allows for a summary review of how debt, assets and debt-to-asset ratios compare across generations of seniors over time. A further analysis looks at how long-term debt and assets trends have played out across various age groups over time.

Debt is Increasing Among Seniors

Debt burdens are generally increasing for the near-retirement age population (See Figure 1). Additionally, controlling for assets, debt-to-asset ratios are also increasing. The median debt-to-asset ratio was 12 percent. The ratio increases with each successive cohort, increasing to 28 percent for the Mid Boomer cohort (born 1951-1955), consistent with news stories reporting increasing debt for each age group and less financial well-being in retirement, but then declines to 19 percent for the Late Boomer cohort (born 1956-1960).

The average debt-to-asset ratios are heavily influenced by some extreme values. Nonetheless, for the oldest birth year cohorts, their debt-to-asset ratios appear to be relatively moderate and manageable over time. However, for those born between 1951-1955 and 1956-1960, debt-to-asset ratios are quite high, which may anticipate financial

[i] Views expressed are the author's and are not intended to represent official views of any affiliated organization.

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fragility as these respondents retire.

Levels of Debt and Assets Are Both Rising

Generally, as people get older, they tend to reduce debt (see Figure 2) across all cohorts. The median value of debt for each birth cohort is higher at the same age for each generation [ii]. Though the use of averages in the HRS can be highly sensitive to outliers, the average total debt level of households between the ages of 50 to 55 in the HRS baseline surveyed in 1992 was almost $72,000, and the average increased with the Mid Boomers, who had an average total debt of more than $122,000. The average debt for the Late Boomer cohort was $102,700.

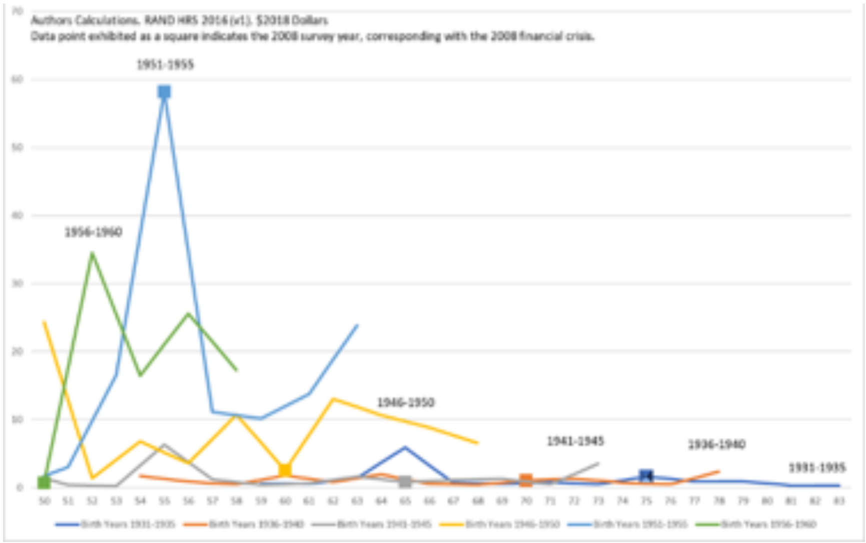

Figure 1: Average Debt to Asset Ratio by Birth Cohort

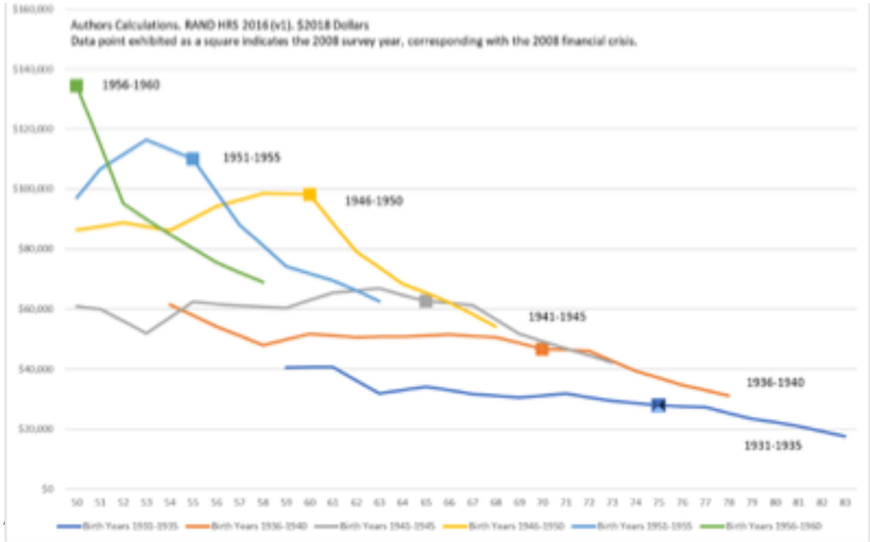

Figure 2: Average Total Debt By Birth Cohort

A similar pattern emerges with respect to households age 56 to 61, the period immediately preceding retirement for many people. Getting a better handle on debt before retirement could lead to more financial security afterward. However, median total debt for households has generally been increasing. Unfortunately, the total asset values for this age group has not increased commensurate with debt levels. Note that the data point exhibited as a square in the Figures indicates the 2008 survey year, corresponding with the 2008 financial crisis. The Late Boomer cohort experienced very high average debt levels in 2008, but has been reducing their average debt level ever since, suggesting that this cohort may enjoy better financial well-being in retirement. However, it is important to keep in mind that for

[ii] All dollar values have been adjusted to 2018 levels.

many people near retirement, the financial crisis resulted in a major reduction in financial assets that continues to have implications for their retirement security and financial well-being.

Implications

Each generation faces unique economic challenges when saving for retirement. Some generations experience strong economic growth and generally rising wages, while others face slow asset appreciation and debt accumulation. As this analysis has shown, debt burdens are increasing for the near-retirement age population. However, the story is more nuanced, as early evidence suggests improvement in the financial condition of the Late Boomer cohort. Further, the one-size-fits-all story that there is a "retirement crisis" on the horizon creates an incomplete picture of the true financial landscape faced by many future retirees. Further research is needed on how people are using debt as a financial tool in retirement. The story of debt in retirement is more complicated than often portrayed in the popular press. For example, satisfaction with retirement has remained relatively constant over time, suggesting that debt levels do not necessarily impact retirement satisfaction and that there may be a generational shift in the preference level for debt in retirement. More research is needed before making any policy conclusions.