Remarks of

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before the

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Older Persons and Debt

Many older persons, especially those who grew up during the Depression and World War II have a strong aversion to debt. They often:

– Own Homes “free and clear”

– Make limited use of consumer credit

Younger segments of the older population, including many boomers, are managing their money differently from previous generations, and are carrying more debt due to:

- having children later in life and increasing costs of higher education
- higher housing costs
- more responsibilities for retirement planning and savings

Change in debt status

In the 1990's, we've seen major changes in the level and types of debt carried by older households. For example:

- Credit Cards
  - Carrying a Balance
    - Nearly one in three credit card holders age 65 and over carried debt
  - Higher Balances
    - Average revolving balances increased by 89% to $4,041 between 1992 and 2001
    - Those newly retired between age 65 and 69 saw the highest rise in credit card debt—217 percent—to an average of $5,844
  - High Debt Burden
    - 1 in 5 older households (65+) with credit card debt spent more than 40% of their income on debt payments

Source: Demos analysis of SCF, *Retiring in the Red*, 2004

- <u>Bankruptcy</u>
  - Fastest growing age group (65+) in bankruptcy—between 1991 and 2001, bankruptcies for this group increased 244%
  - Bankruptcies among those age 55-64 increased 85%

Source: Sullivan, T.A., Thorne, D., and Warren, E. *Young, Old, and In Between: Who Files for Bankruptcy?* 2001

- <u>Mortgage Debt and Foreclosure</u>
  - The proportion of persons age 65 and older with a mortgage grew nearly a third (21 to 28%) from 1990 to 2000

Source: U.S. Census Bureau

– Subprime Mortgage Lending

- Higher foreclosure rates found in neighborhoods with high rates of subprime lending
- Older borrowers are overrepresented in the high cost subprime refinance market. Borrowers 65 and older were 3 times more likely to hold a subprime mortgage than borrowers younger than 35

Source: Walters, N. and Hermanson, S. *Subprime Mortgage Lending and Older Borrowers* 2001

– Shifting non-secured Debt to Mortgage Debt

- 40% of low and moderate-income homeowners had refinanced during the last 3 years, over half the proceeds used to pay off credit card debt

Source: Demos and Center for Responsible Lending *The Plastic Safety Net: The Reality Behind Debt in America*, 2005

<u>AARP Bulletin Survey</u>

Views and concerns of older workers (40+) and retirees concerning debt:

- 45% of respondents see their current level of debt as a problem
  - 53% of older workers
  - 30% of retirees
- AARP Bulletin survey shows that the majority of the 6 in 10 older workers who have <u>not</u> saved for retirement attributed this to:
  - High everyday expenses (72%)
  - Not enough income to allow you to save (68%)

Source: *AARP Retirement Planning Survey Among U.S. Adults Age 40 and Older*, May 2006

Debt as a Public Issue

Resonates with an older population that is confronted with:

- Rising Health Care Costs and Out of Pocket Expenses (19% of income in 2003 for persons 65 and older)

- Reductions/caps in employer sponsored health coverage for retirees

- Dramatic shift from Defined Benefit to Defined Contribution Pension Plans which place greater burdens and risks on workers.

- Inadequate retirement savings
  - The National Retirement Risk Index indicates 43% of working age households are at risk of seeing their standard of living fall due to inadequate levels of savings

Solutions

- *Beyond 50.04, A Report to the Nation on Consumers in the Marketplace*

  AARP recommended several of the policy solutions that the Greenburg, Quinlan, Rosner survey indicates have strong public support. These include:
  - Better consumer disclosures
  - Incentives for savings
  - Greater financial literacy
  - Cracking down on abusive and predatory practices

In general, consumer advocates should concentrate on the following:

- Making Defaults Work for Consumers Instead of Against Them

  Apply the lessons of behavioral economics and design defaults that help make decision-making easier for harried consumers

  - People are working more than ever
  - Have more responsibilities for managing financial matters

- Better Consumer Disclosures
  - Consumer disclosures need to be easier to understand, complete and timely. They should promote comparison shopping and “put the consumer in charge” by reducing complexity. You shouldn’t have to be an attorney to understand a Truth-in-Lending Disclosure.

- Increase Financial Literacy
  - Build financial literacy efforts around key financial/life decisions to help tilt the balance of “The Democratization of Credit” toward the benefits rather than the dangers of wider access to credit.

- Stronger consumer protections and enforcement
  - Finally, consumer protection laws and regulations need to catch up with major changes that have occurred in the financial marketplace. Strong enforcement is critical.