TIAA Institute

Trends and Issues
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Understanding debt management among older Americans

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Introduction

In recent years, there has been a notable increase in the number of older Americans carrying debt into retirement. Research indicates that this trend is not only prevalent but also growing, posing significant challenges for retirement security. While studies have highlighted the rise in debt among older adults, less attention has been given to their ability to manage and pay off this debt. This report aims to shed light on the prevalence and amounts of delinquent debt among older adults, examining various factors influencing debt management and its implications for retirement security.

Debt in retirement: a growing concern

An analysis conducted by the U.S. Government Accountability Office (GAO) reveals a concerning trend: A significant portion of older Americans are entering retirement with substantial debt burdens. The analysis, based on data from the Survey of Consumer Finances, found that 71% of older households held some form of debt in 2016, compared to 58% in 1989. Further, the median debt amount for older households with debt nearly tripled during this period, from $18,900 to $55,300 (adjusted for inflation). This suggests a growing reliance on debt among older adults as they transition into retirement, raising questions about their financial stability and security in later life.

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Defining delinquent debt

To understand older adults' debt management abilities, it's crucial to define delinquent debt and its implications. Delinquent debt refers to any debt that is 60 or more days past due and is highly likely to appear on the borrower's credit report. This includes derogatory debt sent to collections, indicating financial vulnerability and a lack of income. Delinquent debt not only reflects individuals' struggles to manage debt but also their challenges in balancing debt repayment with covering daily expenses. By focusing on delinquent debt, we can gain insights into older adults' financial health and their ability to maintain their standard of living in retirement.

Examining debt types and prevalence

Our analysis examines various types of debt among older adults, including delinquent debt, debt in collections, medical debt in collections, delinquent student loan debt and delinquent credit card debt. The findings reveal that approximately 21% of older adults in our sample had delinquent debt, while 20% had debt in collections. Furthermore, disparities exist across age groups, with adults aged 50 to 61 exhibiting higher rates of delinquent debt and debt in collections compared to those aged 62 and above. This suggests that debt management challenges are more pronounced among younger retirees, who may still be grappling with mortgage payments, healthcare expenses and other financial obligations.

Racial and ethnic disparities

One of the most significant findings of our analysis is the existence of racial and ethnic disparities in debt management among older Americans. While we don't observe race directly, we examine differences by zip code areas with different racial majorities The data reveal stark differences in debt management among older Americans from different racial and ethnic backgrounds, underscoring systemic inequalities in wealth accumulation, access to resources and financial opportunities.

Areas with majority American Indian or Alaska Native (AIAN) residents exhibit the highest prevalence and median levels of delinquent debt and debt in collections among older adults. This suggests a heightened vulnerability to financial instability and hardship within AIAN communities, stemming from historical and ongoing marginalization, limited access to economic opportunities, and disparities in educational attainment and income levels. Addressing the unique challenges faced by AIAN older adults requires targeted interventions aimed at improving economic inclusion, expanding access to financial resources and services, and fostering community development initiatives.

Similarly, majority-Black and majority-Hispanic areas demonstrate higher levels of delinquent debt and debt in collections compared to majority-white areas. These disparities reflect longstanding structural barriers to wealth accumulation and economic advancement faced by Black and Hispanic communities, including discriminatory lending practices, housing segregation, and limited access to quality education and employment opportunities. As a result, older adults from these communities are more likely to enter retirement with significant debt burdens, exacerbating financial insecurity and hindering their ability to achieve a comfortable and dignified retirement.

Moreover, disparities in debt management intersect with broader issues of retirement security and economic well-being. High levels of delinquent debt among older adults can undermine their financial stability, erode retirement savings and limit their ability to cover essential expenses—such as healthcare, housing, and daily living costs. Addressing racial and ethnic disparities in debt management is therefore critical for promoting equity in retirement outcomes and ensuring that all older Americans can enjoy a secure and prosperous retirement.

Medical debt in collections, delinquent student loan debt and delinquent credit card debt

The analysis of medical debt, delinquent student loan debt, and delinquent credit card debt underscores significant disparities in debt management among older adults, with implications for financial well-being and retirement security. We find that residents in majority-Black areas exhibit the highest shares of medical debt in collections. Regarding student loan debt delinquencies, residents of majority-AIAN, majority-Black and majority-Hispanic areas have the highest rates, with consumers in majority-AAPI areas showing the highest median amount of delinquent student loan debt. Similarly, both majority-AIAN and majority-Black areas have the highest credit card delinquency rates among older adults, although median delinquent credit card debt amounts are similar across racial/ethnic groups. Additionally, we find several factors influencing medical debt in collections, including age, credit score, mortgage status and neighborhood characteristics. Older adults over age 66 tend to have higher medical debt in collections, while subprime credit scores and uninsured populations within a zip code area predict higher likelihoods of medical debt. Furthermore, delinquent student loan debt and delinquent credit card debt are more prevalent among older adults over age 66 compared to younger older adults, with mortgage status and neighborhood demographics also playing significant roles in debt management patterns. These findings underscore the complex interplay between individual characteristics, socioeconomic factors and systemic inequalities in shaping debt outcomes among older adults, highlighting the importance of targeted interventions to address disparities and promote financial security in retirement.

Debt and poverty

Across all racial and ethnic groups, people living in zip code areas where household incomes are in the bottom quartile exhibit a significantly higher probability of delinquent debt than those living in higher-income zip code areas. Conversely, they are less likely to have medical debt in collections, potentially due to Medicaid coverage or less frequent hospital visits among lower-income people. However, among those in lower-income areas with medical debt in collections, the average amount of debt tends to be higher than that of the general population, indicating prevalent debt and poverty issues across diverse racial and ethnic groups.

Implications for retirement security

The prevalence of delinquent debt among older adults raises concerns about retirement security. As interest rates rise, a significant fraction of older Americans may struggle to cover their debt obligations in retirement, leading to financial insecurity and hardship. Policies aimed at encouraging savings, promoting financial literacy and supporting debt management among older adults are crucial for addressing these challenges and ensuring a secure retirement for all. By providing older adults with the tools and resources they need to manage their debt effectively, we can help them achieve greater financial stability and peace of mind in retirement.

Conclusion

In conclusion, understanding debt management among older Americans is essential for addressing the complex dynamics of retirement security. The findings of our analysis underscore the need for targeted interventions to support older adults in managing their debt effectively. By prioritizing financial education, policy initiatives and support services, we can work toward building a more equitable and sustainable retirement landscape for all older Americans. As the population ages and economic conditions evolve, we must continue to monitor and address the challenges posed by rising debt levels among older adults, ensuring they can enjoy a secure and dignified retirement.

About the author

Mingli Zhong is a senior research associate in the Center on Labor, Human Services, and Population at the Urban Institute. She is also a visiting scholar at the Wharton School of the University of Pennsylvania. Before joining Urban, she was a postdoctoral fellow at the National Bureau of Economic Research.

Zhong's research focuses on household and consumer finance. She examines saving, spending, and borrowing behavior. She studies the interaction between private savings and the social safety net. Her recent projects address the optimal design of automatic enrollment retirement plans, the impact of the expansion of automatic enrollment plans on low-income workers, and spending and borrowing patterns during the COVID-19 pandemic.

Zhong also studies the labor market, especially the impacts of the gig economy on labor market participation, income security, and retirement decisions.

Zhong's research has been funded by AARP, the Boettner Center/Pension Research Council at Wharton, the Center for Retirement Research at Boston College, the Pew Charitable Trusts, and the Social Security Administration. She has been interviewed by government officials and business leaders as an emerging expert on household financial security. Her research has been cited by the Brookings Institution, MarketWatch, Marketplace, *NBER Digest*, ThinkAdvisor, and 401k Specialist.

Zhong received a PhD in applied economics from the University of Pennsylvania. Her doctoral dissertation received the Social Security Administration Dissertation Fellowship Program in Retirement and Disability Research and Robert R. Nathan Fellowship.

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