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When it comes to debt, gray is the way!

Maya B. Brandon

Older Americans are getting deeper in debt than ever before. In "The graying of household debt in the U.S." (Federal Reserve Bank of Philadelphia, *Economic Insights*, first quarter 2021), Wenli Li explores the policymaking consequences of the relationship between an aging American population and its increasing household debt. The last of the baby boomers is approaching retirement age and is increasing household debts, to include credit card, medical, and home-secured debts (mortgages). Li uses the Survey of Consumer Finances (SCF), "a triennial statistical survey of the balance sheets, pensions, incomes, and other characteristics of American families," to examine the distributary changes in household debt since 1989.

Although the share of total household debts continues to decrease in younger (ages 25 to 34) and middle-aged (ages 35 to 54) households, shares of older (ages 55 to 85) households are climbing. As Americans are aging, so are their household debts. Li found that in most households, mortgages are the greatest debt contributor, whereas the greatest asset is the housing itself. Even after a generationwide drop in homeownership rates following the Great Recession, the share of older homeowners with a mortgage has doubled. Through the Great Recession, older households maintained more debt than middle-aged and younger households, and after the Great Recession, they applied for more loans and mortgage products than did the younger groups.

Li also learned that according to the SCF data, older homeowners have more equity in their homes and are more likely to use this equity by either refinancing their mortgages to access cash or by obtaining home equity lines of credit. With the high levels of equity held in the homes of older households, these homeowners are borrowing more than younger homeowners against the value of their homes. Older homeowners are also able to use their credit worthiness to obtain additional debt since they default less frequently and tend to carry more debt through recessions and other hardships than younger homeowners.

But why are older homeowners borrowing more often? Li's research reveals that one reason may be favorable interest rates. Falling interest rates have made borrowing for and against housing more affordable and thus more accessible. Older households are able to get approved for additional credit and loans because of their assumed stability, wealth, and steady income. However, a few problems arise. Older households are limited in their time and income available to repay these debts. If they were to suffer a financial hit, older households are much less likely to recover than younger and middle-aged households.

As Li notes, Americans are graying and household debts are graying as well. Historically, low interest rates continue to drive older Americans to pursue home-secured and other household debts. Household debts are increasing in older households, and financial risks for this demographic are also on the rise.