

March 12, 2002

Ready to Quit, but Deep in Debt

By DANIEL ALTMAN

SAVING for retirement is hard enough without being in debt. But more Americans than ever before are finding themselves on the cusp of retirement and in the red.

"There are an awful lot of people who are in near retirement who aren't ready for retirement," said William D. Novelli, the executive director and chief executive of AARP, the nonprofit advocacy group for Americans 50 years and older. Debt multiplied among older people during the 1990's, he said, even though "the bloom was on the economy."

Data from the Survey of Consumer Finances, conducted by the Federal Reserve Board, confirm that among households headed by 55 to 64-year-olds, the average ratio of debt payments to family income grew to 13 percent from 9 percent between 1989 and 1998. Though the Federal Reserve will not report new figures until next January, indications are that a smaller share of families are in debt, but with larger balances.

Credit counselors have also noticed the change. "Generally, we're seeing a larger percentage of older consumers that are closer to retirement," said William P. Cullinan, the interim president and chief executive of the National Foundation for Credit Counseling. "They may own a house, perhaps with a mortgage, but they don't have much beyond it."

The most recent Health and Retirement Study, a biennial survey financed by the National Institute on Aging, also paints a less-than-pretty picture. "Looking at 64-year-olds, 14 percent of them have negative net worth," said Michael D. Hurd, the director of the RAND Center for the Study of Aging, which compiles data from the studies. "That's not very good." Indebted people between ages 50 and 64 owed an average of \$13,000, he said.

Several factors contributed to the rise in indebtedness among people about to retire, according to researchers and credit counselors. Near the top are changes in living standards. Couples are having

children later than usual, a decision that pushes education and housing costs closer to retirement.

Scott M. Kahan, the president of the Financial Asset Management Corporation in New York, said that divorces and remarriages, resulting in second families, often contributed to the delay. People who want to retire, therefore, often resort to a home-equity loan, he said.

"A lot of aspects of retirement planning seem to come upon people quite quickly," said Dawn Lockhart, the director of Consumer Credit Counseling Services in the Jacksonville, Fla., a network of nonprofit agencies. The rush to build savings accounts exposes people to financial risks, she said. Financial planners usually advise people to invest aggressively when they are younger and to become gradually more conservative as retirement approaches. But when big costs are put off until later in life, Ms. Lockhart said, those stages become compressed.

Taking out loans and investing in risky assets might have seemed like a good idea in the last decade, but now, in a leaner economy with lower stock prices and credit card interest rates creeping higher, families might have serious problems.

The Federal Reserve triennial Survey of Consumer Finances showed that households headed by 55- to 64-year-olds were taking on more of almost every kind of debt in the 90's. From 1995 to 1998, when the economy was strongest, the percentage of those households with installment loans or credit card balances rose to 38 percent from 35 percent and to 46 percent from 43 percent, respectively. The share of households carrying loans secured by their homes, like home-equity loans, rose to 49 percent from 45 percent.

People with such loans may be particularly at risk, Mr. Cullinan said. "When those people run into a problem, suddenly they find themselves in a precarious position, possibly even losing the home." Ms. Lockhart added that the fastest-growing segment of her agency's clientele consisted of people who had

a life-changing event and could no longer repay a home-equity loan.

Sometimes fraud is the life-changing experience, Mr. Novelli added. "It turns your stomach to see how many incredibly creative scams there are," he said, to cheat "these people out of their money and their homes."

The ease of credit in the 90's may have also increased financial problems, Mr. Cullinan said. "In recent years, with interest rates having come down so much, literally millions of Americans took advantage of that by refinancing mortgages, frequently taking cash out. Unfortunately, in many of those situations, people didn't fix the underlying issues they should have dealt with."

The recent tumble in stock prices has also made retirement dicey. "Obviously, their portfolios haven't been growing," Mr. Kahan said of people who had invested heavily in stocks. "If they have that extra debt that they thought they could grow out of, and maybe pay down over time, that may be an issue because their portfolios aren't what they thought they would be."

Dwindling portfolios have made retirement planning more urgent, Ms. Lockhart said. Clients who were "dramatically impacted by the decline in the stock market" now find themselves facing "a very short time horizon," she said.

Yet many of the indebted who are near retirement have low incomes and never owned stock, Dr. Hurd of the RAND Center for the Study of Aging said. He estimated that only about half of working Americans invested in the stock market during the 90's, even through pension funds. "These people who have negative net worth, the chances are they don't have pensions," he said.

For this group and others, low saving rates may be the deeper cause. "There is a very poor set of savings behaviors in our country," Mr. Novelli said. The generation that fought in World War II had a fine saving ethic, but nothing to save, he said. The baby-boom generation has had plenty to save but no inclination.

Dr. Hurd offered a more economic explanation: low-income people often view saving as a luxury. "We asked people whether they had saved enough for retirement, and got a fairly high fraction saying no." When asked why not, he said, "their typical answer was, basically, their incomes were not high enough."

Entering retirement debt free can mean new habits or postponing the last day of work.

Even with a short time horizon, said Howard D. Leonard, a manager of GreenPath Debt Solutions, a nonprofit credit counseling agency in Queens, families may still be able to recover from debt. Within four or five years, he said, a family that closed its credit card accounts and entered a repayment arrangement could turn red ink to black.

Often, however, older people are reluctant to ask for help. "With more mature consumers, they're probably more likely to suffer in silence," Mr. Cullinan said. "They're afraid to ask for help, or embarrassed to ask for help at their age."