Older Consumers' Debt Repayment Behaviors

The purposes of this study are to examine the debt repayment behavior among older consumers and to verify the factors affecting their debt payment behavior, using the 2001 Survey of Consumer Finances. Older consumers with higher debt to assets ratio, more credit cards, bankruptcy experience, and positive attitude toward credit are more likely to have debt payment difficulties. Older consumer's age and race also affect their debt repayment behaviors. Implications for creditors and consumer educators are presented.

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Justification

Consumer debt has become a part of everyday life for all population in the United States. Over 10 years, debt among older adults has been increased at rapid rates as expenses rise (Consumer Bankruptcy News, 2004). Along with the increase in consumption needs, the aggregated consumer debt amount and bankruptcy filing among older consumers have increased steadily. Especially bankruptcy filing among older consumers has been growing faster than any other segment of the population (Consumer Bankruptcy News, 2004).

However, little attention has been paid to older consumers' debt and debt repayment because older consumers have been assumed to live within their lifetime assets and pension income (Ando & Modigliani, 1963). But, lots of older adults are using credit cards attempting to bridge the gap between income and excessive consumption (Consumer Bankruptcy News, 2004). Since older consumers usually have been faced with health problems, longer life expectancy, and financial gap between fixed income and increasing expenses, debt and its related problems (high interest rates, fees and debt payment) could make them the most vulnerable population. Thus, this study examines the debt repayment behavior among older consumers and verifies the factors affecting their debt payment behaviors.

Conceptual Framework

The conceptual model of older consumers' debt repayment behavior was derived from the life-cycle hypothesis (Ando & Modigliani, 1963) and consumer's credit risk models (Canner & Luckett, 1990; Livingstone & Lunt, 1992). Current resources, consumption needs, household's ability to borrow against future and psychological factors were identified to be important in examining the amount of debt and the debt repayment patterns.

Data and Sample

Data were drawn from the 2001 Survey of Consumer Finances (SCF) which was sponsored by the Federal Reserve Board of Governors and conducted by the National Opinion Research Center (NORC) at the University of Chicago (Aizcorbe, Kennickell, & Moore, 2003). The 2001 SCF contained comprehensive and detailed financial information from a nationally representative cross-sectional sample of 4,449 households. For this study, older consumers aged 65 and over were included (N=875).

Variables and Analysis

The dependent variable of this study is the likelihood of having debt repayment difficulty. It is measured by the response to these two questions: "Were all the payments made the way they were scheduled, or were payments on any of the loans sometimes made later or missed?" and "Were you ever behind in your payments by two months or more?" The variable is coded as 1 if the respondent sometimes got behind or missed payment or ever behind in payments by two months or more and 0 if otherwise. Because the dependent variable is dichotomous, a logistic regression is employed for the analysis. Four groups of independent variables are identified: demographic characteristics, health status, financial ability, and attitudes toward credit. Demographic characteristics consist of household head's age, household size, marital status, education level, race and gender. Health status includes self-reported health status and having any health insurance. Financial ability factors are income, assets, debt to assets ratio, currently having job, number of credit card, and experience of bankruptcy. Attitude toward credit is included.

Results

Almost 46 percent of older consumers have debt repayment difficulties. The average value of annual income and total assets are $48,285 and $629,281, respectively. The average ratio of total debt to total assets is about 29%. About 2.6% of older consumers have bankruptcy experience and about 23% have positive attitude toward credit. The average number of credit card is about 2. About 91% of older consumers are white, 75% are male-headed, and about 64 % are currently married. About 26% of them are working. About 69% report excellent or good health while 8% report poor health. About 98.6% have one or more health insurance.

The findings of logisitc regression indicate that younger household heads, nonwhite, having higher debt to assets ratio, more credit cards, bankruptcy experience, and positive attitude toward credit have positive impacts on the likelihood of having debt payment difficulties.

Conclusions and Implications

Consistent with the hypotheses, older consumers with higher debt to assets ratio, more credit cards, bankruptcy experience, and positive attitude toward credit were more likely to have debt payment difficulties. Older consumer's age and race also affected their debt repayment behaviors. The findings of the study have some implications for creditors and consumer educators. First, age, debt ratio, race, bankruptcy experience, credit attitude, and the number of credit cards were found to be the most important factors. Based on the significant factors in the study, creditors can adjust the importance of each factor to improve the predicting power of older consumers' debt repayment. Second, consumer educators can verify the targeting audience with empirical factors (age, bankruptcy history, debt ratio, and credit cards). In doing so, educators can develop the well- tuned programs for older consumers.

References

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Endnotes

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