Is Debt Good or Bad for a Comfortable Retirement? Exploring the Relationship between Consumer Debt and Retirement Preparedness

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There has been a notable rise in the prevalence and size of student loan and credit card debt in the last two decades, prompting widespread concerns about its impact on the financial security of American households (Munnell et al., 2016). One can speculate that individuals struggling with an increased debt burden also face increased pressure to cut back on spending and/or saving, including saving for retirement. The literature on the relationship between debt accumulation and retirement saving is small, albeit growing, likely due to the relative recency of the rising debt problem as well as methodological limitations (Rutledge et al., 2016).

In this paper, we use data from a nationally-representative sample within the Understanding America Study (UAS) Internet panel to explore the broad relationship between people's consumer debt patterns and their retirement saving and planning behavior. Specifically, we examine the impact of having secured (e.g., mortgage, home equity, home equity line of credit) and non-secured debt (e.g., credit card, student loan, payday loan) on a novel retirement-preparedness index as well as self-assessed retirement preparedness.

The UAS is a nationally-representative Internet panel of approximately 6,000 households (Alattar et al., forthcoming). Recruitment to the panel is done through address-based sampling and Internet access is not a requirement for participation. Panel members respond to surveys about once or twice a month and are paid a nominal fee. For our analysis, we consider the subsample of non-retired individuals aged 18 to 62, who were administered four surveys relating to retirement and financial management (N=1,813). Table 1 shows the demographic characteristics of the weighted sample.

The measures of retirement preparedness used in our analyses include self-reported retirement-planning behavior, subjective perceptions of retirement preparedness, and the retirement preparedness index (Chard et al., forthcoming). Table 2 summarizes these debt patterns and retirement preparedness statistics. To measure subjective perceptions of retirement preparedness, we asked respondents to indicate how prepared they felt for retirement by assigning themselves a grade from A (very prepared) to D (not prepared at all). Tables 3 and 4 show subjective perceptions of retirement preparedness for the whole sample and for people with some form of non-secured vs. secured debt, respectively. Overall, less than 10 percent of the sample perceive themselves to be well-prepared financially for retirement, with the majority (61%) feeling not prepared. When considering debt type, however, the majority (65%) of people with non-secured debts indicate feeling not prepared for retirement, compared to 46% of those with secured debt.

Table 5 summarizes self-reported retirement saving behaviors. As shown, only about 2 percent of respondents indicated having defined benefit pension plans. In comparison, a much larger proportion (26%) reported having their own Individual Retirement Account (IRA), and this proportion is higher when including entire household IRA wealth (32%). When considering debt type, a larger proportion (42%) of participants with secured debts indicated having their own IRA assets compared to those with non-secured debt (23%). These results vary among socioeconomic and demographic characteristics, as well as marital status. Tables 6 and 7 show the regressions for non-secured and secured debt, respectively.

Our findings suggest that people with non-secured debt (i.e., credit card debt, student loans, or payday loans) save and plan less for retirement, and also report feeling less financially-prepared for retirement. Having secured debt (i.e., mortgage debt, home equity loans, or home equity lines of credit), on the other hand, correlates positively with retirement savings and planning behavior. We discuss plausible explanations for these relationships and other measures within the retirement preparedness index for different segments of the population. We also discuss limitations of our data and plans for follow-up longitudinal analyses, as well as a comparison of our debt and retirement planning scale with other financial well-being scales. We propose recommendations for other future research and highlight the importance of considering consumer debt management within the overall scheme of financial well-being and retirement security, including areas of research with policy implications.

References

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Table 1: Weighted Summary Statistics (Demographic Variables)

Variable	N	Mean	Margin of Error
Male	1813	49.3%	3.1%
Female	1813	50.7%	3.1%
Ethnicity: White	1813	63.2%	3.2%
Ethnicity: Black	1813	13.8%	2.3%
Ethnicity: Hispanic/Latino	1813	18.0%	2.9%
Ethnicity: Other	1813	5.0%	1.2%
Age 18-34	1813	39.4%	3.2%
Age 35-54	1813	45.0%	3.1%
Age 55-62	1813	15.6%	2.0%
Married	1813	58.4%	3.1%
HHD income <$30K	1809	28.2%	2.9%
HHD income $30K-$49999	1809	15.8%	2.3%
HHD income $50K-$74999	1809	18.5%	2.4%
HHD income >$50K	1809	37.5%	3.0%
Education: High School/GED	1813	40.3%	3.2%
Education: Some College	1813	28.2%	2.6%
Education: College degree or more	1813	31.5%	2.7%
Unemployed	1813	9.4%	1.9%

N = subpopulation: ages 18-62 and non-retired.

Table 2: Debt and Retirement Planning Summary Statistics (Weighted)

Variable	N	Mean	Margin of Error
Credit Card Debt	1803	44.6%	3.1%
Student Loan Debt	1808	31.2%	2.8%
Payday Loans	1806	8.6%	1.9%
Non-Secured Debt: *(Credit Card, Student Loan, or Payday Loan)*	1804	61.4%	3.0%
Secured Debt: *(Mortgage/HE/HELOC)*	1811	17.1%	2.2%
Both: *Secured and Non-Secured Debt*	1813	10.6%	1.8%
Saving: *Ever tried to figure out how much to save for retirement*	1810	33.0%	2.8%
Planning: *Ever tried to develop a plan for retirement*	1810	36.0%	2.9%
Either: *Ever tried to figure out how much to save OR tried to develop a plan for retirement*	1810	43.8%	3.1%

N = subpopulation: ages 18-62 and non-retired.

Table 3: Subjective Perception of Retirement Preparedness

How well prepared are you financially for retirement? (weighted response)

Response	N	Proportion	Margin of Error
Not at all prepared	553	30.7%	3.0%
Not too prepared	545	30.2%	2.9%
Somewhat prepared	557	30.9%	2.8%
Very prepared	146	8.1%	1.6%
Total	1801		

N = subpopulation: ages 18-62 and non-retired.

Table 4: Subjective Perception of Retirement Preparedness (by debt type)

How well prepared are you financially for retirement? (weighted response)

Response	**Non-Secured Debt** Credit Card, Student Loans, Pay Day Loans			**Secured Debt** Mortgage, Home Equity Loans, HELOCs		
	N	**Proportion**	**Margin of Error**	**N**	**Proportion**	**Margin of Error**
Not at all prepared	347	31.5%	3.8%	39	12.5%	4.4%
Not too prepared	366	33.2%	3.8%	103	33.3%	6.7%
Somewhat prepared	336	30.5%	3.6%	140	45.5%	6.9%
Very prepared	54	5.0%	1.7%	27	8.6%	4.0%
Total	1103			309		

N = subpopulation: ages 18-62 and non-retired, and who have some form of non-secured and secured debt, respectively

Table 5: Retirement Savings Behavior (Weighted)

Variable	N	Mean	Margin of Error
Has a pension (defined benefit) plan	1799	2.2%	0.84%
Has IRA assets (own/named as a beneficiary)	1813	31.7%	2.73%
Has own IRA	1813	25.5%	2.52%
Own IRA wealth > age-adj. income threshold	1813	99.96%	0.06%
Own/bene IRA wealth > age-adj. income threshold	1813	98.8%	0.72%
No early withdrawals from IRAs owned	1813	1.9%	0.60%
No early withdrawals from IRAs owned/named as beneficiary	1813	3.0%	0.80%
No early cash-in on own IRA	1813	98.8%	0.71%
% of stock held in own IRA (zero if none)	1813	3.8%	0.95%
% of stock held in IRAs owned/named as beneficiary (zero if none)	1813	3.9%	0.91%
% of stock is age appropriate (IRAs owned)	1813	0.7%	0.51%
% of stock is age appropriate (IRAs owned/named as beneficiary)	1813	0.9%	0.56%

N = subpopulation: ages 18-62 and non-retired.

Highlighted cells show variables used to form Retirement Index (household version), as used in our regression models.

Table 6: Regression – Non-Secured (credit card, student loan, or payday loan) Debt and Retirement Preparedness

	(1)	(2)	(3)
	Ever Planned/ Tried to Save for Retirement	Self-assessed Retirement Preparedness	Retirement Preparedness Index
Non-Secured Debt indicator	0.009	-0.235***	-0.149**
	(0.03)	(0.05)	(0.07)
Female	-0.063**	-0.013	-0.083
	(0.03)	(0.05)	(0.07)
Ethnicity: Black	-0.042	0.114	-0.310***
	(0.04)	(0.09)	(0.10)
Ethnicity: Hispanic/Latino	-0.091**	-0.327***	-0.451***
	(0.05)	(0.08)	(0.12)
Ethnicity: Other	-0.053	0.104	-0.153
	(0.06)	(0.09)	(0.15)
Age 35-54	0.111***	0.055	0.234***
	(0.03)	(0.06)	(0.08)
Age 55-62	0.249***	0.339***	0.467***
	(0.04)	(0.08)	(0.10)
Married	0.005	0.180***	0.076
	(0.03)	(0.06)	(0.09)
HHD income $30K-$49999	0.087*	0.284***	0.288***
	(0.04)	(0.08)	(0.09)
HHD income $50K-$74999	0.148***	0.499***	0.337***
	(0.04)	(0.08)	(0.09)
HHD income >$50K	0.307***	0.825***	0.809***
	(0.05)	(0.08)	(0.11)

Education: Some College	0.108***	0.099	0.420***
	(0.03)	(0.07)	(0.08)
Education: College degree or more	0.249***	0.377***	0.773***
	(0.04)	(0.07)	(0.10)
Constant	0.130***	0.577***	-0.885***
	(0.04)	(0.09)	(0.09)
R-squared	0.22	0.29	0.23
F	30.063	36.736	48.791
Observations	1797	1798	1800

Standard errors in parentheses

* p<0.10 ** p<0.05 *** p<0.01

N = subpopulation: ages 18-62 and non-retired.

Table 7: Regression – Secured (Mortgage) Debt and Retirement Preparedness

	(1) Ever Planned/ Tried to Save for Retirement	(2) Self-assessed Retirement Preparedness	(3) Retirement Preparedness Index
Mortgage/HE/HELOC loan indicator	0.113***	0.163***	0.178
	(0.04)	(0.06)	(0.11)
Female	-0.055**	-0.022	-0.088
	(0.03)	(0.05)	(0.07)
Ethnicity: Black	-0.032	0.101	-0.309***
	(0.04)	(0.09)	(0.10)
Ethnicity: Hispanic/Latino	-0.102**	-0.327***	-0.452***
	(0.04)	(0.08)	(0.12)
Ethnicity: Other	-0.043	0.116	-0.122
	(0.06)	(0.09)	(0.15)
Age 35-54	0.103***	0.044	0.223***
	(0.03)	(0.06)	(0.08)
Age 55-62	0.242***	0.340***	0.465***
	(0.04)	(0.08)	(0.10)
Married	0.023	0.182***	0.091
	(0.03)	(0.06)	(0.09)
HHD income $30K-$49999	0.083*	0.227***	0.254***
	(0.04)	(0.08)	(0.09)
HHD income $50K-$74999	0.139***	0.433***	0.290***
	(0.04)	(0.08)	(0.09)
HHD income >$50K	0.293***	0.783***	0.780***

	(0.04)	(0.08)	(0.11)
Education: Some College	0.110***	0.071	0.399***
	(0.03)	(0.06)	(0.08)
Education: College degree or more	0.240***	0.350***	0.753***
	(0.04)	(0.07)	(0.10)
Constant	0.116***	0.468***	-0.973***
	(0.04)	(0.09)	(0.09)
R-squared	0.23	0.28	0.23
F	34.750	36.392	49.521
Observations	1804	1805	1807

Standard errors in parentheses

* p<0.10 ** p<0.05 *** p<0.01

N = subpopulation: ages 18-62 and non-retired.