Baby Boomers and Debt

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Named for the post-World War II baby boom in which they were conceived, Baby Boomers (b. 1946-1964) were the largest generation in American history up to that time.[1] They have shaped and altered every life stage they've passed through, and enjoy the highest earnings of any previous generation.[2] Despite the recent Great Recession (2007-2009) and its lingering impact, Baby Boomers will continue to be the wealthiest generation of Americans until at least 2030.[3]

Some 77.3 million Americans were born between 1946 and 1964. Perhaps due to their size, Baby Boomers were viewed as special from the beginning — especially to marketers. In 1948, a pair of articles documented their moneymaking potential in *Time* and *Newsweek*. (The *Time* article was titled "THE ECONOMY: Baby Boom" while *Newsweek's* was even less subtle: "Babies Mean Business.") This has come to fruition over the decades, from the increased sales of baby food in the late 1940s to the construction of thousands of new schools in the 1950s to the housing boom of the 1970s and 1980s.[4]

Baby Boomers have shaped the world we live in — culturally, artistically, politically and economically. And while they are currently retiring at a rate of 10,000 per day,[5] they control more than 80 percent of personal financial assets and account for more than half of all consumer spending.[6] Of the $72 trillion in current wealth in the U.S., Baby Boomers hold $36 trillion.[7]

Despite such solid footing, not everything has been rosy for Baby Boomers of late. From student loans and home mortgages to credit cards and auto loans, they have amassed more debt later in life than any previous generation. And, they hold higher levels of debt than any other living generation today.[8]

This paper investigates Baby Boomers' relationship with debt, the potential impact it will have on their retirement years, and the effect it will have on financial institutions.

[1] Jones, Landon, *Great Expectations: America and the Baby Boom Generation*, Coward, McCann and Geoghegan, 1980
[2] Insured Retirement Institute (IRI), "Boomer Expectations for Retirement 2016," April 2016
[3] www.dupress.com, "The future of wealth in the United States," Deloitte University Press, November 9, 2015
[4] Centers for Disease Control and Prevention, "The State of Aging and Health in America 2013," U.S. Department of Health and Human Services, 2013
[5] Insured Retirement Institute (IRI), "Boomer Expectations for Retirement 2016," April 2016
[6] Halbert D., Gary, "Will Baby Boomers Wreck the Market?" InvestorsInsight.com, April 10, 2012
[7] www.dupress.com, "The future of wealth in the United States," Deloitte University Press, November 9, 2015
[8] Center for a Secure Retirement, "Paying for the New Retirement: Responsibilities and Challenges for Middle-Income Boomers," July 2016

Increase in Aggregate Debt

Baby Boomers are the only generation to increase its aggregate debt between 2003 and 2015. While younger generations managed to decrease their overall debt during this time,[9] borrowers between the ages of 50 and 80 (which includes a crossover of Baby Boomers and the Silent Generation) increased their debt by roughly 60 percent.[10]

This shifting of debt from younger to older Americans is pertinent to financial institutions as older debtors more than ever before are making payments. Baby Boomers will continue this trend into the foreseeable future.

Drivers of debt

The main areas of borrowing for Baby Boomers are:

- Mortgages
- Auto loans
- Home equity lines of credit (HELOC)
- Student loans
- Credit cards

The average 65-year-old has 47 percent more mortgage debt and 29 percent more auto debt than the average 65-year-old did in 2003.[11]

While mortgages and auto loans are the main drivers of overall debt for Baby Boomers, they are also the largest growing demographic for student loans, nearly doubling their borrowing in this area from 2004–2016.[12] In fact, Baby Boomers edge out Generation Xers in combined credit card and student loan debt ($39,756 to $38,143). Millennials trail far behind – owing just $27,000 on average in combined debt.[13]

The bottom line is that Millennials and Generation Xers have taken on student loan debt, but they've offset it by putting off borrowing for homes and autos. This explains why Baby Boomers continued to amass debt while the younger generations have been able to decrease theirs.

Student loans

As late as 2003, student loan debt was unheard of among 65-year-olds.[14] By 2015, however, it had skyrocketed by 886 percent to become a significant debt category.[15] The main driver of this has been the rising cost of a college education outpacing income growth, causing Baby Boomers to take out loans to help their children attain the same level of education they had.

[9] www.builderonline.com, "Debt Burden for Aging America Soars," Federal Reserve Bank of New York, February 24, 2016
[10] Liberty Street Economics, "The Graying of American Debt," New York Fed Consumer Credit Panel, February 24, 2016
[11] Zumbrun, Josh, "People Over 50 Carrying More Debt Than in the Past," *Wall Street Journal*, February 12, 2016
[12] Politico, "The Latest Victims of Student Loan Debt? The Elderly," February 25, 2016
[13] Lazarony, Lucy, "Who's Sabotaging Their Credit? A Startling Look at How Americans Manage Their Credit", www.creditsesame.com, January 26, 2016
[14] Zumbrun, Josh, "People Over 50 Carrying More Debt Than in the Past," *Wall Street Journal*, February 12, 2016
[15] Ibid.

Mortgages and HELOCs

Rising mortgage debt is threatening the retirement security of millions of Baby Boomers.[16] In fact, student loans notwithstanding, mortgage debt is the largest debt that older Americans carry — and it's the number one driver of increased overall debt among them.[17]

Roughly 80 percent of Americans over 65 years of age own their home. They have the highest homeownership rate among all age groups. But as the rate of homeownership has remained constant over the last decade, the number of older Americans holding mortgages has increased.[18] In other words, fewer older Americans are paying off their mortgages prior to retirement.

Several contributing factors have impacted this trend:

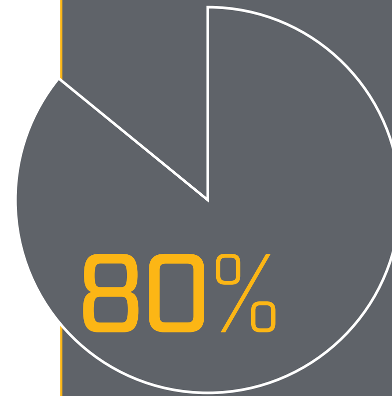
- Refinancing boom of the early 2000s
- General trend of Americans buying their first home later in life
- Smaller down payments required to purchase mortgages
- Increased borrowing against home equity to pay for other expenses

These factors bear out in the numbers. Between 2001-2011, the percentage of homeowners age 65 and older carrying mortgages increased from 22 to 30 percent.

At the same time, consumers age 65 and older owed larger balances on their mortgages than the 65-and-older group did 10 years previously. The median amount older Americans owed on their mortgages increased 82 percent, from roughly $43,400 to $79,000.[19]

In addition to owing more on their mortgages, older homeowners were also more likely to be underwater (owing more than their homes were worth), thanks to the housing bubble that helped create the Great Recession. As a result, outstanding mortgage balances for older homeowners relative to their home values increased from 30 to 46 percent.[20]

Finally, older Americans pay more in overall housing costs when they have a mortgage. In 2011, older homeowners with mortgages paid $800 (290 percent) more per month than their peers with no mortgage. Overall, homeowners with a mortgage spent $1,257 per month on housing while homeowners with no mortgage spent just $434 per month.[21]



of Americans over 65 years of age own their home.

[16] "Snapshot of older consumers and mortgage debt," Consumer Financial Protection Bureau, May 2014
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Ibid.
[21] Ibid.

Auto loans and credit cards

Auto loans and credit cards are the main drivers of consumer debt for Baby Boomers, with each accounting for 36 percent of total consumer debt. (Student loans, though growing, account for 7 percent while other personal loans account for 21 percent.)[22]

The average 65-year-old had 29 percent more auto debt in 2015 than in 2003. (The average 30-year-old had 6 percent *less* auto debt.)[23]

Credit card balances are also a concern. Because they have longer credit histories and higher credit scores, on average, than younger borrowers, Baby Boomers have the most credit cards (roughly 6 cards) and higher credit limits (a little over $30 thousand) compared to Generation Xers (roughly 4 cards with an average credit limit of around $19,400) and Millennials (roughly 4 cards with an average credit limit of $11,700).[24]

More cards with higher credit limits have enabled Baby Boomers to amass higher credit card debt than either Generation X or Millennials. Average credit card debt:

- Baby Boomers - $7,205
- Generation X - $5,418
- Millennials - $2,965[25]

Baby Boomers are the first generation to enter their retirement years with credit card debt. Many of their retirement plans were derailed during the Great Recession and they have had to turn to credit cards to make ends meet. Now entering retirement, they face the double task of paying off credit card debt and playing catch-up with their retirement savings.[26]

Impact of the Great Recession

The Great Recession impacted every generation in the United States. From 2007 to 2010, the wealth of the typical American household fell 39 percent.[27]

No generation was impacted more than Baby Boomers. It depleted home equity and retirement accounts in their critical late career saving years. In fact, 1 in 5 Baby Boomers never recovered and had to rely on borrowing to meet their everyday living expenses.[28] In addition to credit cards, this borrowing came in the form of HELOC and personal loans, which account for 21 percent of consumer debt held by Baby Boomers.

All of these contributing factors explain why per capita debt for 65-year-olds rose 48 percent between 2003 and 2015, while falling by 12 percent for 30-year-olds.[29]

Average credit card debt:

Baby Boomers
$7,205

Gen X
$5,418

Millennials
$2,965[25]

[22] Fleming, John H., "Americans' Big Debt Burden Growing, Not Evenly Distributed," Gallup, February 4, 2016
[23] www.builderonline.com, "Debt Burden for Aging America Soars," Federal Reserve Bank of New York, February 24, 2016
[24] Lazarony, Lucy, "Who's Sabotaging Their Credit? A Startling Look at How Americans Manage Their Credit", www.creditsesame.com, January 26, 2016
[25] Ibid.
[26] Ibid.
[27] Bricker et al, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, Vol 98, No 2, June 2012
[28] Transamerica Center, "The Current State of Retirement: Pre-Retiree Expectations and Retiree Realities," December 2015
[29] Haughwout, Andrew, "Household Debt and Credit 2015 in Review," Federal Reserve Bank of New York, February 12, 2016

Retirement Implications

Baby Boomers are entering their retirement years with debt. This would have been unthinkable to their Depression-era parents. It is especially worrisome as more and more retirees lack pension plans and have limited assets in 401(K) accounts. For those relying solely on Social Security benefits, their outlook is especially bleak.[30]

Retirement savings

Roughly 6 out of 10 Baby Boomers have saved for retirement. For those still in the workforce (as of 2015), nearly 70 percent have saved for their retirement. Just 50 percent of Baby Boomers who have already retired report having saved for retirement, either through a pension, some form of recurring income, or savings other than Social Security.[31]

Of those Baby Boomers with savings, only 29 percent have amassed more than $250,000.[32]

Thus, very few Baby Boomers have accumulated enough savings, or secured another source of income, to maintain the standard of living they've enjoyed during their working years, much less to repay their debts. The good news is that most Baby Boomers are aware of this and are shifting their retirement expectations to align with reality. More than 8 in 10 Baby Boomers say that a traditional retirement starting at age 65 is unrealistic.[33] (See "Working longer?" below.)

Living longer

Baby Boomers are projected to live longer than any previous generation in American history.[34] Ironically, this does not mean they are any healthier. Thanks to advances in medical research and technology, Baby Boomers are better able to treat and manage their health issues than previous generations; however, they don't suffer fewer of them. Studies show that Baby Boomers have higher rates of chronic disease (including diabetes and high blood pressure), more disability and lower self-rated health than members of the previous generation (Silent Generation) did at the same age.[35]

Financially, their longevity is a double-edged sword. On the one hand, they have more time to dig out of debt. On the other hand, their limited retirement savings will have to stretch over a longer period of time. Also, due to being less active and having more health issues than their parents faced, they can expect to incur more medical costs during their extended twilight years.

Working longer?

A Gallup poll in 2014 revealed half of Baby Boomers saying they planned to work past the age of 65, with 10

[30] Zumbrun, Josh, "People Over 50 Carrying More Debt Than in the Past," *Wall Street Journal*, February 12, 2016
[31] Williams, Sean, "5 Frightening Retirement Statistics That Demonstrate Boomers Are In Serious Trouble," *The Motley Fool*, April 19, 2015
[32] "Boomer Expectations for Retirement 2016," Insured Retirement Institute (IRI), April 2016
[33] "Allianz Generations Apart Study," Allianz Life Insurance Company of North America, November 2014
[34] King, Dana E., et al., "The Status of Baby Boomers' Health in the United States: The Healthiest Generation?" *JAMA Internal Medicine*, February 4, 2013
[35] Ibid.

percent claiming they would "never" fully retire from some type of paid employment.[36]

But is this realistic?

The data says no. The average retirement age has plateaued since slowly creeping up between the late 1980s and 2008 to age 64 for men and 62 for women.[37] A survey by MetLife in 2013 showed that half of the Baby Boomers born in 1946 had completely retired and only 1 in 5 were working full-time.[38]

Several factors are preventing Baby Boomers from extending their careers beyond their mid-60s. Between 20-30 percent of workers in their 60s suffer from "work limiting health conditions."[39] Others who may not experience health limitations themselves are forced to stay home and care for a spouse or parent who does. Age discrimination is often cited as another barrier to extending careers beyond the typical retirement age. For those out of work, it takes people older than 55 an average of five months longer to find a job than it does a younger peer.[40]

Realistic or not, working even a little longer can have a significant impact on the financial health of Baby Boomers. It allows them to maximize their Social Security income, accumulate more retirement savings, pay down their debts more quickly and/or painlessly, and decrease the length of time their savings need to sustain them.[41]

Effect on Financial Institutions

What effect will the financial ups-and-downs of Baby Boomers have on banks and credit unions? What can they do to help Baby Boomers plan for retirement, while still growing their own profitability?

In a recent Raddon report, Baby Boomers listed their financial priorities as:

- Save money for retirement – 84%
- Have extra funds on hand for emergency – 80%
- Reduce taxes on savings / investments – 62%
- Save for recreational purposes – 55%
- Regain wealth that was lost during the Great Recession – 47%
- Manage / reduce current spending levels – 43%
- Reduce debt levels on credit cards and/or other personal loans – 40%
- Pay / save for college tuition – 24%[42]

Additionally, 67 percent of Baby Boomers said they were extremely or very concerned about the amount of money they would need to retire and maintain their quality of life. Another 58 percent were concerned about reducing debt levels prior to entering their retirement years.[43]

[36] Agrawal, Sangreeta and Harter, Jim "Many Baby Boomers Reluctant to Retire," Gallup, January 20, 2014
[37] Munnell, Alicia H., "The Average Retirement Age—An Update," Center for Retirement Research at Boston College, March 2015
[38] "MetLife Report on The Oldest Boomers," MetLife Mature Market Institute, May 2013
[39] Altman, Nancy, et al, *Social Security Works!*, The New Press, January 21, 2015
[40] Koenig, Gary, et al, "The Long Road Back: Struggling to Find Work after Unemployment," AARP Public Policy Institute, March 2015
[41] Olsen, Anya and Knoll, Melissa A.Z., "Incentivizing Delayed Claiming of Social Security Retirement Benefits Before Reaching the Full Retirement Age," *Social Security Bulletin*, Vol. 74, No. 4, 2014
[42] Raddon Financial Group, *High Income Study*, Fall 2015
[43] Ibid.

Opportunities

Given the realities of their financial circumstances, it's no surprise that Baby Boomers are excellent candidates for:

- Debt management
- Retirement planning
- Wealth management

Financial institutions should also consider offering streamlined solutions in debt reduction (low-rate consolidation and re-fi loans), retirement savings, and payment methods.

While addressing different approaches to debt consolidation, financial institutions can identify potential service gaps or offer guidance and education that can assist Baby Boomers in planning for their financial future.

Doing so can also deepen the ties between the financial institution and its Baby Boomer account holders — or, conversely, acquire new ones. Plenty of research suggests that, contrary to popular belief, Baby Boomers are winnable and losable. Financial institutions that can address their unique needs around debt reduction and retirement saving will have a distinct advantage in acquiring or keeping Baby Boomers.

Challenges

One of the key challenges that financial institutions face in keeping or acquiring Baby Boomers is perception: Only 27 percent think their primary financial institution looks out for their financial well-being.[44] Thus, while they don't mind parking their money in a checking or savings account, or purchasing a more interest-friendly re-fi product, more than 7 in 10 Baby Boomers may be reluctant to approach their financial institution for debt or wealth management advice. Changing this mindset will go a long way to help Baby Boomers plan for their financial future and also help grow profitability of the bank or credit union.

Another challenge for financial institutions is how to help Baby Boomers manage and reduce their debt while still growing revenue for themselves. Interest and fee income associated with older consumers is at greater risk than in the past (due to a decreased appetite for new loans and the coming transfer of wealth to younger generations).[45] This is especially challenging in the current environment of low interest rates combined with higher than normal charge-offs and delinquencies (though these are trending down in recent years).[46] One answer lies in the up-sell and cross-sell opportunities that the financial institution can explore if and when it attains primary status with its Baby Boomer account holders.

[44] Williams, Sean, "For Banks, Baby Boomers Mean Lucrative Business," *Business Journal, Gallup*, February 2, 2015
[45] Ibid.
[46] Farah, Philip, et al, "The Next Growth Opportunity for Banks," Cisco Internet Business Solutions Group (IBSG), 2010

Bottom Line

Baby Boomers continue to have a large impact on the world around them. Despite retiring at a healthy clip, they control a disproportionate amount of personal financial assets and wealth. At the same time, they have racked up more debt than any other living generation.

Financial institutions that can gain their trust and help Baby Boomers pay off their debt and plan for retirement have an opportunity to earn additional wallet share and attain primary status.

Our strategic, data-driven marketing programs are designed specifically for financial institutions. For more information,

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