

Debt and Financial Vulnerability on the Verge of Retirement

ANNAMARIA LUSARDI, OLIVIA S. MITCHELL, NOEMI OGGERO

First published: 17 December 2019

<https://doi.org/10.1111/jmcb.12671>

Citations: 64

The authors thank Carlo de Bassa Scheresberg, Ana Gazmuri, and Yong Yu for expert programming and research assistance. Additionally, for suggestions and comments, they thank Barbara Butrica, Carolina Fugazza, Elizabeth Llanes, Melinda Morrill, Karen Pence, participants at the 2018 TIAA Institute Fellows Symposium, the 2018 American Economic Association in Philadelphia, the 15th Annual Joint Conference of the Retirement Research Consortium, the 2016 Working Longer and Retirement Conference at SIEPR/Stanford University, and the CMV/OECD Seminar on Emerging Trends in Financial Education, Rio de Janeiro, Brazil. The research was supported by a grant from the US Social Security Administration (SSA) to the Michigan Retirement Research Center (MRRC) as part of the Retirement Research Consortium (RRC). Support was also provided by the TIAA Institute and the Pension Research Council/Boettner Center of the Wharton School at the University of Pennsylvania. The findings and conclusions are solely those of the authors and do not represent the views of SSA, any agency of the Federal Government, the MRRC, or any other institutions with which the authors are affiliated. ©2019 Lusardi, Mitchell, and Oggero.

Abstract

We analyze older individuals' debt and financial vulnerability using data from the Health and Retirement Study (HRS) and the National Financial Capability Study (NFCS). In the HRS, we compare three groups of people age 56–61 in 1992, 2004, and 2010, to assess cross-cohort changes in debt over time. Two waves of the NFCS (2012 and 2015) provide additional insights into debt management and older individuals' capacity to shield themselves against shocks. We conclude that recent cohorts hold more debt and face more financial insecurity than in the past. This will render them particularly vulnerable to forecasted interest rate increases.

References

Agarwal, Sumit, John C. Driscoll, Xavier Gabaix, and David Laibson. (2009) "The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation." *Brookings Papers on Economic Activity*, Fall, 51–117.

[Web of Science®](#) | [Google Scholar](#)

Agarwal, Sumit, Gene Amromin, Itzhak Ben-David, and Douglas D. Evanoff. (2016) "Loan Product Steering in Mortgage Market." NBER Working Paper 22696.

[Google Scholar](#)

Barsky, Robert B., F. Thomas Juster, Miles S. Kimball, and Matthew D. Shapiro. (1997) "Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Study." *Quarterly Journal of Economics*, 112, 537-79.

[Web of Science®](#) | [Google Scholar](#)

Bennett, Paul, Richard Peach, and Stavros Peristiani. (2001) "Structural Change in the Mortgage Market and the Propensity to Refinance." *Journal of Money, Credit and Banking*, 33, 955-75.

[Web of Science®](#) | [Google Scholar](#)

Bernile, Gennaro, Vineet Bhagwat, and P. Raghavendra Rau. (2017) "What Doesn't Kill You Will Only Make You More Risk-Loving: Early-Life Disasters and CEO Behavior." *Journal of Finance*, 72, 167-206.

[Web of Science®](#) | [Google Scholar](#)

Bertrand, Marianne, Dean Karlan, Sendhil Mullainathan, Eldar Shafir, and Jonathan Zinman. (2010) "What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment." *Quarterly Journal of Economics*, 125, 263-305.

[Web of Science®](#) | [Google Scholar](#)

Beshears, John, David Laibson, and Brigitte C. Madrian. (2012) "The Availability and Utilization of 401(k) Loans." In *Investigations in the Economics of Aging*, edited by David A. Wise, pp. 145-72. Chicago, IL: University of Chicago Press.

[Google Scholar](#)

Beshears, John, James J. Choi, David Laibson, Brigitte C. Madrian, and William L. Skimmyhorn. (2019) "Borrowing to Save? The Impact of Automatic Enrollment on Debt." NBER Working Paper 25876.

[Google Scholar](#)

Bloomberg. (2018) "Federal Reserve Raises Rates - and Forecasts Steeper Hikes as Economy Soars." March 21. <http://fortune.com/2018/03/21/fed-lifts-rates-forecasts-hikes/>

[Google Scholar](#)

Bricker, Jesse, Lisa J. Dettling, Alice Henriques, Joanne W. Hsu, Kevin B. Moore, John Sabelhaus, Jeffrey Thompson, and Richard A. Windle. (2014) "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, 100, 1-41.

[Google Scholar](#)

Butrica, Barbara A., and Nadia S. Karamcheva. (2013) "How Does 401(k) Auto-Enrollment Relate to the Employer Match and Total Compensation?" CRR Working Paper 13-14.

[Google Scholar](#)

Cecchetti, Stephen G., Madhusudan Mohanty, and Fabrizio Zampolli. (2011) "The Real Effects of Debt." BIS Working Papers 352.

 | [Google Scholar](#) |

Chai, Jingjing, Wolfram Horneff, Raimond Maurer, and Olivia S. Mitchell. (2011) "Optimal Portfolio Choice over the Life Cycle with Flexible Work, Endogenous Retirement, and Lifetime Payouts." *Review of Finance*, 15, 875-907.

 | [Web of Science®](#) | [Google Scholar](#) |

Christelis, Dimitris, Michael Ehrmann, and Dimitris Georgarakos. (2015) "Exploring Differences in Household Debt across Euro Area Countries and the US." Bank of Canada Working Paper 2015-16.

 | [Google Scholar](#) |

Cox, Jeff. (2018) "Chances of a Fourth Rate Hike This Year Just Took a Big Jump Higher." *CNBC.com*, April 23. <https://www.cnbc.com/2018/04/23/the-market-is-now-pricing-in-almost-a-5050-chance-of-four-rate-hikes-this-year.html>

 | [Google Scholar](#) |

Debelle, Guy. (2004) "Macroeconomic Implications of Rising Household Debt." BIS Working Papers 153.

 | [Google Scholar](#) |

Delavande, Adeline, Susann Rohwedder, and Robert Willis. (2008) "Preparation for Retirement, Financial Literacy and Cognitive Resources." MRRC Working Paper 190.

 | [Google Scholar](#) |

Dynan, Karen E. (2009) "Changing Household Financial Opportunities and Economic Security." *Journal of Economic Perspectives*, 23, 49-68.

 | [Web of Science®](#) | [Google Scholar](#) |

Dynan, Karen E., and Donald L. Kohn. (2007) "The Rise in U.S. Household Indebtedness: Causes and Consequences." Finance and Economics Discussion Series. Divisions of Research & Statistics and Monetary Affairs. Federal Reserve Board Working Paper. 37, 1-36.

 | [Google Scholar](#) |

Edelberg, Wendy. (2006) "Risk-Based Pricing of Interest Rates for Consumer Loans." *Journal of Monetary Economics*, 53, 2283-98.

 | [Web of Science®](#) | [Google Scholar](#) |

Federal Reserve Bank of New York. (2016) "Quarterly Report on Household Debt and Credit." https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2016Q1.pdf.

[Google Scholar](#)

Gabaix, Xavier, and David Laibson. (2006) "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets." *Quarterly Journal of Economics*, 121, 505-40.

[Web of Science®](#) | [Google Scholar](#)

Gine, Xavier, Cristina Martinez Cuellar, and Rafael Keenan Mazer. (2014) "Financial (Dis-) Information: Evidence from an Audit Study in Mexico." World Bank Policy Research Working Paper 6902.

[Google Scholar](#)

Gurun, Umit, G., Gregor Matvos, and Amit Seru. (2016) "Advertising Expensive Mortgages." *Journal of Finance*, 71, 2371-416.

[Web of Science®](#) | [Google Scholar](#)

Helman, Ruth, Craig Copeland, and Jack Vanderhei. (2015) "The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor in Americans' Retirement Confidence." EBRI Issue Brief. 413, April.

[Google Scholar](#)

Horneff, Vanya, Raimond Maurer, and Olivia S. Mitchell. (2018) "How Will Persistent Low Expected Returns Shape Household Behavior?" NBER Working Paper 24311.

[Google Scholar](#)

Hurd, Michael D. (1990) "Research on the Elderly: Economic Status, Retirement, Consumption, and Saving." *Journal of Economic Literature*, 28, 565-637.

[Web of Science®](#) | [Google Scholar](#)

Hurst, Erik, and Frank P. Stafford. (2004) "Home is Where the Equity Is: Mortgage Refinancing and Household Consumption." *Journal of Money, Credit and Banking*, 36, 985-1014.

[Web of Science®](#) | [Google Scholar](#)

Hyytinen, Ari, and Hanna Putkuri. (2018) "Household Optimism and Overborrowing." *Journal of Money, Credit and Banking*, 50, 55-76.

[Web of Science®](#) | [Google Scholar](#)

Kumhof, Michael, Romain Rancière, and Pablo Winant. (2015) "Inequality, Leverage, and Crises." *American Economic Review*, 105, 1217–45.

[Web of Science®](#) | [Google Scholar](#)

Levitin, Adam J., and Susan M. Wachter. (2012) "Explaining the Housing Bubble." *Georgetown Law Journal*, 100, 1177–258.

[Web of Science®](#) | [Google Scholar](#)

Li, Wenli, Michelle J. White, and Ning Zhu. (2011) "Did Bankruptcy Reform Cause Mortgage Defaults to Rise?" *American Economic Journal: Economic Policy*, 3, 123–47.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Lu, Timothy, Olivia S. Mitchell, Stephen P. Utkus, and Jean A. Young. (2017) "Borrowing from the Future: 401(k) Plan Loans and Loan Defaults." *National Tax Journal*, 70, 77–110.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria. (2011) "Americans' Financial Capability." NBER Working Paper 17103.

[Google Scholar](#)

Lusardi, Annamaria, and Carlo de Bassa Scheresberg. (2013) "Financial Literacy and High-Cost Borrowing in the United States." NBER Working Paper 18969.

[Google Scholar](#)

Lusardi, Annamaria, Daniel J. Schneider, and Peter Tufano. (2011) "Financially Fragile Households: Evidence and Implications." *Brookings Papers on Economic Activity*, Spring, 83–134.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2007) "Baby Boomer Retirement Security: The Roles of Planning, Financial Literacy and Housing Wealth." *Journal of Monetary Economics*, 54, 205–24.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2008) "Planning and Financial Literacy: How Do Women Fare?" *American Economic Review*, 98, 413–7.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2011a) "The Outlook for Financial Literacy." In *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*, edited by Olivia S. Mitchell and

Annamaria Lusardi, pp. 1–13. Oxford: Oxford University Press.

[Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2011b) “Financial Literacy and Planning: Implications for Retirement Wellbeing.” In *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*, edited by Olivia S. Mitchell and Annamaria Lusardi, pp. 17–39. Oxford: Oxford University Press.

[Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2011c) “Financial Literacy and Retirement Planning in the United States.” *Journal of Pension Economics and Finance*, 10, 509–25.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2013) “Debt and Debt Management among Older Adults.” GFLEC Working Paper 2013-2.

[Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2014) “The Economic Importance of Financial Literacy: Theory and Evidence.” *Journal of Economic Literature*, 52, 5–44.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Olivia S. Mitchell. (2017) “How Ordinary Consumers Make Complex Economic Decisions: Financial Literacy and Retirement Readiness.” *Quarterly Journal of Finance*, 7.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, Olivia S. Mitchell, and Vilsa Curto. (2014) “Financial Literacy and Financial Sophistication among the Older Population.” *Journal of Pension Economics and Finance*, 13, 347–66.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Peter Tufano. (2009) “Teach Workers about the Peril of Debt.” *Harvard Business Review*, 87, 22–4.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, and Peter Tufano. (2015) “Debt Literacy, Financial Experiences, and Overindebtedness.” *Journal of Pension Economics and Finance*, 14, 332–68.

[Web of Science®](#) | [Google Scholar](#)

Lusardi, Annamaria, Pierre-Carl Michaud, and Olivia S. Mitchell. (2017) “Optimal Financial Literacy and Wealth Inequality.” *Journal of Political Economy*, 125, 431–77.

Malmendier, Ulrike, and Stefan Nagel. (2016) "Learning from Inflation Experiences." *Quarterly Journal of Economics*, 131, 53–87.

Mayer, Christopher. (2017) "Housing, Mortgages, and Retirement." In *Evidence and Innovation in Housing Law and Policy*, edited by Lee Fennell and Benjamin Keys, pp. 203–30. Cambridge: Cambridge University Press.

Mian, Atif, and Amir Sufi. (2011) "House Prices, Home Equity-Based Borrowing, and the US Household Leverage Crisis." *American Economic Review*, 101, 2132–56.

Mian, Atif, and Amir Sufi. (2017) "Household Debt and Defaults from 2000 to 2010: The Credit Supply View." In *Evidence and Innovation in Housing Law and Policy*, edited by Lee Fennell and Benjamin Keys, pp. 257–88. Cambridge: Cambridge University Press.

Nam, Tong-yob, and Seungjoon Oh. (2018) "Non-Recourse Mortgage Law and Housing Speculation." Available at SSRN: <http://doi.org/10.2139/ssrn.2316539>.

Pottow, John A.E. (2012) "The Rise in Elder Bankruptcy Filings and Failure of U.S. Bankruptcy Law." *Elder Law Journal*, 19, 119–57.

Schmidt, Sebastian. (2013) "Optimal Monetary and Fiscal Policy with a Zero Bound on Nominal Interest Rates." *Journal of Money, Credit and Banking*, 45, 1335–50.

Utkus, Stephen P., and Jean A. Young. (2011) "Financial Literacy and 401(k) Loans." In *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*, edited by Olivia S. Mitchell and Annamaria Lusardi, pp. 59–75. Oxford: Oxford University Press.

Venti, Steven F., and David A. Wise. (1990) " But They Don't Want to Reduce Housing Equity." In *Issues in the Economics of Aging*, edited by David A. Wise, pp. 13–32. Chicago, IL: University of Chicago Press.

[Google Scholar](#)

Venti, Steven F., and David A. Wise. (1991) "Aging and the Income Value of Housing Wealth." *Journal of Public Economics* 44, 371–97.

[Web of Science®](#) | [Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

