Discussant Comments:

“Debt and Financial Vulnerability on the Verge of Retirement”
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Summary

• HRS: Comparison of debt holdings among near-retirees ages 57-61 across 3 birth cohorts.
  • Debt is rising
  • Mostly housing debt, but also other debt

• National Financial Capability Survey 2012 and 2015:
  • Confirm financial fragility among near-retirees in more recent years.

➢ Near retirees are financially fragile and holding debt.
Is debt *always* bad?

- For younger workers, access to credit/debt is important.
  - Lifetime consumption smoothing
  - Mortgages and student loans are “good”
  - Some types of debt are clearly “bad” -- High-interest loans, credit card debt, payday loans, etc.
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- Why are near-retirees (ages 57-61) holding debt?
  - Are individuals accruing debt over the course of their lives?
  - Are older individuals taking advantage of new credit opportunities that were not designed for them? Why are lenders offering credit to near retirees?
  - Are older individuals more vulnerable to predatory lending?
  - Is the social safety net disincentivizing asset accumulation?
  - Are people working longer?
Is mortgage debt always bad?

• Owing more than the value of home is clearly **bad**:
  • NFCS 2012 16.7% underwater; 2015 8.9% underwater

• Having a high ratio of mortgage to home value is **probably bad**:
  • *Are people bringing mortgage payments into retirement?*
  • *Could people be downsizing later in life and accessing that equity?*
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- Is owning an expensive home always bad?
  - Housing values are increasing, but remain basically a constant fraction of total assets:
    - HRS: Median value of primary residence rose from $139K to $210K
    - HRS: Ratio of value of primary residence to total assets rose from 0.46 to 0.50

- *What are the patterns of non-housing asset holdings over 3 cohorts?*
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- How much is a period effect (housing bubble) vs. cohort effect?
  - *Consider regional variation in house price growth?*
Is “Other Debt” always bad?

- This category includes non-collateralized debt, which has high interest rates. *Is this mostly credit card debt? Student loans?*
- Why hold debt and liquid assets?
  - HRS data restrict to those with positive assets: mean ratio of “other debt” to “liquid assets” rose across cohorts from 6% to 55%!
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- **Separately model liquid asset holdings and debt holdings:**
  - **Clearly bad:** Are people saving while holding high interest debt?
  - **Maybe bad:** Are people saving in tax-preferred accounts while holding low interest debt such as student loan debt?
  - **Probably OK:** Are people not holding large balances in savings accounts and CDs and instead utilizing tax-preferred savings (in Table 2 liquid assets do not include 401k and IRA?)?
Is there a crisis looming?

- Period and/or cohort effects?
  - The Great Recession caused a shock to household wealth.
  - Easy access to credit has lead to a debt-holding tradition.
  - Social insurance programs have incentivized risk-taking.
  - Is “near retirement” a changing target and we are just capturing individuals too early?
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- HRS shows increase in debt started before 2008.

- **NFCS:** Can cohort versus period comparisons help disentangle the root causes of rising debt – both housing and “other debt”?
Within cohort improvements?

Financial Fragility

Early Baby Boomers (1948-1953):
2012: 59-64
2015: 62-67

War Babies (1942-1947):
2012: 65-70
2015: 68-73

HRS Baseline (1931-1941):
2012: 71-81
2015: 74-84
Within cohort improvements?

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Is there a crisis looming?

• Period effects – some recovery between 2012 and 2015:
  • The Great Recession caused a shock to household wealth

• Cohort effects:
  • Successive cohorts holding more debt:
    • Easy access to credit has lead to a debt-holding tradition.
    • Social insurance programs have incentivized risk-taking.
  • *Is “near retirement” a changing target and we are just capturing individuals too early?*
Implications for public policy

1. Do near retirees build up equity in their home and attempt to access that in retirement? If so,
   - are the elderly overly exposed to the housing market?
   - are current tax rules and financial products incentivizing “good” outcomes for the near elderly?
Implications for public policy

2. Are current regulations regarding lending adequately protecting near retirees?

3. Are current social insurance programs incentivizing excessive risk taking or debt holding among near retirees?
Implications for public policy

4. If individuals are systematically under-saving and/or over-consuming retirement wealth, will we see a rise in dependency or bankruptcy?

- Has there been a rise in “bad” outcomes for seniors in the War Babies cohort relative to the HRS Baseline cohort?
  - Foreclosures, bankruptcy, dependency on public programs, dependency on family members, etc.