

The Role of Secured and Unsecured Debt in Retirement Planning

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Background

- Financial security in retirement
 - Shifting responsibility from employer to employee
 - Approximately, 40% of pre-retirees are heavily indebted.
- The complex role of debt in financial security for older adults
 - Mortgage debt
 - Medical debt
 - Student loan
 - Intergenerational debt



This Study

- The goal of this study is to examine types of debt held by pre-retirees and to identify the differential impact on retirement planning.
- Research Questions
 - Does debt affect planning for retirement among pre-retirees?
 - Does the relationship between debt and retirement planning differ by debt type?
 - Do relationships between debt and retirement planning differ by retirement account ownership?

Methodology

- A cross-sectional, exploratory research design
- Dataset
 - 2015 National Financial Capability Study (N = 27,564)
 - Study sample n = 5,642 (aged 51-62 American adults)
- Variables of Interest
 - DV: retirement planning (0/1)
 - For the non-retired respondent: Have you ever tried to figure out how much needed to save for retirement?
 - For retired respondents: Have you tried to figure out how much is needed to save for retirement before you retired?

Methodology

- IV: Debt
 - Secured debt (home mortgage loan, auto loan)
 - Unsecured debt (medical debt, credit card debt)
 - ❖ Five credit card issues were assessed, asking respondents whether in the past 12 months respondents had the following experiences:
 - 1) carried over a balance and was charged interest
 - 2) paid minimum payment only
 - 3) was charged a late fee for late payment, balance,
 - 4) was charged an over the limit fee for exceeding credit line
 - 5) used the cards for a cash advance
 - Retirement account ownership (0/1)

Methodology

- Seven co-variates
 - demographic and socioeconomic variables (gender, race, marital status, educational attainment, household income, employment status, number of financially dependent children)
 - Financial knowledge variable (0-6)
 - assessed with a scale with 6 questions about savings interest, inflation rate, bond prices, borrowing interest, mortgage, and risk diversification.
 - number of correct responses

Analyses

- Descriptive and bivariate analyses
- Logit models were estimated to predict factors contributing to retirement planning
- Each model includes one type of debt, with the same set of demographic and socioeconomic variables and financial knowledge
- Retirement account ownership variable was added to each model

Results

Table 1. Sample Characteristics of Pre-Retirees (Aged 51-61, N = 5,642)

Socio-demographic		n (%)
Gender	Female	3,044 (53.95%)
	Male	2,598 (46.05%)
Ethnicity	White	4,577 (81.12%)
	Nonwhite	1,065 (18.88%)
Marital Status	Married	3,316 (58.77%)
	Otherwise	2,326 (41.23%)
Have financially dependent children	Yes	1,605 (28.75%)
	No	4,037 (71.25%)
Employment status	Full-time & self-employed	2,881 (51.06%)
	Retired	810 (14.36%)
	Others	1,951 (34.58%)
Household Annual Income	Less than \$35K	1,761 (31.21%)
	\$35K -75K	1,846 (32.72%)
	\$75K and above	2,035 (36.07%)
Educational Attainment	High school or less	1,471 (26.07%)
	Associate Degree & Some college	2,368 (41.97%)
	College graduate	1,169 (20.72%)
	Post-graduate education	634 (11.24%)

Number of correct response to Financial knowledge test

0	290 (5.14%)
1	418 (7.41%)
2	737 (13.06%)
3	1,164 (20.63%)
4	1,206 (21.38%)
5	1,162 (20.60%)
6	665 (11.79%)

Key Variables

Retirement planning	Yes	2,681 (49.58%)
	No	2,726 (50.42%)
Having a retirement account	Yes	3,811 (70.72%)
	No	1,607 (29.28%)
Having a home mortgage		2,275 (56.93%)
Having an auto loan		1,791 (31.92%)
Having a medical debt		1,100 (19.83%)
Having at least one credit card issue		2,323 (52.88%)

Results

Table 2. Logit Regression Estimates on Debt and Retirement Planning

	Odds Ratio (SE)	
	Model 1	Model 2
Having at least one debt	0.55 (0.06)***	0.59 (0.06)***
Having a Retirement Account	/	3.13 (0.32)***
Female	0.92 (0.07)	0.87 (0.07)
White	0.99 (0.09)	1.00 (0.10)
Married	1.30 (0.10)**	1.18 (1.00)
Associated Degree or higher	2.12 (0.18)***	2.07 (0.18)***
Income of \$35,000 or higher	2.37 (0.23)***	1.67 (0.18)***
Work full time/self-employed	0.70 (0.06)***	0.82 (0.07)*
Having financially dependent children	1.04 (0.03)	1.04 (0.08)
Financial knowledge	1.32 (0.03)***	1.28 (0.03)***
Model Significance	LR Chi ² (9) = 753.39***	LR Chi ² (10) = 87

*p < 0.05; **p < 0.01; ***p < 0.001

Results

Table 3. Logit Regression Estimates on Secured Loans and Retirement Planning

	Odds Ratio (SE)		Odds Ratio (SE)	
	Model 3	Model 4	Model 5	Model 6
Home Mortgage	0.87 (0.07)	0.82 (0.07)*	/	/
Auto Loan	/	/	1.04 (0.07)	0.79 (0.07)
Having a Retirement Account	/	4.16 (0.52)***	/	3.17 (0.29)***
Female	0.96 (0.08)	0.91 (0.08)	0.98 (0.07)	0.92 (0.07)
White	1.00 (0.11)	1.03 (0.12)	1.05 (0.09)	1.03 (0.09)
Married	1.27 (0.12)*	1.18 (0.11)	1.37 (1.02)***	1.25 (0.10)
Associated Degree or higher	2.14 (0.20)***	2.06 (0.20)***	2.04 (0.16)***	1.97 (0.16)***
Income of \$35,000 or higher	2.65 (0.31)***	1.69 (0.21)***	2.53 (0.22)***	1.71 (0.17)***
Work full time/self-employed	1.53 (0.14)***	1.33 (0.13)**	1.49 (0.11)***	1.25 (0.10)**
Having financially dependent children	1.05 (0.90)	1.08 (0.09)	1.00 (0.07)	0.99 (0.07)
Financial knowledge	1.34 (0.04)***	1.30 (0.04)***	1.33 (0.30)***	1.28 (0.03)***
Model Significance	LR Chi ² (9) = 567.22***	LR Chi ² (11) = 704.21***	LR Chi ² (10) = 914.53***	LR Chi ² (11) = 1057.78***

*p < 0.05; **p < 0.01; ***p < 0.001

Table 4. Logit Regression Estimates on Unsecured Loans and Retirement Planning

	Odds Ratio (SE)		Odds Ratio (SE)	
	Model 7	Model 8	Model 9	Model 10
Medical Debt	0.74 (0.06)***	0.82 (0.07)**	/	/
Credit Card Debt	/	/	0.59 (0.04)***	0.62 (0.05)***
Having a Retirement Account	/	3.11 (0.29)***	/	3.25 (0.37)***
Female	.98 (0.07)	0.94 (0.07)	0.93 (0.07)	0.90 (0.07)
White	1.05 (0.09)	1.04 (0.09)	1.11 (0.11)	1.08 (0.11)
Married	1.37 (0.10)***	1.25 (0.10)*	1.38 (0.12)***	1.26 (0.11)*
Associated Degree or higher	2.04 (0.16)***	1.10 (0.16)***	2.13 (0.12)***	2.05 (0.19)***
Income of \$35,000 or higher	2.52 (0.23)***	1.73 (0.17)***	2.05 (0.22)***	1.53 (0.17)***
Work full time/self-employed	1.47 (0.11)***	1.24 (0.10)**	1.50 (0.12)***	1.26 (0.11)**
Having dependent children	1.00 (0.07)	0.99 (0.07)	1.08 (0.09)	1.06 (0.09)
Financial knowledge	1.31 (0.03)***	1.26 (0.03)***	1.28 (0.03)***	1.24 (0.03)***
Model Statistics	LR Chi ² (10) = 910.88***	LR Chi ² (11) = 1047.39***	LR Chi ² (10) = 597.34***	LR Chi ² (11) = 709.077***

*p < 0.05; **p < 0.01; ***p < 0.001

Discussion

- Secured and unsecured debt have different relationship with retirement planning
 - With secured debt, paying for mortgage had negative association with retirement planning, the relationship with auto loan was insignificant
 - Both unsecure debts had negative relationship with retirement planning.

Discussion

- Having a retirement account had strong, positive association with retirement planning, indicating a potential intervention for retirement planning.
 - Promoting policy that supports retirement accounts during one's work life is important
 - A state retirement savings plans for employers who cannot otherwise afford to offer plans will benefit many who currently do not have a retirement plant
- Financial knowledge was significantly associated with retirement planning across all models.
 - Interventions that educate working age adults about financial literacy and money management can aide one in understanding the risks associated with securing debt in mid-age.