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Seniors Leaning on Credit

Written by Nancy Trejos

Alice Smith thought she would live comfortably and quietly in her Hyattsville retirement community. Instead she's fretfully dodging calls from her creditors.

She owes more than \$10,000 to four credit card companies and more than \$7,000 to a credit union -- in part, she said, because of spending to help her family. She doesn't give exact figures because she is unsure of them: With late fees and higher interest rates, the amount she owes has grown. Her income has not. Through a pension and Social Security from her former job at a National Institutes of Health laboratory, she receives about \$2,000 a month. Her rent is \$955. She doesn't know how she can ever pay down her debts. So she thinks she just might not.

"I am 80 years old," she said, "and I don't need this headache at my age."

Older Americans are among the most vulnerable age group in this recession. They are carrying debt loads they can barely handle with their fixed incomes, dwindling retirement savings and, in many cases, devalued homes.

Average credit card debt among low- and middle-income Americans 65 and older carrying a balance for more than three months reached \$10,235, up 26 percent from 2005, according to a recently released study

by the public policy group Demos. It was the fastest increase of any age group. Soon-to-be retirees are also struggling with debt.

It's a surprising reversal of fortune for a generation that had been considered more financially responsible than younger generations. Frequent or frivolous use of credit cards had not been a common trait of older Americans, particularly those 65 and older, because credit was not as easily available in their formative years. Now, even they are finding they have little choice but to borrow money.

"What's changed in this challenging economy is that no generation is immune from tough times. And it means that many older adults find they need to use credit cards as a means to stretch a fixed income, meet rising costs, pay for unexpected medical or household expenses, or to even help adult children," said Angela J. Rabatin, an adjunct professor of finance and contract law at University of Maryland University College and Prince George's Community College.

In 2007, the most recent figure available, the percentage of 55-to-64-year-olds who had to use more than 40 percent of their income toward paying down debt was 12.5 percent, higher than any other age group, according to the Employee Benefit Research Institute, which studies pensions and benefits. Those

who were 65 to 74 did not trail far behind, with 11.2 percent contributing that big a chunk of their income toward their debt.

"Even going into the downturn of the economy, a significant percentage of people were at that threshold considered dangerous for debt," said Craig Copeland, a senior research associate at the institute.

Rising medical costs and less-generous health insurance plans, in particular, are burdening retirees and soon-to-be retirees. As the battle over health-care reform rages on, many are turning to borrowed money to pay for prescriptions and doctor visits.

"Some of these older Americans are picking up the brunt of this recession," said Jose Garcia, associate director of research and policy for Demos. "Some of them were maybe relying on their home equities for retirements. Their pensions have gone down. . . . Making it through the week becomes an issue."

The Demos study found that, on average, \$4,000 of a senior citizen's card debt had covered medical expenses, such as prescription drugs, dental expenses and doctor visits.

"A great deal of senior spending is health care, and health-care costs have been outpacing inflation for a long time," said David Certner, legislative policy director for AARP.

Soon-to-be retirees also struggled with medical debt. On average, those 50 to 64 had almost \$2,000 in card debt caused by medical needs, according to Demos. The impending wave of baby-boomer retirements and the projected insolvency of Medicare by 2017 pose additional challenges for this population and the

federal government. "Currently most retirees age 65 and over rely on Medicare for health-care coverage, but would-be retirees may not feel comfortable counting on it being there," Rabatin said.

Sharon Brown is hoping it will be. An eye condition contributed to her card debt. The 55-year-old Northwest Washington resident frequently visits an ophthalmologist and must get special contact lenses each year that can cost up to \$800. Her insurance has covered most of it, but some years she put her portion of the bill -- about \$300 -- on a credit card. She also needed expensive dental procedures that her insurance partially covered. The rest went on a credit card.

Over the years, she accumulated about \$35,000 in debt on seven cards, more than she could afford to pay on a government worker's salary. Like White, part of that went toward helping relatives. Sometimes, she charged out-of-pocket medical expenses for her young granddaughter. "I was not going to turn them away when they needed help," she said.

But she found herself needing help as well. Last year, she turned to InCharge Debt Solutions, a Florida-based nonprofit counseling agency. She is now on a debt-management plan that has brought her monthly payments down to \$900 from about \$1,300. Still, she will not be able to achieve her dream of retiring at 55. "I really don't blame anyone but myself," she said.

Complicating matters, many card companies have raised interest rates, fees and minimum payments recently in anticipation of a new law taking effect in February that will restrict such hikes. Older borrowers have been hit especially hard by such actions, consumer advocates said, because their

incomes are fixed and their ability to get a job is limited. "There are just less shock absorbers in a senior citizen's budget," said Cate Williams, vice president of financial literacy for Money Management International, a nonprofit credit counseling agency.

Industry representatives said banks are, in some cases, willing to help distressed borrowers, no matter what their age, by either lowering interest rates or minimum payments or by negotiating other arrangements. "During this crisis, the industry is working to help customers on an individual basis, and it takes into account all aspects of each cardholder's personal situation," said Scott E. Talbott, senior vice president of government affairs for the Financial Services Roundtable, an industry group.

Financial advisers recommend that older Americans call their creditors and ask for better terms. If they are having trouble making payments, they should seek help from a credit-counseling agency that has been vetted by the Better Business Bureau, the state attorney general and local consumer-protection agencies. A state-licensed debt-management company could also help.

Those with medical debt can cut down on their costs simply by switching to generic drugs. But they should consult their doctor or pharmacist before doing so, advisers said. They should also ask their doctors for free samples and make sure their pharmacist is applying every available discount, they said.

If they are having trouble coming up with the cash to cover health care, they should see whether they qualify for Medicaid or shop around for policies to supplement Medicare, said Pam Villarreal, a senior policy analyst for the National Center for Policy Analysis.

Ruth Magnum, a 60-year-old Northeast Washington retiree, sometimes used a credit card to pay for clothing, prescriptions and doctor's visits for her granddaughter, who was battling colon cancer. Her debt reached \$5,000. When she started having trouble making her payments, she turned to InCharge Debt Solutions. She has paid off more than half of it under a payment plan and hopes to be out of debt in a year. She plans to never use a credit card again. "No, thank you. I'll pay cash," said the former day-care worker.

Smith, an 80-year-old widow who lives alone, has also reached out for help, from the Legal Aid Bureau of Maryland. Because she has no significant assets and her sole income comes from Social Security and a pension, her creditors cannot garnish her earnings, though they can still seek a court judgment against her.

For now she has chosen to ignore the letters she receives from them, and she has stopped paying. She knows that will damage her credit score, which lenders use to decide whom to extend credit to, but she doesn't care. She doesn't want any more credit.

"I can't afford to pay that out of my check," she said. "I can't."