Comment

Over 55s are getting into more debt – this excessive borrowing needs to be tackled quickly

The perception that all older people are well-off and debt is more of a problem for younger generations is not borne out by evidence

(Photo: Peter Macdiarmid/Getty Images)

by Baroness Ros Altmann
4 weeks | Thursday August 15th 2019

The i newsletter

For more than 10 years, we have had record low-interest rates, however excessive debt remains a problem across the UK. Both private and public sector debt levels have been increasing, and it seems the lessons of the financial crisis – which highlighted the dangers of excessive debt – may not have been learned.

There is often a perception that all older people are well-off and that debt is more of a problem for younger generations. However, this is not borne out by the evidence. Many over-55s, especially those who have had to retire or reduce their working hours, have worryingly high debt to income ratios. As they struggle to repay their loans, they may sink further and further into debt.

Secured debts may be of less concern, but unsecured debts are a particular problem for older people. These debts are not like mortgage loans, where there are assessments made before someone can borrow to check if they can afford the repayments, and the amount borrowed might be repaid by selling an asset. Unsecured loans are debts such as credit cards or payday loans, where the borrower may not be able to afford to repay and just has to find all the money and pay the interest as well.

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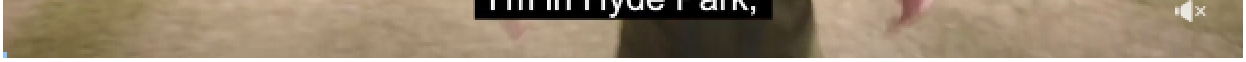

One in three spend more on credit cards each month than they pay off

Among 55 to 74-year-olds, recent research from the Centre for Economics and Business Research shows unsecured debt levels have risen by 34 per cent over the past four years, more than twice as fast as the national average of 14 per cent. Nearly half of 55 to 64-year-olds have unsecured debts, and one in three spend more on their credit cards each month than they pay off.

These over 55s are generally not borrowing to fund luxuries, but are using unsecured debt for necessities, including home repairs, repaying other borrowings, or covering day to day expenses. This is another example highlighting that there are significant numbers of older people who are really struggling with the daily cost of living and, if they have no savings to fall back on, any unexpected emergency or rise in basic living costs can force them into borrowing to make ends meet.

Rising unsecured debts amongst older age groups are placing a bigger burden on their life savings or pensions as they head into retirement, so they may run out of resources and have to rely more on state support as they go through retirement.

> **'Debt consolidation in retirement can be difficult and someone living on a fixed income may struggle to pay off their outstanding balances'**

Even mortgage debt can be problematic too. 1.67 million British homeowners have either a part or full interest-only mortgage which they cannot repay, with many older borrowers unable to afford the full capital repayment mortgage.

They may have to turn to equity release to fund their debts and manage their lifestyle. As house prices have risen sharply, the ability to borrow against the value of their home can be a lifeline, but this is far more expensive than conventional mortgage loans. Equity release interest rates average nearly five per cent, rather than conventional mortgage rates around two per cent, which means equity release repayment costs can mount quickly, wiping out the entire house value over a couple of decades.

Usually, people should take independent financial advice before deciding on equity release to understand the risks and costs, as

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The older people trapped in

well as the different types of loans – and how this may affect their entitlement to some benefits.

a ‘toxic’ housing crisis that is ‘ruining retirement for hundreds of thousands’

A growing number of older people are facing important decisions about how to manage their income and assets over a longer period than previous generations, as more people enter retirement with secured and unsecured debt. Some may be doing this as part of a deliberate asset management strategy, but many are doing so to help manage cash flow problems and make ends meet.

Clearly, low-interest rates are not a sufficient condition for reducing debt burdens and more is needed to help people manage their unsecured loans. The Government’s newly established Money and Pensions Service (‘MAPS’) will be tasked with increasing financial understanding and awareness and assisting borrowers to manage their debts more efficiently. This service is designed to help everyone in the UK understand financial matters better. It has a focus on younger people but is not exclusively designed for any one age group.

For many of today’s older people, the need is urgent.

With continuing issues around insufficient retirement savings and an increasing number of people reaching retirement, rising debt levels among the over-55s is an issue that needs to be tackled quickly. Excessive borrowing caused the financial crisis and yet it continues. It is important not to forget that increasing