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Debt across a lifespan

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An indispensable tool in modern life, debt happens for many reasons.

As the economic struggle of the Depression and rationing of World War II fades from the collective consciousness, Americans feel more confident taking on debt and optimistic about their ability to pay it all back and start saving one day in the future.

Robert Manning, Ph.D., author of "Credit Card Nation," studied the financial practices of Americans across generations to discover what influences spending in specific age groups. The research professor and director of the Center for Consumer Financial Services at Rochester Institute of Technology also examined the different attitudes toward debt to find out why people owe so much more today than they did 40 years ago.

"You really can't over-generalize," says Manning. "You have to look at people in particular life cycles to find out why they spent more on those particular items than did a previous generation."

Debt treadmill

Experts explain that debt starts from youth and continues on through life, often into those not-so-golden years.

Debt life stages

1. College
2. Young singles
3. Young families
4. Mature families
5. Empty nesters
6. Seniors

College

"Borrowing to pay for college has become the primary way that most students pay for college," says Tamara Draut, director of the Economic Opportunity Program at Demos and author of "Strapped: Why America's 20- and 30-Somethings Can't Get Ahead."

Parents who are unable to save the staggering amount of money needed to fund an undergraduate degree for their kids have a few choices. They can go into debt by getting a PLUS loan or by taking out a second mortgage -- or they can put the burden on their children.

"If you look at the way we used to do it, we had pressures on states to keep tuitions low and affordable for middle-income households, and for lower-income households we had grant aid that covered about three-fourths of the cost of going to college," says Draut.

"Now the majority of aid is debt-based aid and the grants cover about a third of the cost of school."

According to the College Board's "Trends in College Pricing 2007," average tuition costs for the 2007-2008 academic year are $23,712 at a private school and $6,185 for a public school. Add in room and board and the totals come to $32,307 and $13,589, respectively.

The borrowing doesn't stop there for college students. Undergraduates make easy targets for credit card companies that often give out swag for signing up for a card. Already susceptible to the slings and arrows of outrageously shallow peer assessments based on clothing and music preferences, kids can bump up against their credit limit pretty quickly.

"Young people are starting off graduation not only in debt, but it also shows that that competitive pressure that they experienced in high school is what they see as the norm when they go to college," says Manning.

"As we start to see the competitive consumption start at an earlier and earlier age, it's not surprising that it then continues in older age groups," he says.

Young singles
Getting established in the world costs money -- lots of money. In a cruel twist, people starting careers fresh out of school often don't have a lot of it.

Some lucky people can fall back on their parents for help, but not everyone has that option or wants to take it.

"It's unfortunate but people have always judged others on superficial stuff. So you have to have nice clothes, a nice car, a nice apartment," says Lewis Mandell, professor of finance and managerial economics at the University of Buffalo.

"You have to be willing to spend money at bars just to socialize. I think this is considered the norm, it's not considered extravagant. But even normative behavior is expensive," Mandell says.

“Earnings have been really flat for young people with college degrees.” But college graduates can probably waltz into a cushy corporate job that offers ample pay for a worker bee living in the big city, right?

Not necessarily.

"Earnings have been really flat for young people with college degrees," says Draut.

"Incomes are not really keeping up with costs, but one particular difference is that you're talking about a starting salary and a lot of debt that has to be repaid," she says.

With tight budgets and soaring living expenses, young people end up on a tightrope between paydays and too often credit cards are their only safety net.

"There is not a lot of cushion left at the end of every month, which makes young people very vulnerable to amassing large amounts of credit card debt when the car breaks down or when they need to go to the dentist," says Draut.

But if college graduates are feeling bruised by harsh economic realities, those without college degrees feel it even more.

"The potential for a young worker without a college degree has plummeted within a generation," Draut says. "They make a lot less than they used to and all of the benefits that we used to think of coming with your first real job have disappeared."

Young families
For young people already struggling with living expenses and stagnating wages, adding a baby can stretch finances to the breaking point.

According to Draut, couples with children are twice as likely to file for bankruptcy.

"This is a time when you've got loans that have to be repaid. You have earnings that are starting lower and growing slower, and then you add a new baby into the mix -- which has always been an added expense. It's nothing new for this generation," she says.

"What's new is that those student loans, those credit cards, don't go away overnight."

This life stage also ushers in new housing needs. Whereas a studio or one bedroom apartment may have been sufficient a couple of years earlier, with the addition of a spouse and a child, space becomes an issue -- as does the school district in which the housing is located.

"You get married in the late 20s now in the states and you have a kid and then you want, of course, to live in a nice house in a neighborhood with a good school. The American way of life virtually compels most people to take on a lot of consumer debt and it doesn't really give you an opportunity to get rid of it," says Mandell.

Home values in good neighborhoods force many young families to confront difficult choices. The best jobs are located in metropolitan areas, but those areas don't come cheap, says Draut.

"A starter home market has disappeared for a lot of high-cost areas," she says.

Mature families
Typically, older families have reached a certain level of security. But Manning found that families currently in this age group spend more and save less than did previous generations.

"One of the most striking findings of my study was the elasticity of demand for people who have children -- there's never a good reason to not indulge our children these days," says Manning. "Instead of saving money for their children to go to college, parents are spending that money while the kids are in high school."

Indulging the short-term whims of teenagers can further perpetuate the debt cycle, obligating children to take on loans for college as well as diverting money from retirement savings.

Debt in this stage can be particularly precarious, especially if savings are spare.
Many parents take on debt to fund children's education -- for instance, by taking out a second mortgage -- which puts them in the uncomfortable position of either entering retirement with more debt or using money that would otherwise be saved for retirement to service the debt.

If parents put off saving for retirement until the kids are out of the house and out of school, they may not have enough time to accumulate adequate funds.

"It just means that people aren't going to be able to retire, and that's fine for people who enjoy their work and are in good health. But for people who aren't in such good health, that's one of the costs of debt that's going to really come back and bite them," says Mandell.

Empty nesters
In his study, "Living with debt," Manning found that older people weren't necessarily shifting their spending into a lower gear.

"By the time we see older people, they are used to living on debt and don't want to cut back on their standard of living. So they're maintaining. While their savings rate may go up, they're spending more -- maybe on helping their children. It was remarkable how many people in their 50s, 60s and 70s are helping a child or maybe a grandchild," says Manning.

With the kids out of the house and the accompanying pipeline into the wallet of mom and dad removed, empty nesters should be sitting pretty.

Using data from the 2001 Survey of Consumer Finances conducted by the Federal Reserve, Tansel Yilmazer, assistant professor in the Department of Consumer Sciences and Retailing at Purdue University, found that debt does decline with time.

"In general, the probability of carrying debt decreased with age," she says.

However, some experts believe that this could be changing, or shifting with the changing demographic. People are having children later in life and reaching the empty nest phase later as well. As acceptance of debt has increased, the older population is increasingly indebted.

"Some of them, of course, are maybe opting to work longer periods of time. That certainly is a trend that may be part of the changing life cycle stages," says Mandell. But he adds that attitudes toward debt at this stage are also changing.

"Also I think that the thinking that '60 is the new 40' is really encouraging older people who might in previous generations have been a little bit more sedate in their lifestyles. Now you look on TV and see a 60-year-old doing helicopter skiing and sailing boats across the Atlantic single-handedly. So I think the notion of settling into an empty nest sedate lifestyle is going against the grain."

Seniors
Retirement is on shaky ground. No longer assured of pensions, today's retirees are easing into their golden years with less savings and more debt. If acceptance of debt and lack of savings are symptoms of the debt epidemic, this stage of life is where the ravages of the disease really flare up.

Throughout their lives, people are spending what they used to save, says Manning. "And so the real crisis is being deferred to retirement."

"We're seeing retirees leaving the workforce now with as much as $60,000 in unsecured debt," says David Jones, president of the Association of Independent Consumer Credit Counseling Agencies.

The cycle of debt has a domino effect. As today's young people take on more debt for education, they will spend the money they should have been saving for their retirements to pay off that debt.

Today's retirees are also impacted by skyrocketing education costs.

"A bigger percentage of retirees today still owe on their mortgages and that's not isolated from what's happening to young people around college. A lot of people are taking out second or third mortgages to help pay for college," says Draut.

"That's moved mortgage payments to the retirement years which used to be much more uncommon than it is today," says Draut.

For seniors in good health, that leaves only one option -- work. Those that find themselves in debt and in poor health will struggle.

"There are going to be very bad endings for a lot of people," says Mandell.

He points out several forces conspiring against seniors, including expected cuts in Social Security and diminished pensions. "The one thing that may save them is that, with the shrinking labor force, if they are valuable to their employer, they might get the opportunity to work until they're 92," he says.

"This may not be what people had originally hoped for."