

Retirees Are Racking Up Credit Card Debt

New statistics point out an alarming financial problem.

\$6,876. That is the average amount of credit card debt owed by an American household headed up by an individual aged 65-69.¹

If you are newly retired or close to retiring, that figure may alarm you. It is more than twice the amount of Social Security's maximum monthly income payment.²

Credit card use is surging, and seniors are taking on more revolving debt as part of the trend. That \$6,876 figure comes from personal finance website ValuePenguin, which just published its latest yearly study on U.S. credit card debt. As ValuePenguin found, revolving debt shrinks little with age: in households headed up by those 75 and older, the mean credit card balance was \$5,638.¹

In the second quarter of 2016, Americans charged \$34.4 billion to their credit cards. According to research from WalletHub, that was the biggest second-quarter jump seen in 30 years. Undoubtedly, this was a byproduct of the quarter's 4.4% boost in consumer spending. All this recently added consumer debt would seem less troubling were it not for two other statistics. One, Americans paid down just \$27.5 billion in revolving debt in Q1 2016, the least in any first quarter since 2008. Two, U.S. consumers piled on \$71 billion in credit card debt during 2015, representing the greatest annual increase since 2007.^{3,4}

It seems Americans are returning to their pre-recession credit card habits. The question is: to what degree are households paying with plastic by choice? Retiree households saddled with mortgages and education debt may feel pressured to use their credit cards. The National Council on Aging recently identified credit card debt as a major financial worry among seniors.²

How can your household counter the trend? Here are some steps that might help you ease your debt burden.

Try the snowball approach. This is the approach where you pay down the balance on the highest-interest card first, then the next highest-interest card, and so forth. You should always make the largest payment you can on your highest-interest debt.

Pay on time. Late fees are like an Achilles heel for many cardholders. They not only hurt your bank account, they hurt your credit score. (Conversely, improving your credit score may make your debt cheaper to pay off, and make it easier to refinance or arrange a consumer loan.)

Establish a budget. Most households do not live by a budget. Even retiree households can forget about the importance of budgeting. If you can rein in parts of your spending, you may

find yourself a) using cash more often, and b) having cash left over to save, invest or pay down debt.

Use certain cards for certain things. If you have a large recurring debt, why not put it on your lowest-interest card for some savings? In fact, assigning as much debt as you can to a low-interest or zero-interest card positions you to pay down debt sooner, with smaller monthly payments.

Finally, consider ways to create more income. If you just cannot use credit cards less or live on less, then you must offset your credit card debt by a) earning more or b) selling assets or possessions to give you more cash, which can be used to attack the debt.

While you may always have some revolving debt, it is a potential strain on a comfortable retirement. See if you can buck the current trend in credit card use that seems to be driving mean credit card balances higher.

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Citations.

- 1 - valueupenguin.com/average-credit-card-debt [9/15/16]
- 2 - cnbc.com/2016/09/15/3-simple-ways-retirees-can-control-their-credit-card-debt.html [9/15/16]
- 3 - wallethub.com/edu/credit-card-debt-study/24400/ [9/12/16]
- 4 - reuters.com/article/us-usa-economy-idUSKCN1111FM [8/26/16]