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Assessment of the financial situation, determinants and the level of debt of seniors' households

INTRODUCTION

Along with technical progress and ongoing changes in the economic sphere, standard of living and social awareness of individuals as well as achievements in today's medicine, visible developments are taking place in the population age structure at the different stages of demographic transition. These processes lead to shifts in proportions of the various population age groups, resulting in population ageing and a growing number of single-person households. In addition to globalisation, internationalisation, stimulating innovation and dynamic development of a knowledge-based economy, they are perceived as an important socio-economic trend [Zalega, 2016a, p. 136].

Multidimensional population ageing first occurred in economically advanced countries as a marked decline in births resulting from changes in social awareness, lifestyle, family model, and from the redefinition of life priorities. It should be noted, however, that ageing affects both global population and the populations of individual countries and regions. It thus comes as no surprise that this process is increasingly attracting the attention of governments, political scientists, international organisations and academics around the world but is also a subject of public discussion in the mass media (radio, press, Internet and television).

The elderly are a group of customers who have stable incomes; hence they are targeted by lending institutions – both banks and the shadow banking system. The attractiveness of this group ensues from its stable regular monthly incomes and from guarantees in the event of death of the borrower, where debt is repaid by guarantors, most often the closest ones, family, friends [Świecka, 2016, p. 129].

Seniors' debt, on the one hand, stems from their poor financial situation that makes it necessary for them to borrow money to purchase basic staples such as

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costly medicines required in view of their worse health and, on the other hand, from loans/credits taken out for family members who are not creditworthy and who are defaulting on their debts, for instance for the purchase of the latest TV model for their children or grandchildren. This may sometimes lead to financial abuse resulting in illegal conduct or wrongdoing in order to deprive elderly people of their assets, including cash. Financial abuse against the elderly is controversial and difficult to prove, but it does happen, particularly in the broader context of unsound and wasteful management of property and money by people who are trusted by seniors [Fealy, Donnelly, Bergin, Treacy, Phelan, 2012].

This article assesses the financial situation and the main causes and level of debt of seniors' households. The analysis is based on the questionnaire survey conducted by its author among people aged 65+ in Poland.

The structure of the article is as follows. First, the research methodology, assumptions, and the characteristics of the research sample are synthetically discussed. Afterwards, seniors' financial situation is very broadly outlined. The text further examines the causes and level of debt in seniors' households. Secondary research results were also used in order to compare the author's results with the research outcomes obtained by various research and scientific institutes. Finally, a conclusion of the analysis and major findings end this study.

CONCEPTUALISATION OF RESEARCH

Indebtedness of households, including those of the elderly, is an important micro- and macroeconomic issue. Fragmentary research in this field has been conducted by various research institutions and centres. These include: Department of Economics of the University of Economics in Kraków, Department of National Economics of the University of Warsaw, Department of Consumption Research of the University of Economics in Katowice and Unit of Personal and Behavioural Finance of the University of Szczecin.

The consequences of debt burden are painful because they are not confined to economic effects but also include psychosocial ones. The empirical material contained in this article comes from direct research conducted in the form of a survey questionnaire on a sample of 2,537 households in 2014–2015 in ten Polish cities of various populations and sizes. In accordance with the research assumptions, the sample included persons over 65 years of age who took independent purchasing decisions in the market. In order to select the sample, the selective quota sampling procedure was used. The characteristics (quotas) covered by the research were: sex and age.

The characteristics and properties of the group investigated were complemented by means of explanatory research that was treated by the author as a supplement to the information obtained in the questionnaire-based interview. To that end, in the first half of February 2015, personalised in-depth interviews were car-

ried out with 11 people selected in a targeted manner, taking into account the key socio-demographic characteristics such as: sex, age, education and place of residence. Those were interviews with inhabitants of Warsaw, Katowice and Toruń. An interview lasted approximately 45 minutes. Later, the in-depth interviews were transcribed and analysed in line with the qualitative research methodology.

This research method was chosen in view of the older age of respondents whose openness to new media (Internet, smartphone, iPod) often used in research is limited. The primary objective was to outline the quality of life, the structure of consumption and consumer behaviours of people aged 65+.

The survey was conducted among participants of the University of the Third Age (UTA) at state universities in: Warsaw, Kraków, Łódź, Poznań, Gdańsk, Katowice, Lublin, Białystok, Toruń and Wrocław, as well as among members of parochial clubs in parishes located in the Archdioceses of Warsaw, Kraków, Łódź, Białystok, Gdańsk, Katowice, Lublin, Poznań, Wrocław and the Dioceses of Warsaw-Praga and Toruń.

SELECTION AND CHARACTERISTICS OF THE RESEARCH SAMPLE

The survey covered 71% of women, with only every third respondent being male. There were definitely more women than men and people aged 65–74 formed the largest age group in the sample². Place of residence was also an important variable in the research. In line with the research assumptions, the sample comprised respondents who lived in the largest Polish cities.

Respondents were also asked about their level of education. The questionnaire included four categories of education: primary, basic vocational, secondary and higher education. Respondents with secondary education formed the largest group. Nearly 2/5 of those surveyed declared this level. Every fourth respondent was a university graduate, and those with basic vocational education represented a similar percentage. In the sample surveyed, people with primary education were the smallest group (11.4%).

Nearly half of those surveyed were members of households consisting of two persons, while fewer than 2/5 represented three-person households. Every sixth respondent was a member of a single-person household.

² The Anglo-Saxon literature uses the following division of older people: 1) young old – people aged 60/65–74; 2) old old – people aged 75–84; and 3) the oldest old – people aged 85 and more. The age classification in this study is similar to that proposed by the WHO. The author divided seniors into: 1) young old – people aged 65–74, 2) old old – people aged 75–84, and 3) the oldest old – people aged 85 and more. According to the UN, the conventional old-age threshold is 65. It should be remembered, however, that old age is not just the number of years that a person has lived. We distinguish calendar (chronological) age and biological age. Many factors often cause very large discrepancies between chronological and biological ages.

The largest group of respondents included people whose monthly income *per capita* did not exceed PLN 2,000.00. For every third respondent, monthly income per household member ranged from PLN 2,001.00 to 3,000.00. In turn, every fourth person interviewed had monthly disposable income *per capita* of between PLN 3,001.00 and 4,000.00. The smallest group of respondents included households where income was above PLN 5,000.00 *per capita* a month.

ASSESSMENT OF THE FINANCIAL SITUATION OF POLISH SENIORS

The financial situation of households is assessed on the basis of their disposable income. Seniors' households are characterised by incomes earned by the head of the family and his/her partner and composition (number and age of household members) that are different from those of households of employees or self-employed persons. In addition, a relatively large proportion of seniors' households have a woman as their head (these are generally single-person households). This is a direct consequence of feminisation.

The assessment of the current economic situation is to a greater extent influenced by the magnitude of spending, including the proportion of fixed expenditure in total spending, rather than by income [Błądowski, 2011, p. 31]. A relatively better income situation of seniors' households does not translate into their total spending on consumer goods and services. A question may, therefore, be asked about the causes of this situation. The answer should be sought in the specific role that seniors play in society. Undoubtedly, some older people may be supposed to consciously refrain from buying higher-order goods instead of actively participating in cultural activities or travelling, and to use their savings to help worse-off family members, thereby forming the closest, although informal, intergenerational support networks.

The PolSenior 2012 survey shows that the percentage of elderly people who assessed their financial situation as satisfactory was higher than expected [Mosakowska, Więcek, Błądowski 2012, p. 401]. Almost 2/3 of respondents claimed that they could meet their needs provided that they economised. In this case, however, seniors seem to consciously reduce their needs to those that they deem possible to satisfy given their financial capacities. If this is true, any analysis of distribution channels for products addressed to seniors or products and services purchased by this group should take into account the needs identified by seniors.

According to data from the Central Statistical Office (CSO) of Poland, 18.6% of seniors assessed their situation as bad or rather bad in 2014. This figure was lower by 2.3 percentage points in 2014 as compared to 2013 (20.9%). The financial situation was also assessed by seniors as better in 2015 as a result of pension adjustment. In 2014, 22.4% of pensioners' households rated their financial situation as very good and 11.5% as rather good. It is remarkable that, despite a low mon-

thly income, 3/5 of pensioners (59%) assessed their economic situation as average [*Households' situation in 2014 in the light of the household budget survey, 2015*]. It is concluded that this is a consequence of the improved Genworth Index for Poland, depicting household financial security and vulnerability. This index is a financial reflection of society and a barometer for how households perform financially. In 2014, financial optimism increased among Poles for the first time after 2010, pushing Poland up from the 11th to the 10th position in the European financial security index (comprising 14 countries) [<http://archiwum.businessinsider.com.pl/kraj/genworth-fala-pesymizmu-wsrod-polakow-zostala-przelamana-w-2014-r/qc9dpx> accessed on 02.03.2016].

By contrast, a 2014 survey conducted by the TNS Polska research institute at the request of the KRUK Group on a representative group of people aged 65+ suggests that Polish seniors are not satisfied with their finances. Almost half (46%) of respondents perceive their financial situation as bad and only 5% as good. It is not surprising given that nearly half of seniors (44%) admit that they sometimes run out of money by the end of the month, with 14% of them often having problems with surviving on their home budgets. Only every fifth senior assesses their situation as good compared to others. Interestingly, seniors aged 75+ are less critical of their finances than 65–74-year-olds. The level of satisfaction with finances varies by place of residence – elderly people living in cities are most satisfied with their situation (36%) and those living in rural areas are least content (15%). Furthermore, education, and thus occupational status before retirement, significantly affects the current financial situation of seniors. More than 30% of university graduates save money each month, whereas this figure stands at only 6% for older people with primary education. On the other hand, only 9% of respondents with secondary and higher education frequently lack money compared to 22% and 24% of those with vocational and primary education respectively. Women are in a worse financial situation – 17% of them run out of money by the end of the month. This is more as compared to 10% of men in this age group.

Despite their difficult situation, older people more often provide than receive financial support. Only 13% of respondents receive regular help and one third (33%) of them provide it. More women (17%) than men (6%) receive support. Among those providing financial help, 44% are better-off seniors with higher education.

In turn, according to data from the *Social Diagnosis 2015* survey, 60+ households reported in March/June 2015 that it was hard for them to make ends meet with their current incomes (35.9%). Over 19% of the households surveyed had to cope with difficulties and over 15% with great difficulties. Yet, nearly every fourth household said that it was rather easy for it to make ends meet and every twentieth declared that it was easy. It should also be noted that the proportion of 60+ households finding it very hard to make ends meet fell by almost 3 percentage points in 2011–2015 [*Social Diagnosis, 2015; Labour market and social exclusion as perceived by Poles. Social Diagnosis 2015, 2015, p. 103*].

Assessing money management in March/June 2015, almost 2/5 of 60+ households said that they lived sparingly and therefore could meet their needs, and 1/4 declared that they lived very sparingly to save money for more expensive products. In 2011–2015, the percentage of 60+ households claiming to be able to afford everything and save for the future also increased (10.59%). Meanwhile, the share of households declaring that they could afford the cheapest food, clothing, housing charges and loan repayment declined (3.69%). On the other hand, 1.32% of 60+ households said that they could not afford even the cheapest food [*Social Diagnosis*, 2015, pp. 42–44; *Labour market and social exclusion in Poles' opinion. Social Diagnosis 2015*, 2015, p. 104].

According to a survey conducted by the Millward Brown research institute for the National Debt Register, the income of 2/5 of people aged 50+ did not exceed PLN 2,000 in July/August 2015. Despite relatively low earnings, 29% of Poles in this age group were dissatisfied with their financial situation, whereas 45% of respondents stated that they were satisfied or very satisfied with it. 26% of those surveyed were not able to assess their financial situation unambiguously.

The source of income of 53% of Poles over 50 years of age was pension and almost one in four was supported by a partner or family. Approximately 13% of respondents received an invalidity pension and 4% lived on a social allowance. Only one in three people aged 50+ lived on paid work, and they mostly worked under contract of employment (24%). Every eighth ran their own business and only 6% were employed under a mandate contract or a contract to perform a specific task. The income of 2/5 of people in this age group did not exceed PLN 2,000 a month. 25% of households earned more than PLN 3,000 monthly. The same percentage earned from PLN 1,200 to 2,000. 19.6% of 50+ households had from PLN 2,000 to 3,000 monthly to spend, while 14% of respondents had a monthly income not exceeding PLN 1,200 (mostly women with primary education and living in rural areas). Among people aged 50+ earning up to PLN 2,000 a month, only 31% were satisfied with their financial situation. By contrast, the percentage of optimists within the group of respondents with a monthly income of more than PLN 3,000 exceeded 71%. Interestingly, men (49%) were more often satisfied with their financial situation than women (42%) [<http://krd.pl/Centrum-prasowe/Informacje-prasowe/2015/Finanse-po-50---niskie-dochody-i-rosnace-dlugi> accessed on: 02.03.2016].

ASSESSMENT OF THE FINANCIAL SITUATION OF THE SENIORS SURVEYED

The primary research shows that only few respondents assessed the financial situation of their families as very good (6.6%) and almost half of them rated it as good. Nearly 2/5 of respondents considered their family's situation as bad and every tenth senior as very bad. It has also been noted that more than 60% of UTA students and fewer than 2/5 of parochial community members assessed their financial situ-

ation as very good or good. This suggests that in the period under analysis half of the senior respondents were dissatisfied with their current disposable income.

The assessments of their families' financial situation varied considerably depending on the characteristics of respondents and their families (Table 1).

Table 1. Financial situation of the seniors surveyed (%)

| Characteristics of seniors | Very good | Good | Bad | Very bad |
|----------------------------|-----------|------|------|----------|
| Total | 6.6 | 44.5 | 39.1 | 9.8 |
| Age: | | | | |
| 65–74 | 7.5 | 50.3 | 34.9 | 7.3 |
| 75–84 | 6.7 | 45.8 | 37.6 | 9.9 |
| 85 and more | 5.6 | 37.4 | 44.8 | 12.2 |
| Sex: | | | | |
| Female | 5.9 | 43.9 | 41.5 | 8.7 |
| Male | 7.3 | 45.1 | 36.7 | 10.9 |
| Education: | | | | |
| Primary | 2.3 | 35.6 | 45.4 | 16.7 |
| Basic vocational | 5.4 | 39.9 | 44.9 | 9.8 |
| Secondary | 5.2 | 48.7 | 38.7 | 7.4 |
| Higher | 13.5 | 53.8 | 27.4 | 5.3 |
| Income per capita: | | | | |
| up to PLN 2,000.00 | – | 17.8 | 69.0 | 13.2 |
| PLN 2,001.00–3,000.00 | – | 39.4 | 50.3 | 10.3 |
| PLN 3,001.00–4,000.00 | 8.4 | 53.7 | 28.5 | 9.4 |
| more than PLN 4,000.00 | 18.0 | 67.1 | 8.6 | 6.3 |
| Place of residence: | | | | |
| Warsaw | 8.8 | 50.3 | 32.2 | 8.7 |
| Kraków | 7.1 | 48.2 | 36.5 | 8.2 |
| Łódź | 5.1 | 37.6 | 42.0 | 15.3 |
| Poznań | 6.9 | 44.1 | 39.2 | 9.8 |
| Wrocław | 6.3 | 45.2 | 39.1 | 9.4 |
| Gdańsk | 6.7 | 45.3 | 39.5 | 8.5 |
| Katowice | 8.4 | 51.2 | 30.9 | 9.5 |
| Lublin | 5.3 | 39.1 | 44.9 | 10.7 |
| Białystok | 5.4 | 40.2 | 44.0 | 10.4 |
| Toruń | 6.0 | 43.8 | 42.7 | 7.5 |

N.B.: Four-point scale: 1 – very bad, 2 – bad, 3 – good, 4 – very good

Source: Elaborated by the author.

Age had a statistically significant impact on respondents' opinions about their financial situation (Pearson's correlation coefficient $r = -0.141$, with $p \leq 0.01$). Se-

nior citizens aged 65–74 most often chose the highest assessments of their financial situation on the four-point scale. Those aged 85 and more gave the lowest scores to the financial situation in their households. Only nearly one in seven evaluated it as good or very good.

The assessment of the current financial situation was affected by income per family member (Pearson's correlation coefficient $r = 0.373$, with $p \leq 0.01$). Indeed, although one tenth and 69% of respondents with monthly incomes of up to PLN 2,000.00 *per capita* assessed their financial situation as very bad and bad respectively, in higher-income groups these indicators steadily decreased, and groups earning PLN 3,001.00–4,000.00 and more than PLN 4,000.00 included no one who assessed their financial situation as very bad. In these income groups, 28.5% and 8.6% of older people respectively regarded their financial situation as bad, and 53.7% and 67.1% respectively as good. By contrast, almost every fifth respondent with a monthly income *per capita* exceeding PLN 4,000.00 said that their financial situation was very good.

Similarly to the amount of monthly disposable income, self-assessment rises with the education level of those interviewed (Spearman's rank correlation coefficient $r = 0.315$, with $p = 0.01$). As many as four fifths of respondents with primary education rated the financial situation of their families as very bad or bad, whereas this proportion was only one tenth among people with higher education.

Place of residence also varied (but to a lesser extent) the population studied (Cramer's V coefficient was 0.056, $p \leq 0.05$). The financial situation of seniors living in those cities where there were lower disposable incomes was also rated lower. The most negative assessments were reported in Toruń, Lublin and Łódź, and by far the fewest in Poznań, Katowice and Warsaw.

Sex was a variable with no statistically significant impact on respondents' opinions about their satisfaction with financial situation (Pearson's correlation coefficient was $r = -0.039$, $p = 0.572$).

CAUSES OF SENIORS' INDEBTEDNESS

Reports on the level of indebtedness, including private debt, of individual societies have been regularly published by McKinsey Global Institute [Roxburgh et al., 2012; Dobbs et al., 2015]. They point to a sharp rise in household debt and its limited reduction in countries particularly hit by the recent financial crisis (the United States, Great Britain, Spain and Ireland). Mortgage loans are regarded there as the main source of (seniors') household debt in more developed countries. In turn, research carried out by Reinhart, Reinhart and Rogoff [2012] pointed to the relationship between debt and the level of economic development. Those authors concluded that high indebtedness of countries is related to their slower GDP growth rate. Cecchetti, Mohanty and Zampolli [2011] drew the same con-

clusions, additionally paying attention to a greater risk of economic crises in those countries. Also Buttiglione, Lane, Reichlin and Reinhart [2014] point to a continuous increase in seniors' household debt. In their work, they also treat the rise in household debt as a symptom of future threats. The debt of seniors' households in the euro area was studied by Gomez-Salvador, Lojschov and Westermann [2011], who demonstrated that seniors' tendency to borrow too much is a big problem. In their research, households with low disposable incomes were particularly prone to increase their debt.

From the point of view of households, financial debt instruments fulfil two main functions. On the one hand, borrowing allows households to live at a higher level. On the other hand, it can be a very important source to cover temporary shortages of household funds. The main cause of excessive household indebtedness lies in bank credits and loans. Credit is one of the fundamental sources of household finance as it allows consumers to move to a higher consumption path than their current income would suggest, to optimise consumption over time and to cover temporary shortages of household disposable income. For many households, living on credit not only has become a good way of meeting their needs but also has allowed access to goods of limited availability. Factors contributing to the growth of consumer debt include the widespread use of credit cards and the development of new technologies [Zalega, 2014, pp. 159–160]. The banking sector is also encouraging consumers to borrow, beginning with campaigns promoting credit products and ending with the relaxation of creditworthiness assessment criteria. However, it is careless and reckless financial behaviour (gambling or addictions, further borrowing to repay existing debt), wastefulness and living beyond means, incorrect identification of one's needs, unreasonable use of credit cards, lowered income due to job loss or limitation of working hours, and family troubles that mostly contribute to the financial imbalance of households. This situation often leads to the so-called "debt loop" that threatens the stability and security of home budgets. The consequences of falling into a debt loop are far-reaching and may result in consumer bankruptcy.

LEVEL OF SENIORS' DEBT IN POLAND

According to the National Debt Register, in January 2013 the debt of Polish seniors was PLN 728.4 million, whereas in January 2016 it was PLN 2.05 billion, having increased by 61% compared to January 2015 (PLN 1.27 billion). This large increase is undoubtedly a consequence of easy access to cash loans as well as a stronger position of credit reference agencies and their cooperation with potential creditors. In January 2016, the National Debt Register comprised 405.5 thousand debts of people of retirement age, including 203.6 thousand pensioners whose overdue debts totalled PLN 2.05 billion. In January 2017, already 233,171 pensioners were listed in the National Debt Register, with arrears amounting to PLN 2.87 billion (Table 2).

Table 2. Seniors' debt in Poland in 2013–2017 (in PLN)

| Year | Amount of seniors' debt (in PLN) |
|------|----------------------------------|
| 2013 | 728,413,681.71 |
| 2014 | 1,109,555,263.82 |
| 2015 | 1,271,011,165.06 |
| 2016 | 2,052,280,991.53 |
| 2017 | 2,875,325,473.65 |

Source: KRД [National Debt Register], 2017.

It should be highlighted that the debt of Polish seniors has increased by 40% over the last year. The average debt of a senior is PLN 12.3 thousand, about seven average pensions. As many as 62% of indebted seniors are women. This is interesting because it is men that form a majority, namely 2/3, of all indebted Poles. The situation can be explained by the fact that Polish women live, on average, 8 years longer than men. Upon their husband's death, all the obligations fall on the shoulders of widows. At the same time, after husband's death, the household income is noticeably reduced, thus affecting the timely repayment of debt.

**Figure 1. Debt of Polish pensioners in 2017**

Note: Blue highlights – numbers of indebted pensioners; red highlights – total debt of pensioners in PLN million; commas denote decimals.

Source: [<https://krd.pl/Centrum-prasowe/Informacje-prasowe/2017/Zadluzone-jest-zycie-staruszka---emerycy-tona-w-dlugach>, accessed on: 17.04.2017].

In 2017, the biggest number of indebted seniors live in Śląskie Voivodship (38,000) and their total debt exceeds PLN 487 million. Mazowieckie Voivodship takes the second place, with approximately 30,000 seniors defaulting on PLN 418 million. The last position among the three disgraceful regions that are inhabited by the greatest number of senior debtors is occupied by Dolnośląskie Voivodship. For this voivodship, the National Debt Register lists almost 25,000 seniors who owe their creditors more than PLN 291 million. The amount of the highest debt of PLN 8.4 million is owed by a 78-year-old resident of Pszczyna County in Śląskie Voivodship. On the other hand, the fewest indebted seniors live in Podlaskie Voivodship. Amounts due are not repaid by over 3,600 seniors there. The total value of their debts is PLN 42.7 million [<https://krd.pl/Centrum-prasowe/Informacje-prasowe/2017/Zadluzone-jest-zycie-staruszka---emeryci-tona-w-dlugach> accessed on: 17.04.2017].

A survey conducted by the Millward Brown research institute for the National Debt Register in late July and early August 2015 shows that 37% of pensioners do not borrow money because they do not need it, nearly as many do not like having commitments of this kind, and 14% say that they cannot afford to repay a credit. The lack of creditworthiness is an obstacle to access to credit for every tenth pensioner. There are also people who usually do not know how to take out a loan or credit. If people in this age group decide to borrow money, they mostly spend it on domestic appliances and electronics (34%). Almost 2/5 of respondents take out a credit to renovate their house or flat. Every fourth person borrows money to buy a car, motorcycle or scooter, and every fifth invests in real property or land. Frequently mentioned reasons for borrowing also include those related with current needs such as consumer spending, medical treatment or repayment of earlier debts. Seniors also slip into debt when they take out loans for younger family members and when their spouse dies.

The elderly prefer bank offers. Alternatively, every eighth respondent had recourse to instalment plans in shops, 8% borrowed money from family or friends, 7% took advantage of the offers of Cooperative Savings and Credit Unions (SKOK), and 4% took out a loan at the workplace. The fewest people aged 50+ declared that they resorted to lending firms (2%).

More than 3/5 of pensioners say that the most common reason for taking out a credit or loan is the lack of cash needed to buy a particular product or service. Every fifth person aged 65+ decided to take out a loan because it was more profitable than cash payment. Almost every second pensioner took out a credit or loan because, due to temporary financial problems or unforeseen expenses, they had run out of money to meet basic needs. This was the behaviour of mostly older people aged 70–79 with primary education, predominantly living in smaller towns and rural areas [<http://krd.pl/Centrum-prasowe/Informacje-prasowe/2016/Emeryci-zadluzaja-sie-na-potege---do-oddania-2-miliardy-zlotych>, accessed on: 10.05.2016].

Excessive borrowing by pensioners may (although does not have to) lead to financial abuse resulting in illegal conduct or wrongdoing in order to deprive elderly people of their assets, including cash. Financial abuse against older people is controversial and difficult to prove, but it does happen, particularly in a broader context of unsound and wasteful management of property and money by people who are trusted by seniors [Fealy, Donnelly, Bergin, Treacy, Phelan, 2012; Świecka, 2016].

According to the BIG InfoMonitor Register of Debtors and the Credit Reference Agency, at the end of August 2015, the overall amount of overdue (non-credit and credit) commitments was PLN 40.39 billion, of which 10% was owed by the 65+ sector and 18% by the 55–64 age group, totalling as much as 28%. For comparison, the largest credit and non-credit arrears were recorded for those aged 35–44 (31%), followed by 45–54 (24%), 25–34 (16%) and 18–24 (1%). The elderly population counted not only as 65+ but expanded to include the 55–64 sector is relatively numerous, although the average amount overdue is not high for the 65+ group as it stands at PLN 15,296. This figure is PLN 22,585 for the 55–64 sector, reaching the highest value of PLN 27,547 for the 45–54 age group [<http://krd.pl/Centrum-prasowe/Informacje-prasowe/2015/Finanse-po-50---niskie-dochody-i-rosnace-dlugi> accessed on 10.05.2016].

The *Social Diagnosis 2015* survey shows that the banking sector accounts for 92.6% of all debts of households of persons aged 65+. However, expenditure on repayment of other debts is also increasing (7.4%). Since debt owed to the banking sector tends to be long-term, households repay other amounts due much faster. As compared to other groups of households, pensioners' households bear the biggest burden of repayment to the non-banking sector, paying off loans to Cooperative Savings and Credit Unions (SKOK). In their portfolios, these loans account for almost 6% of the total repayment budget. Also loans taken out with lending firms (e.g. Provident) constitute a considerable share in repayment portfolios – 4.3% in the 65+ households group.

From 2011 to 2015, the interest of pensioners' households in loans and credits, in particular consumer loans and credits, weakened significantly. This reduced popularity is evident in regular consumer finance market research [Białowolski, Dudek, 2015] the results of which confirm a declining trend in the interest in new credits and cash loans among 65+ households [*Social Diagnosis 2015*, 2015, p. 73–74; *Labour market and social exclusion in Poles' opinion. Social Diagnosis 2015*, 2015, p. 175–176].

According to the survey conducted by the TNS Polska research institute at the request of the KRUK Group³ on a representative sample of people aged 65+, elderly people do not manage home budgets or control expenditure on a regular basis. Nearly half of respondents (46%) admitted that they neither kept

³ The survey was conducted by TNS Polska at the request of the KRUK Group in January 2014. The representative sample included 1,000 people aged 65+.

any records nor monitored their money, meaning that they did not check how much was left to spend. Only 16% of seniors closely monitored their spending. These were usually university graduates. More and more seniors (40%) visited banks to pay their bills. Online payment was still not very popular in this age group – only 10% made payments online [<http://www.finanse.egospodarka.pl/104453,Sytuacja-finansowa-seniorow-w-Polsce-nie-jest-dobrze,1,63,1.html>. accessed on 15.05.2016].

The list of bank products used by seniors is not very long. They usually keep their money in the bank account – 62% of respondents already do so, of which 12% have an internet account. Holding an account is highly dependent on the level of education (84% of university graduates and only 29% of those with primary education) and place of residence (79% living in cities with 500,000 inhabitants and 49% living in rural areas). Half of people aged 65+ have a payment card. Also in this case, these are mostly educated and relatively younger inhabitants of large cities. Other bank products are not very popular among the elderly – only 37% have savings accounts, 30% hold money deposits, 6% have Treasury bonds or investment funds, and only 4% hold stocks.

People aged 65+ are quite willing to use various forms of lending. More than 2/5 of respondents borrowed money in the previous five years: 28% took out a credit and 31% chose instalment plans (mostly to buy domestic appliances and electronics). Such forms were most often chosen by “younger” seniors aged 65–74 to finance home equipment, home/flat renovation and medical treatment. The survey has also found that older people are more likely to take out a loan for another immediate family member (10%) than for their own enjoyment such as holidays (1%).

The cited survey reveals that Polish seniors are increasingly indebted. In 2015, only the KRUK Group was handling more than 190,000 cases of people over 67 years of age whose total debt exceeded PLN 901 million. It is over PLN 136 million more than in 2013. At the end of 2015, the average debt of a Polish senior was PLN 5,500, PLN 1,000 higher than in 2014. Older people default on their payments mainly to banks and other financial institutions, mobile operators and insurers. The biggest number of indebted seniors live in Śląskie Voivodship. This Polish region accounts for over 30,500 cases totalling PLN 170 million, which gives the average debt of a person aged 65+ in excess of PLN 6,500. The debt of the elderly in Mazowieckie Voivodship is not much lower. More than 23,500 senior inhabitants of this voivodship must repay approximately PLN 113 million in total. Their average debt exceeds PLN 6,140. The least financial problems are experienced by seniors living in Podlaskie Voivodship. Their total debt was over PLN 13 million in 2015, with the average of PLN 4,500 per person. The KRUK Group databases list some inglorious record holders. The most indebted senior comes from Mazowieckie Voivodship, with the amount due of approximately PLN 8.5 million. More than 73% of the elderly surveyed stated that instalment plans

were a good way out of a difficult situation. The majority of seniors would not avoid contact with a company handling their debts, either. Almost 66% of people aged 65+ said that they would contact the creditor quickly to resolve the problem [<https://pl.kruk.eu/dla-prasy/informacje-prasowe/polscy-seniorzy-coraz-bardziej-zadluzeni> accessed on 15.05.2016].

In order to determine the scale of Polish pensioners' indebtedness, the Debt Service to Income (DSTI) ratio should be used. It is the ratio of the monthly credit instalment (for home credits and other, excluding credit card credit, credit in the credit line/current account) to the average monthly household net income. The DSTI ratio is relatively high in the 65+ sector, reaching 27.9, that is almost the limit and the highest value as compared to all other age groups, and evidencing high current debt servicing charges (debt servicing costs are, among others, a function of debt value, its maturity date and interest rates). A complementary indicator is the ratio of total debt to disposable income (Debt to Income, DTI) that determines the potential increase in this burden. In the 65+ group, the DTI ratio is 8.5, the lowest as compared to other age groups. It is important to note that there are no accepted standards for safe DTI levels, but it is often assumed that financial tensions arise when debt servicing costs exceed 30%–40% of disposable income [Beer, Schürz, 2007, cited in: Świecka, 2016, p. 129].

Polish households are much less indebted than those in the euro area. In Poland, the average household has a debt of EUR 2,400 (slightly over 3% in relation to gross assets), while in the euro area the average debt is EUR 21,500, or about 15% of total assets. As compared to the euro area countries, Poland has a safe level of household debt, as confirmed by data showing the proportions of indebted households: 37.0% in Poland, the highest in the Netherlands – 65.7%, followed by Cyprus – 65.4%, Finland – 59.8%, Luxembourg – 58.3%, Spain – 50.0%, Germany – 47.4%, France – 46.9%, Belgium – 44.8%, Slovenia – 44.5%, Portugal – 37.7%, Greece – 36.6%, Austria – 35.6%, Malta – 34.1%, Slovakia – 26.8%, Italy – 25.2%. In the euro area, the average proportion of indebted households is 43.7% [*Household wealth in Poland*, 2015].

DEBT OF THE SENIORS SURVEYED

The primary research concerning household debt suggests that 46.7% of the seniors surveyed had recourse to credits and loans. For every fifth senior respondent, the debt exceeded the family's annual income, for more than one fourth – it was more than six-month income, for every third – more than three-month income, for 17.6% – it was up to three-month income, and for 10.4% of respondents – it did not exceed the household monthly income. The survey results indicate that almost 50% of senior members of parochial communities and 44.2% of UTA students took out a credit or loan.

Households of people aged 65+ with a women as their head tend to display a more restrained attitude to borrowing. Even if they decide to take out a credit or loan, they usually borrow less than male-headed households. The survey also shows that the households that are most active in the lending market are those with a male head. The highest percentages of indebted households were recorded for Warsaw (58.3%), Łódź (56.8%) and Wrocław (53.6%), and the lowest for smaller cities such as Toruń (34.7%) and Białystok (31.1%).

The seniors surveyed most often borrowed from banks (93.1%), shadow banking system (4.8%) and non-banking institutions (2.1%). Credits and loans with banks are most prevalent in households in Warsaw, Łódź and Wrocław. Meanwhile, people aged 65+ living in smaller cities such as Białystok, Toruń and Lublin are relatively more likely to borrow from non-banking institutions (non-governmental institutions, mutual assistance and loan funds, pawnshops, private individuals). It should be noted here that the relatively low proportion of seniors who borrowed from private individuals is due to the belief that the financing of expenditure by means of such borrowing is often associated with serious risks and gives rise to unnecessary tensions in family relationships.

Taking into account the connection between the threat of insolvency and the institution lending to households, it is found that the greater the threat of insolvency, the more frequently the households borrow from non-banking institutions (mainly pawnshops and private individuals). More importantly, senior respondents spend all the money borrowed on current consumption (chiefly food and medicines), fixed charges and repayment of their previous debts or credits taken out by their immediate family members (children or grandchildren). It is also worth stressing that indebted seniors resorting to the lending market to finance current consumption have a disposable income of up to PLN 2,000.00 *per capita* a month. This also evidences that their creditworthiness is below average. People aged 65+ who are indebted because they took out credits to finance various needs of immediate family members usually have a monthly *per capita* income ranging from PLN 3,001.00 to 4,000.00.

When looking at the structure of seniors' households borrowing money for various purposes, it may be stated that almost 2/5 of them used credits and loans to finance renovation of their house/flat, almost every fourth senior spent money borrowed on durable goods (mainly infotainment equipment and mechanised domestic appliances), every eight – on current consumption, every tenth – on medical treatment and medicines, 6.8% – on fixed housing charges, and 5.7% – on repayment of earlier debts [Zalega, 2016b, p. 198].

A majority of respondents who borrow money for current consumption and repayment of their earlier debts had recourse to lending firms operating outside the banking system. Such consumer behaviour is also confirmed by the Social Diagnosis 2015 data showing that loans for repayment of other debts are resorted to mostly by households that borrow money informally from the shadow banking

system or private individuals [*Social Diagnosis 2015*, 2015, p. 59–60]. Undoubtedly, such recourse to informal lending methods drives households into the trap of excessive debt, which may (although does not have to) lead to consumer bankruptcy.

The direct research reveals that education is a variable that influences not only the very occurrence of debt but also the amount of debt. Thus, seniors with higher education (17.8%) borrowed money less frequently than those with primary (46.3%) or basic vocational and secondary education (36.1%). Moreover, the higher the level of education of people aged 65+, the higher the assessment of the current economic situation of their family. In the whole sample surveyed, distressed debtors with higher education represented only 1%, while those with primary education accounted for 20.3% and those with basic vocational education constituted 7.9%.

A credit or loan taken out to repay earlier debts was indicated by 14.1% of seniors indebted to the informal sector (private individuals or pawnshops) and by 6.8% of those owing money to banks.

CONCLUSION

The financial security of people aged 65+ is an objective indicator of their standard of living. The diversified financial situation of respondents is reflected in their self-assessments. Only few seniors assess the financial situation of their family as very good or good. Most older people consider their family's situation to be bad or very bad. It can, therefore, be concluded that the average Polish senior is dissatisfied with the current disposable income.

Borrowing is an important issue in the case of people aged 65+. Seniors' debt, on the one hand, stems from their poor financial situation that makes it necessary for them to borrow money to purchase basic staples and, on the other hand, from loans/credits taken out for immediate family members who are not creditworthy and who are defaulting on their loans. Therefore, it can be concluded that excessive debt of seniors' households is connected with financial decisions and behaviour of households rather than with the supply of credit. Living beyond means, recklessness and family problems (i.e. expected and unexpected events) affect the financial balance (or lack thereof) and decisions on whether or not to borrow. The primary research into seniors' debt demonstrates that their debt most often did not exceed three-month disposable income. People aged 65+ most frequently owed money to banks and least frequently to the shadow banking system and non-banking institutions.

When examining how loans are used, it is found that they are mostly spent on house/flat renovation, durable goods (mainly infotainment equipment and mechanised domestic appliances), current consumption, medical treatment and medicines, as well as fixed housing charges and repayment of earlier debts.

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Summary

Population ageing is, on the one hand, a natural and inevitable process that occurs in every highly developed economy and, on the other hand, the biggest challenge for modern states, economies and entrepreneurs. This problem is beginning to affect Poland as well. Older people do not form a homogeneous group in terms of financial situation. Varying income levels of seniors' households lead to marked differences also in the ways and purposes of spending money. Furthermore, such households also have an adverse structure of expenditure because of a small number of household members and a high proportion of fixed expenditure in the total spending.

This article aims to assess the financial situation and the main causes and level of debt of seniors' households. Secondary research results were also used in order to compare the author's results with the research outcomes obtained by various research and scientific institutes.

Keywords: seniors, financial situation, debt.

Ocena sytuacji finansowej, determinant i poziomu zadłużenia gospodarstw domowych osób starszych

Streszczenie

Starzenie się społeczeństwa jest z jednej strony naturalnym i nieuniknionym procesem, który uwidacznia się w każdej wysoko rozwiniętej gospodarce, a z drugiej strony największym wyzwaniem dla współczesnego państwa, gospodarek i przedsiębiorców. Problem ten zaczyna być istotny również w Polsce. Starsze osoby nie stanowią grupy homogenicznej z punktu widzenia sytuacji finansowej. Zróżnicowane poziomy dochodów gospodarstw domowych osób starszych prowadzą do różnic rynkowych również w sposobach i celach wydatkowania pieniędzy. Co więcej, takie gospodarstwa domowe charakteryzuje również niekorzystna struktura wydatków ze względu na niewielką liczbę członków gospodarstwa oraz wysoki udział stałych wydatków w całkowitym ich poziomie.

Celem artykułu jest ocena sytuacji finansowej oraz głównych przyczyn i poziomu zadłużenia gospodarstw domowych osób starszych. Dodatkowo, wyniki badań zostały także wykorzystane do porównania rezultatów otrzymanych przez autora z wynikami badań uzyskanymi w innych ośrodkach badawczych i naukowych.

Słowa kluczowe: osoby starsze, sytuacja finansowa, zadłużenie.

JEL: D11, D14, D39