Homeownership, Social Insurance, and Old-Age Security in the United States and Europe

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Relatively few Americans have accumulated substantial savings outside of their employer-sponsored retirement plans, yet most own their homes. Thus, the traditional view of the retirement income system as a three-legged stool supported by Social Security, private pensions, and savings may be better viewed as one supported by Social Security, pensions, savings, and homeownership.

Due to country-specific economic, social, and political developments throughout modern history, homeownership rates and the relative importance of homeownership for old-age security vary widely across developed countries. Many countries, however, are increasingly promoting homeownership as an effective way of building assets, a de facto self-insurance mechanism for old-age security, and a (partial) substitute for various social transfers.

In this context, this study compares the United States with nine European countries – Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain, and Sweden – to better understand the role of homeownership in retirement security. More specifically, our research objectives in this paper are to: 1) compare trends in homeownership rates among older adults in the United States and Europe before and after the Great Recession and provide a comparison of the key characteristics of housing-related policies across countries; 2) examine home equity trends among older homeowners in the United States and Europe, the relative importance of housing as a source of retirement wealth, and cross-national differences in the prevalence and burden of housing debt; 3) provide an overview of equity release options and estimate how much older homeowners could increase their household incomes by fully monetizing their housing equity; and 4) critically discuss the prospects for, and limits of, home equity release and asset-based welfare policies.

Our results show that while the majority of older adults are homeowners, homeownership varies substantially across countries due to a complex mix of socioeconomic, political, and historical circumstances that shaped housing preferences and tenures in different societies. However, older adults' homeownership rates generally increased between 2006 and 2012 across all the countries in our study. Our analysis of housing-related policies shows that countries such as the Netherlands, Sweden, and Denmark provide comparatively high levels of support to both homeowners and non-homeowners, while southern European countries such as Italy and Spain are at the opposite end of the spectrum. The United States exhibits the greatest imbalance of all observed countries between policies supporting homeowners and non-homeowners, with some of the highest levels of support for homeowners and lowest levels of support for non-homeowners.

Our analysis of data from the *Health and Retirement Study* (HRS) and the *Survey of Health, Ageing, and Retirement in Europe* (SHARE) on home equity trends among adults ages 65 and over suggests that older American homeowners have substantial housing wealth but, compared with their European peers, housing represents a somewhat smaller part of their net total wealth. In this regard, American homeowners are most like older Swedish and Danish homeowners. While the prevalence of housing debt among older adults is somewhat lower in the United States than in the Netherlands, Denmark, and Sweden, among older homeowners with housing debt, Americans have the highest loan-to-value ratios and the highest proportion of homeowners whose homes may arguably be at risk of going underwater.

Whereas acquiring a home and building home equity is a precondition for using equity as a source of old-age security, the extent of the welfare-enhancing potential of a home depends on the ability to extract liquidity from it. To facilitate this process, financial institutions have developed dedicated home equity release products such as reverse/lifetime mortgages and home reversions that allow older adults to extract equity from their home while continuing to live in it, and to generally rely on selling the property to repay the loan.

The number of countries offering dedicated equity release financial products for seniors has been on the rise, but the actual market penetration of these products has been very limited across most European countries and, albeit comparatively less so, the United States. Nonetheless, our analysis of the HRS and SHARE data suggests that the potential impact of home equity release on the living standards of older Americans and Europeans could be large. If the housing equity of older Americans, for example, were completely monetized, median household income would increase by over a third – more than in countries like Sweden and Denmark but well below countries like Spain and Italy. Across all countries in our study, tapping into housing equity could substantially reduce the share of older adults with household incomes below 50 percent of the median. However, even *after* annuitizing housing wealth, the share of relatively poor older Americans would remain as high as, or higher than, the share of relatively poor older Europeans *before* accounting for annuitized housing wealth.

Despite the potentially large impact of monetizing home equity on household incomes and the economic security of older Americans and Europeans, our critical review of home equity release and asset-based welfare policies identifies important impediments to tapping into home equity that may explain its very low use. Objective obstacles include the high cost of withdrawing the equity, uncertainty about life expectancy and the amount of financial resources required to support retirement, the adverse impact on eligibility for social benefits, and the concentration of housing wealth among (upper) middle- and higher-income individuals who are less likely to need additional resources in old age. Subjective obstacles include an aversion to assuming additional debt in old age, different (often emotional) attitudes toward housing compared with other types of wealth, bequest motives, and a lack of trust in financial institutions.

Overall, home equity has a potentially important yet limited role in supporting old-age security. Even if objective obstacles related to the design and pricing of home equity release products were fully addressed, subjective reasons for avoiding home equity withdrawal and compositional differences in the concentration of housing wealth would still limit the scope of asset-based welfare. These limitations notwithstanding, using home equity to supplement retirement incomes and improve retirement security remains a potentially attractive option for a substantial number of older adults who have built housing wealth over their lives but may either have insufficient retirement incomes or face unexpected and expensive life events (e.g. long-term care needs). What remains more uncertain and difficult to predict, though, are the long-run prospects for using home equity to support old-age security since younger generations of Americans and Europeans may find it more difficult to build home equity than their parents' generation.