Working Paper
Executive Summary

July 2006, WP# 2006-16

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

NO PLACE LIKE HOME: OLDER ADULTS AND THEIR HOUSING

By Timothy Smeeding, Barbara Boyle Torrey, Jonathan Fisher, David S. Johnson, and Joseph Marchand*

The single largest asset of older adults is their home. In addition to being the single largest asset, the home is also the single largest item in their consumption. Therefore, the home is central to the economic calculations older Americans must make over time. And how they manage their housing assets and consumption gives insight into their motivations and the incentives they face as they age.

The life-cycle hypothesis is perhaps the best known perspective with which to view the housing behavior of the older population. But there are also hypotheses about bequest motives and financial portfolio management. This paper contributes new data and findings, but no resolution among the different perspectives. It, however, illuminates some of the economic trends of the older population over time and raises questions for further research.

The challenge in understanding the role of housing of older adults is to examine it as both an asset and consumption good simultaneously, as they themselves do. Few data sets, however, have the kind of long term, consistent measurement of both consumption and assets that would guarantee that the estimates would be internally consistent. The *Consumer Expenditure Survey* (CEX) used in this paper does meet those requirements, and it has not been used before to study these questions.

THE CEX SURVEY AND DATA

The *Consumer Expenditure Survey* collects detailed, cross sectional data on consumption and assets of consumer units and less detailed data on income. The CEX's comparative advantage is that it has collected consistent, detailed and accurate measures of consumption and assets over a long period of time. It's disadvantage is it does not collect the data longitudinally for each consumer unit, nor does it include the institutionalized population.

We, however, partially compensate for the cross-sectional disadvantage by following the behavior of four cohorts of older Americans (aged 50-54 to 80+) from 1983-4 to 2003. Equivalence scales are used to adjust for differences in consumer unit sizes. This cohort analysis allows us to follow the median individual within different age cohorts over 20 years. We develop two consumption measures that differ only by how they treat the value of the home. Consumption-expenditures is the direct spending for current consumption, including the home. Consumption-flow reflects current direct consumption plus the rental value of the home rather than the expenditures for the home.

RESULTS

Between 1984-2003 a large majority (81-89 percent) of our four older cohorts were homeowners. This is consistent with other estimates. No significant decrease in the percentage of older adults who are homeowners occurs until after age 80 and even then the decreases are small. Of those older adults aged 65-69 years old who own a home, less than a third had a mortgage and that continues to decrease with age. Both their tenure in their home and home equity increases with age. Home equity is the single most important asset in the four cohorts' net worth except at the 25th percentile of home equity.
Despite the absolute increase in home equity after age 60-64, few older adults are converting their housing stock into consumption by either selling their homes or through home equity loans.

The consumption value of older adults' home is the other side of the coin from home equity. Housing outlays as a percentage of total consumption-expenditures stays relatively level around 30 percent for all ages and cohorts. Conversely, housing consumption-flows increase after age 60-64 for each cohort because it reflects the increasing value of the home, the long tenure and the decreases in mortgages. This suggests that there really is no place like home for older Americans.

A recent study of homeownership rates over time in seventeen developed countries suggests that the housing behavior of older Americans is anomalous. Homeownership dropped between the ages of 51-60 and 71-80 by an average of 26 percent in the sixteen other countries studied, while the U.S. ownership rates dropped only 6 percent. The older population may be holding on to their homes because of a bequest motive, or because it is a high performing asset in their financial portfolio. They may also be holding on to their home because they may be facing one last major consumption expense, long term care. And consistent with the life-cycle hypothesis they may want to ensure that they have enough assets at the end of their life for their last major consumption item.

The CEX data cannot distinguish among these different motives because it follows cohorts over time rather than individuals. It also does not include the institutional population and therefore can not tell whether they are using their home as long term care insurance. Motivation at the end of life can only be described through a longitudinal survey that includes the institutional population, such as the Health and Retirement Survey. The CEX data does suggest that the home is a critical piece of the economic calculations of the older population as they age, and this raises a lot of research questions for future research.

 The research reported herein was performed, in part, pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium. The findings and conclusions expressed are solely those of the authors and do not represent the views of SSA, any agency of the Federal Government, the Bureau of Labor Statistics, Census Bureau, the Center for Policy Research, the Population Reference Bureau, or Boston College.

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.0191 crr@bc.edu www.bc.edu/crr