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HOUSING CONSUMPTION LATE IN LIFE: THE ROLE OF INCOME, HEALTH SHOCKS, AND MARITAL SHOCKS

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Past research has shown that income from the Social Security program has contributed to trends toward smaller households, greater residential independence – the tendency to live alone rather than with others – and a greater prevalence of home ownership late in life. Although the connection between rising income levels in general, or rising Social Security benefit levels in particular, and independent living seems well established, little attention has been paid to the mechanism through which this connection is established. For example, Social Security's role in promoting home ownership late in life is unlikely to operate through the initial purchase of a home, which typically happens well before retirement. Rather, higher-income people may be able to remain in an owned home longer, or may be buffered from the adverse effects of health or marital shocks.

This study seeks to uncover the mechanism through which income influences housing consumption in late life. Specifically, we investigate the effects of income, and of health and marital shocks, on housing consumption. To deal with the potential endogeneity of income in our housing-consumption equations, we use a previously-developed instrumental variable that has been applied in several past studies.

Our measure of housing consumption (or "crowding") – rooms per person, in the dwelling unit occupied – captures housing adjustments that arise as a consequence of downsizing, or a move into a family member's home, or a move by one or more family members into one's home. Downsizing, whether or not accompanied by a move into someone else's home, necessitates a residential move, whereas one's own home can acquire additional occupants in the absence of a move. The idea that income buffers the adverse effects of health and marital shocks suggests an interactive effect between income and the occurrence of such shocks. Accordingly, we estimate both main-effects and interaction-effects versions of our housing consumption models.

Because one possible response to a serious health shock is a move into a nursing home – a move that removes someone from the household sector in which "rooms per person" is a meaningful measure of housing consumption – we must account for selective loss from our community-based sample of individuals. We do so by including in our model a separate equation for moves into nursing homes.

We use panel data from the *Health and Retirement Survey* to model current housing consumption in relation to Social Security income as well as the occurrence of health and marital shocks over the two-year period preceding each survey year (1995; 2000; 2002; 2004; and 2006).

The rooms-per-person outcome is meaningful only for community-resident individuals, yet health shocks, in particular, may lead to a period of residence in a nursing home – possibly for the rest of one's life. Therefore, it is important to recognize the potential for selection effects among those who remain in the community. And, as noted before, we also wish to use instrumental-variables techniques to rid our estimates of endogeneity bias. Therefore we adopt a three-equation model for our analysis: one equation is a reduced-form expression for Social Security income; the second is a "selection" equation that indicates those who are nursing home residents; and the third is the housing-consumption equation, relevant only to those who are not nursing home residents. Each equation includes a person-specific time-invariant unmeasured factor (i.e., a random effect), which can be correlated across equations. These correlated random effects capture not only the endogeneity of income but also the selectivity of transitions from the community to the nursing home residential setting.

We find no effects of Social Security income on housing consumption once we control for selection and endogeneity, a result that contrasts sharply with past research findings. We also fail to find any evidence that Social Security mediates either health or marital shocks. We do, however, find main effects on housing consumption of the two "shock" variables considered. Health shocks, and especially relatively catastrophic shocks such as a stroke or a hip fracture, produce substantial reductions in housing consumption, conditional on remaining in the community. These reductions surely reflect the individual's increased need for hands-on help and assistance with daily tasks, a type of help that is facilitated by (and may even necessitate) coresidence with a helper. For many such health shocks, the period of dependency on others may be temporary, and a subsequent recovery of function may be accompanied by a further adjustment in housing consumption.

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