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Retirement and Disability Research Consortium 22nd Annual Meeting

August 6, 2020

Virtual Event

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Panel 2: Housing as a Resource for Retirees and Those with Disabilities

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Home Ownership and Housing Debt in Retirement: Financial Asset for Consumption Smoothing or Albatross Around the Neck of Retirees?

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Intended Bequests and Housing Equity in Older Age

Gary V. Engelhardt (Syracuse University) and Michael D. Eriksen (University of Cincinnati)^{*}

Along with entitlements to Social Security and employer-provided pensions, housing is one of the largest assets in elderly portfolios, and, as such, there is significant policy interest in the extent to which housing might supplement the retirement income of future retirees. However, a longstanding issue at the intersection of urban economics, public finance, and the economics of aging is the extent to which the elderly spend down their housing wealth as they age, as predicted by the simplest forms of the life-cycle hypothesis (Modigliani and Brumberg 1954; Artle and Varaiya 1978). Early empirical studies, beginning with Merrill (1984) and followed by Venti and Wise (1989, 1990), used data from the *Retirement History Survey* (RHS) in the 1970s and found little evidence that homeowners extracted home equity either by downsizing and remaining an owner, or by liquidating equity altogether in transitioning to renting. These findings presented an empirical puzzle, especially for lower-income homeowners with large amounts of home equity – the so-called "house-rich, income-poor" – who could increase consumption by converting home equity to retirement income, for example, through reverse mortgage products (Venti and Wise 1991; Mayer and Simons 1994; Merrill, Finkel, and Kutty 1994).

Subsequent studies provided some clarity, but questions remained. The RHS contained relatively young elderly (in their late 50s through early 70s), potentially too young to detect significant tenure transitions from owning to renting, if those occurred predominantly among the oldest old. New work with data from a variety of time periods that tracked individuals to older ages, such as the *Panel Study of Income Dynamics* (Sheiner and Weil 1992; Megbolugbe, Sa-Aadu, and Shilling 1997), *Current Population Survey* (Sheiner and Weil 1992), *Survey of Income and Program Participation* (Venti and Wise 2001, 2004), and the *Health and Retirement Study* (Venti and Wise 2001, 2004; Walker 2004), generated a number of empirical regularities. First, there was little evidence that homeowners extracted home equity by increasing mortgage debt, or downsizing in value and remaining an owner. Second, the only measurable reductions in home

^{*} The research reported herein was pursuant to a grant from the U.S. Social Security Administration (SSA), funded as part of the Retirement and Disability 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, Syracuse University, the University of Cincinnati, or the Center for Retirement Research at Boston College.

equity came from tenure transitions from owning to renting. These transitions were relatively infrequent among two-person (married) households, but when they did occur, followed an adverse health shock or widowhood. Finally, with the advent of better data, the age profile of homeownership for one-person households was shown to eventually decline, especially after age 80 (Sheiner and Weil 1992; Megbolugbe, Sa-Aadu, and Shilling 1997). However, Venti and Wise (2004) found that even up through age 95, the homeownership rate for one-person households was roughly 40 percent, significantly higher than would be implied by the simplest form of the life-cycle hypothesis. This opened the door to other reasons for holding housing wealth late in life, including the role of aging in place, Medicaid eligibility, taxes, bequests, and insurance motives, among others.

This paper returns to this literature and examines how homeownership evolves in old age and around the time of death. The empirical analysis uses data from the 1992-2014 waves of the HRS, a nationally representative survey of Americans ages 50 and older interviewed roughly every two years until they die. With eleven waves of data that span up to 22 years, homeownership rates can be measured to much older ages than Venti and Wise (2001, 2004) and Walker (2004), who used data from 1992-2000. In the main sample, the homeownership rate for living non-institutionalized individuals peaks at age 72 at 69.8 percent, remains relatively flat until age 80, then decreases at an increasing rate. The homeownership rate at age 90 is 51.8 percent; at age 100 it is 22.9 percent; and at ages 103 and older, it is 12.5 percent. This pattern continues to hold when measuring the age profile of homeownership by 10-year birth cohorts.

In a methodological contribution, the age profile of homeownership is recalculated by combining person-year observations on living, non-institutionalized individuals with two other groups in the HRS. The first are living survey respondents admitted to a nursing home, hospice, or other long-term care facility at the time of the interview. In other surveys, such as the CPS and SIPP, these individuals are considered institutionalized and are not sampled. In the Census and *American Community Survey* (ACS), these individuals are sampled, but are categorized as living in group quarters and are not asked about homeownership. In the study of life-cycle housing behavior, however, these are relevant individuals in the population, and they grow as a fraction of the elderly as age increases and, especially, as death approaches. Importantly, the HRS asks these individuals (or their proxies) about homeownership. The second are observations on decedents drawn from the HRS "exit" interviews. In other longitudinal surveys,

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when a respondent dies, that individual attrites from the sample, and the economic and life experiences that occurred between the last interview and the date of death are not recorded. This could result in up to two years of lost information for biennial surveys (like the PSID). In contrast, when a respondent dies in the HRS, the decedent's next of kin is administered an "exit" interview, which covers the financial, health, and other circumstances of the decedent in the period since the last interview (when alive) and at the time of death.

Data on homeownership from these two new sources are critical to the analysis, because a nontrivial share of both tenure transitions and admissions to skilled nursing facilities occur in the final two years of life. For individuals who are 75 and older, homeownership rates are on average 6 percentage points lower when those in nursing homes, hospice, and other long-term care facilities are included. When exit-interview information is used, homeownership rates are an additional two percentage points lower on average. For individuals in their early 90s, the results are starker: measured homeownership rates are 10-14 percentage points lower. Therefore, true homeownership rates are significantly overstated for older Americans using just data on living respondents, which has been the mode in all of the previous literature.

Overall, when extending the samples to individuals alive at very old ages, the age profile of homeownership declines to 7.7 percent, significantly lower than previous studies. However, as the paper's title suggests, there is a distinction between home ownership in old age and the end of life. In particular, the life-cycle hypothesis places restrictions on the time path of wealth as the date of death nears (or expected date of date, if there is mortality risk). In reality, there is a distribution of dates of death, and many individuals die at ages that would not categorize them as the oldest old. To address this, the second part of the paper examines the homeownership trajectory prior to death, which is constructed for a baseline sample of homeowners. It declines as the date of death approaches, using the sample of decedents and information from the exit interviews. Roughly half of elderly homeowners made own-to-rent transitions before death. This pattern of tenure transitions, and the accompanying housing wealth spend-down, is not consistent with simple versions of the life-cycle hypothesis, unless there is significant uncertainty about the death of death. Furthermore, for the other half of baseline homeowners who died as homeowners, their housing wealth was bequeathed, usually to children. A small fraction of the heirs took possession of the property; the remainder had sold the property, often at a substantial discount from the value self-reported by the decedent in the last interview while

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living. The associated annual flow of housing bequests for those born 1924-30 in the United States is substantial.

A key conclusion is that bequests play an important role in the housing behavior of the elderly, a theme that emerged in discussions (e.g., Poterba 1990; Sheiner and Weil 1992) of the early work in this literature. Since the date of death is uncertain, a key question is whether housing bequests are intended or unintended. In particular, unintended bequests would be ones that occurred because ex ante the elderly desired to spend down their housing wealth, but ex post died earlier than anticipated. To examine this, the third part of the paper uses HRS questions in prior waves (when alive) on medical diagnoses, functional status, and bequest intentions, and presents estimates from a competing-risks proportional hazard model of tenure transitions from homeownership, where the competing risk is death. Bequest intentions are important for housing disposition. Health shocks and functional decline prior to death also play a role in the likelihood that housing wealth is extracted via an own-to-rent transition.

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Housing Assistance as a Benefit for Household Heads with Disabilities and SSI Takeup

Erik Hembre (University of Illinois at Chicago) and Carly Urban (Montana State University and Institute for Fiscal Studies (IZA))^{*}

Background

Interactions of social safety net programs are important given the large overlap of eligibility requirements and benefit determination policies. For instance, participants in Supplemental Security Income (SSI), which targets individuals with a disability (and the elderly), receive a modest monthly cash transfer, but also are automatically qualified for Medicaid, SNAP, housing assistance, and typically are disqualified from receiving TANF cash benefits.¹ While most SSI households would be eligible to receive SNAP or Medicaid regardless of SSI participation, the interaction of SSI with housing assistance is particularly interesting because it is the only program that is rationed, meaning many eligible applicants are denied due to limited units. Though receiving SSI does not guarantee a household will receive housing assistance, in many areas household heads with disabilities receive prioritized access to this valuable benefit.

How much is this disability preference in housing assistance worth and do households respond to it? A naive look at the data suggests that households with disabilities are more likely to receive housing assistance: 18 percent reporting a disability receive such assistance compared to 6 percent not reporting a disability.² Further, 36 percent of Housing Choice Voucher (HCV) non-elderly recipients have household heads with disabilities. This project explores the complementarity or substitutability of two programs aimed at low-income individuals: SSI and HCVs.

HCVs are a large benefit for low-income households yet, because of a limited number of available units, only a quarter of income-eligible households receive housing assistance. After receiving an HCV, recipients tend to keep these benefits for many years. In 2015, the average HCV household exiting the program had received benefits for 6.6 years. Each of 2,132 local

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¹ While SSI disqualifies the individual from receiving TANF, it does not disqualify the household.

² Based on 2018 CPS ASEC data of income-eligible, prime-aged head of households.

Public Housing Authorities (PHAs) that administer HCVs set policies for how to distribute available vouchers to eligible households. While some PHAs use a lottery or queue-based system, it is common to create a preference-based system for oversubscribed waitlists. The most common attribute to designate is for a household head with disabilities.³ Our study investigates how the availability of preference-based housing assistance affects SSI applications and awards.

One difficulty in studying the interaction of SSI and HCVs is the lack of existing data on local PHAs' waitlist history and policies. To address this, we hand-collect data from 1,154 local PHAs across the country in order to obtain a broader picture of HCV waitlist administration and preferences. We document geographic variation in preference-based housing assistance – in contrast to first-come, first-served or lottery systems – in local PHAs. After documenting geographical patterns, we are the first to show variation in the number of months per year in which local PHAs had open waitlists from 2010-2017, a proxy for potential HCV availability. Then we seek to understand the effects of having an open waitlist in an area with a preference for household heads with disabilities on SSI applications.

Are SSI and HCVs Complements or Substitutes?

Since many PHAs prioritize HCV access to households with disabilities, receiving SSI can increase the likelihood of receiving an HCV and decrease waitlist time. HUD does not require a household to receive SSI in order to verify a disability, though receiving SSI for a disability automatically confers a HUD household disability.

The incentives for applying for SSI interacted with potential HCV receipt is ex-ante ambiguous. When PHAs prioritize household heads with disabilities, applying for SSI could help increase the likelihood of receiving an HCV. Then the opening of an HCV waitlist would induce greater SSI applications. However, opening a waitlist could also indicate to households that they may soon receive an HCV. Since the SSI application period is long (on average 3.5 months for the initial decision⁴ and for the one third that appeal, the process can take an additional two years⁵) and working during the process would threaten the application, SSI

³ Other frequent preferences include the elderly, veterans, and the homeless.

⁴ See https://www.ssa.gov/open/data/disability_reconsideration_average_processing_time.html

⁵ See Duggan, Mark, Melissa S. Kearney, and Stephanie Rennane. 2016. "The Supplemental Security Income Program." In *Economics of Means-Tested Transfer Programs in the United States* vol. 2, edited by Robert A. ^{5, cont.} Moffitt, 1-58. Chicago: University of Chicago Press.

participants on the margin may prefer to delay applying for SSI until after receiving an HCV. Housing is typically the largest expenditure for low-income households, making the economic burden of the SSI application process considerably lower after obtaining an HCV. Since much of SSI income is spent on housing, receiving an HCV may lessen the need for SSI. This means that opening an HCV waitlist could reduce SSI applications and awards.

Figure 1. Counties Where at Least One PHA Has a Disability Preference



Source: Authors' calculations.

Findings

Our hand-collected data show that nearly half of local PHAs use a waitlist system that includes a preference for household heads with disabilities. Figure 1 shows considerable geographic variation in which areas utilize this preference. There is additional variation in the frequency and duration of local PHA waitlist openings: 23 percent remained continuously open and 9 percent never opened their waitlists between 2010 and 2017. The average months open in a given year was 7.

Our findings suggest that when local PHAs with disability preferences open their waitlists, there is a *reduction* in SSI applications and awards compared to other areas without disability preferences or PHAs that always remained opened or closed in the time period. These results suggest that waitlist openings in PHAs with disability preferences for HCVs do not nudge

applicants to simultaneously apply for HCVs and SSI. Instead, the two appear to be substitutes. Perhaps these HCVs are indeed serving a population that is distinct from those who are at the margin on applying for SSI.

Home Ownership and Housing Debt in Retirement: Financial Asset for Consumption Smoothing or Albatross Around the Neck of Retirees?

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Introduction

For many retirees, the home is their most valuable asset. A house is both used as an investment and for consumption. If a home is paid for at the time a person retires, they no longer have to service a mortgage or pay monthly rent, thus freeing up retirement income for other purposes. In this case, a large portion of income from Social Security can be devoted to consumption, benefiting the person's standard of living. However, a mortgage that is not paid off creates a greater mandatory expense that may threaten the ability of Social Security benefits to replace income devoted to consumption in retirement.

Additionally, home equity can be used to finance consumption in retirement, be it general, or targeted – such as for emergent health-related expenses or a financial emergency. While recent trends in housing asset appreciation appear to be improving the financial well-being of older Americans, without also understanding the level and use of housing debt, it is difficult to know whether retired homeowners are financially more secure.

Using the *Health and Retirement Study* (HRS) panel data from 1992-2016, this paper addresses three related topics. First, it updates information on how household mortgage-related debt evolved for various HRS cohorts. Second, it explores how homeowners have used home debt near, and in, retirement. Third, it considers whether there are important public policy lessons on the role of using home-related debt for achieving a financially secure retirement.

Data Analysis

HRS data show a higher level of homeownership rates for older U.S. households. Interestingly, the Late Boomer cohort, which entered the HRS in 2016, has notably lower homeownership rates than older cohorts (see Table 1). While those who were ages 50-55 in the HRS Baseline cohort had a 79-percent homeownership rate, increasing to 88 percent for those

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ages 62-70, the Late Boomers only reported a 62-percent homeownership rate for those ages 50-55 and a 67-percent rate for those ages 56-61. The Late Boomer cohort was not yet old enough to have any data for ages 62-70.

	Own home (%)		
	Ages 50-55	Ages 56-61	Ages 62-70
HRS baseline (survey year 1992)	79.0%	81.5%	88.0%
War babies (survey year 1998)	82.8	81.0	81.0
Early boomers (survey year 2004)	79.9	80.0	N/A
Mid boomers (survey year 2010)	73.5	77.1	N/A
Late boomers (survey year 2016)	61.7	67.0	N/A

Table 1. Frequency of Home Ownership by HRS Cohort

Notes: Includes all individuals: respondents and spouses by wave. Weighted represents new entrants for that cohort into the HRS.

Source: Author's calculations from RAND HRS v1 (2016).

An additional descriptive analysis of HRS data for 1992–2016 allows another view of how homeownership trends and the use of home debt have played out across age groups over time. For this analysis, households were segmented into five-year birth cohorts: those born 1931-1935, 1936-1940, 1941-1945, 1946-1950, 1950-1955, and 1956-1960.

The homeownership rates displayed in Figure 1 offer some interesting insights. First, the rates for all cohorts declined after the 2008 Great Recession. The decline was more pronounced for the younger cohorts, with those born in 1956-1960 exhibiting a 17-percentage point drop immediately following the Great Recession. For those born in 1936-1940, homeownership rates only slightly declined in the two years after the Great Recession. Second, as of the 2016 HRS, homeownership for each cohort remains below its pre-Great Recession level. Third, comparing the birth-year cohorts at a specific average age is also illuminating, as both the 1956-1960 and 1951-1955 cohorts exhibit less home ownership than the other older three cohorts. Fourth, as one might expect for retirement-age households, as they get older, homeownership rates decline, presumably as the elderly move out of their homes into assisted-living housing. This trend can be seen in the 1931-1935, 1936-1940, and 1941-1945 birth cohorts.



Figure 1. Homeownership Rates by Birth Year Cohort (Percentage)



Loan-to-value ratios have generally continued to decline, shown in Figure 2, securing home value that might otherwise be at risk in a future shock to the housing market.

In fact, while the loan-to-value ratio has generally been higher for later cohorts at similar ages, some initial evidence suggests that, since the 2008 Great Recession, the youngest cohorts are accelerating mortgage pay-down relative to those who came before them. As a result, more recent cohorts may have better financial well-being in retirement than is often portrayed in the mainstream media. Though, again, these data do not reflect the current 2020 economic downturn.



Figure 2. Average Loan-to-Value Ratio by Birth Year Cohort (Percentage)

Notes: Data point exhibited as a square indicates the 2008 survey year, corresponding with the 2008 financial crisis. X-axis is average age, y-axis is percent. *Source:* Author's calculations from RAND HRS v1 (2016).

Additionally, as shown in Figure 3, the percentage of households that own their primary home and pay off their mortgage steadily increases with age. While the 1931-1935 birth year cohort generally exhibits higher levels of mortgage-free homeownership than other cohorts, the percentage of homeowners that have paid off their mortgage steadily increases with age. For example, for those in the 1931-1935 birth year cohort, who had an average age of 83 in 2016, almost 85 percent of those that owned a home had paid off their mortgage. The trend of paying off the mortgage was uninterrupted by the Great Recession. Although noted in Figure 2 that homeownership rates declined after the Great Recession, for those that maintained homeownership, they continued the trend of paying off their mortgage as they got older. It is unclear whether or not this trend will continue as a result of the 2020 economic recession.



Figure 3. Paid Off Mortgage by Birth Year Cohort (Percentage)

Notes: Data point exhibited as a square indicates the 2008 survey year, corresponding with the 2008 financial crisis. X-axis is average age, y-axis is percent. *Source:* Author's calculations from RAND HRS v1 (2016).

In response to the Great Recession, the HRS added a few questions beginning in 2008 to study whether survey respondents had refinanced their homes in the last two years and, if so, why. These questions were only asked through the 2014 HRS. While the sample size is limited and there are only a few years of data, some interesting observations are still worth noting. Figure 4 shows the percentage of households in the HRS that refinanced, conditional on owning a home, sorted by birth year cohort.



Figure 4. Households that Refinanced by Birth Year Cohort (Percentage)

Notes: Data point exhibited as a square indicates the 2008 survey year, corresponding with the 2008 financial crisis. X-axis is average age, y-axis is percent. *Source:* Author's calculations from RAND HRS v1 (2016).

The older 1931-1935 birth year cohort, who had average ages of 75-81 during the survey period, exhibits the lowest level of refinancing. Between 11 percent and 13 percent of those in the HRS in the 1931-1935 birth year cohort that owned their home refinanced between 2008 and 2014. The youngest birth year cohort (1956-1960) exhibits a consistent level of homeowners that refinanced during the survey period, near 20 percent. Interestingly, the middle birth year cohorts all showed an increase in the percentage of those with a home that refinanced after the Great Recession. Given the small sample size and limited number of survey years in which questions related to refinancing were asked, generalizations from these observations need to be taken carefully.

When asked why they refinanced, between 2010 and 2014 for the 1931-1935 birth year cohort, between 61 percent and 68 percent of refinances were done "to get a lower interest rate." The comparable figure for 2008 was 29.7 percent. A relatively consistent number of respondents across cohorts responded that they refinanced in order to reduce the amount of mortgage payments. Ignoring the 2008 survey year, and just focusing on 2010, 2012 and 2014, the percentage of respondents who refinanced and replied that they did so in order to reduce the amount of mortgage payments ranged from a low of 5.1 percent for the 1951-1955 birth year cohort in 2010, to a high of 21.9 percent for the 1936-1940 birth year cohort in 2014.

Also, of interest, a very low percentage of those that refinanced did so in order to consolidate debt. With the exception of the 1931-1935 birth year cohort in 2008, in no other year for any cohort did the share of people indicating they refinanced in order to consolidate debt reach 6 percent.

The responses for the 2008 wave of the HRS, at the time of the Great Recession, are particularly noteworthy. In 2008, of those that refinanced in the 1931-1935 birth year cohort, 37.8 percent indicated they did so in order to "to raise cash for other things." This was the greatest response for this cohort in 2008. Similarly, "to raise cash for other things" was also the greatest response for the 1936-1940 birth year cohort (42.0 percent) and the 1951-1955 birth year cohort (40.6 percent). The response was a close second for the 1941-1945 birth cohort (29.0 percent) and the 1946-1950 birth year cohort (30.8 percent). Raising cash for other things could be anything, including health shock, financial shock, travel, etc. However, it is worth noting that the number of households indicating they refinanced to raise cash for other things markedly drops after 2008 in the 2010, 2012 and 2014 HRS, suggesting that for many of those that owned a home, home equity was a significant financial lifeline during the Great Recession.