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

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Intended Bequests and Housing Equity in Older Age

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Introduction

- Along with entitlements to Social Security and private pensions, housing is the largest asset in elderly portfolios
- Significant policy interest in how housing might
  - Supplement the retirement income of future retirees.
    - Reverse mortgages
  - Pay for public long-term care
    - Medicaid estate recovery

Introduction

- A long-standing issue in the economics is the extent to which the elderly spend down housing wealth as they age
- Early studies, used data from the Retirement History Survey (RHS) in the 1970s and found little evidence of spend-down
- An empirical puzzle, especially for lower income homeowners with large amounts of home equity—the so-called "house-rich, income-poor"

Introduction

- Subsequent studies: little evidence of spend-down
- Measurable reductions in home equity came from tenure transitions from owning to renting
- The age profile of homeownership for one-person households was shown to eventually decline, especially after age 80
- These transitions were relatively infrequent among two-person (married) households, but when they did occur, followed an adverse health shock or widowhood

Introduction

- We return to this literature and examine how homeownership evolves in old age and around the time of death.
- While there are many reasons for holding housing wealth late in life (aging in place, Medicaid eligibility, insurance), we focus on the role of intended bequests
- Housing may not be an important source of retirement income if older individuals intend to give it away

Data Source

- Drawn from the Health and Retirement Study (HRS)
- Different cohorts enter in different years:
  - Original Cohort (b. 1931-41): 1992
  - AHEAD (b. 1923 and earlier): 1993
  - CODA (b. 1924-30): 1998
  - War Babies (b. 1942-46): 1998
- Nationally representative of 50+ population in 1998
- New birth cohorts added every 6 years since

Data and Measurement

- Data on all cohorts from 1992-2014 waves of HRS
- Baseline is non-institutionalized individuals
- Interviewed every 2 years until death
- Followed into nursing homes, LTC facilities, hospices, etc.
- Respondent or proxy interview
- Upon death, there is an "exit" interview

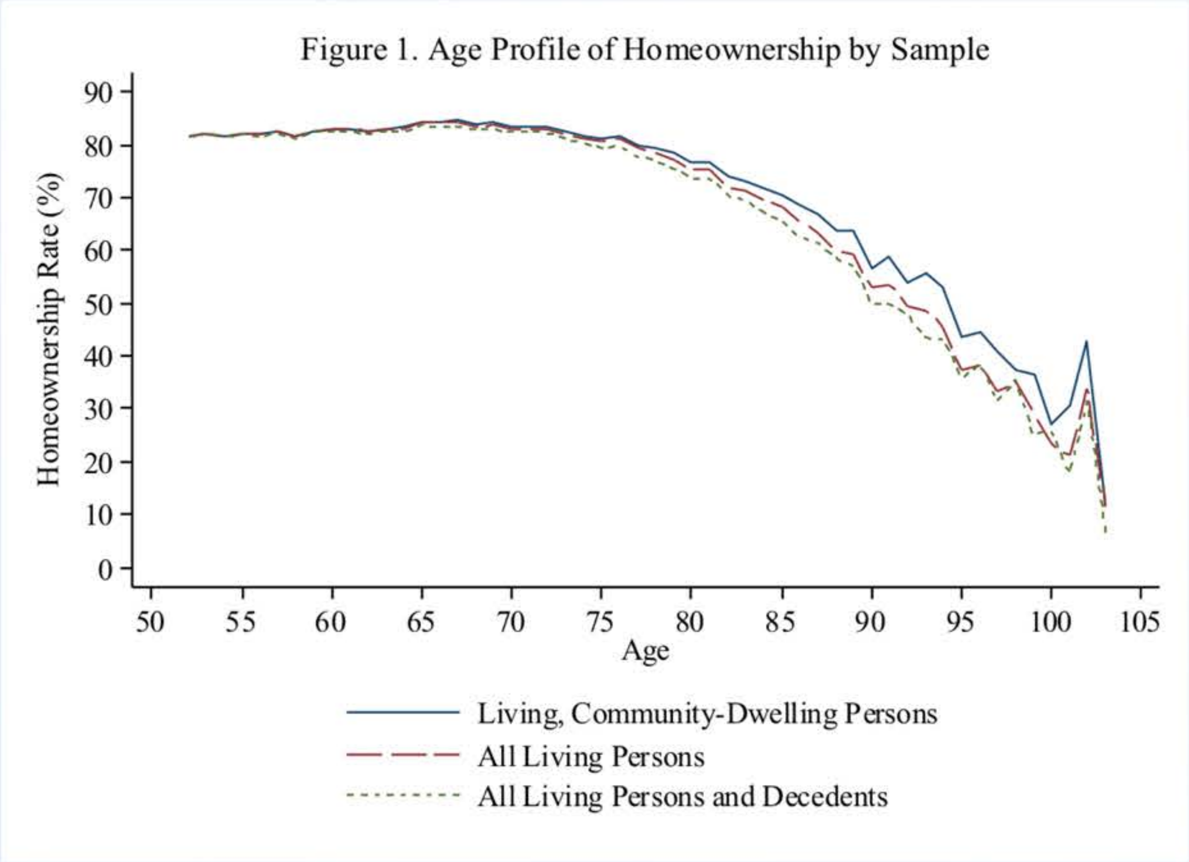
Data and Measurement

- Focus on all person-year observations on the unmarried
- Focus on ownership of primary residence
- Complement of "ownership" is non-ownership
  - Pay cash rent or
  - Do not pay cash rent (co-residence with a child)
- Define an own-to-rent transition as move from ownership to non-ownership

Summary of Findings: Age

- Homeownership rate for unmarried peaks at age 72 at 69.8%
  - Remains relatively flat until age 80
  - Then decreases at an increasing rate
- Homeownership rate at age 90 is 51.8%
- At age 100 it is 22.9%
- At ages 103 and older, it is 12.5%

Homeownership in Old Age

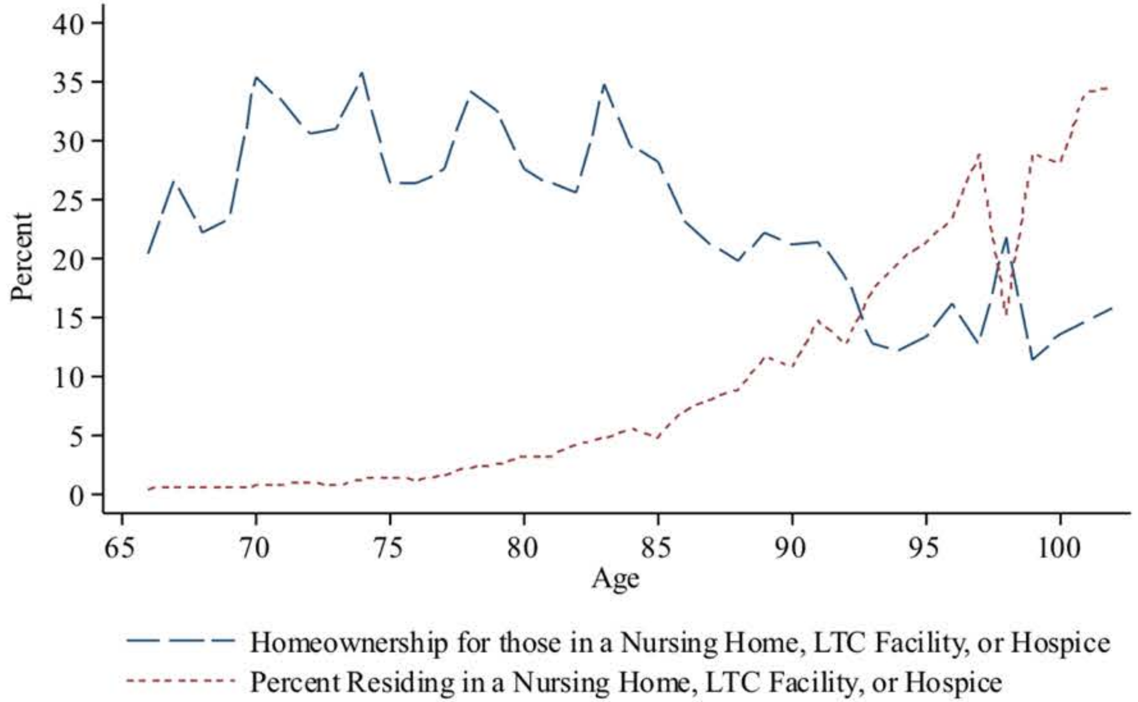


Recalculate Homeownership Rates

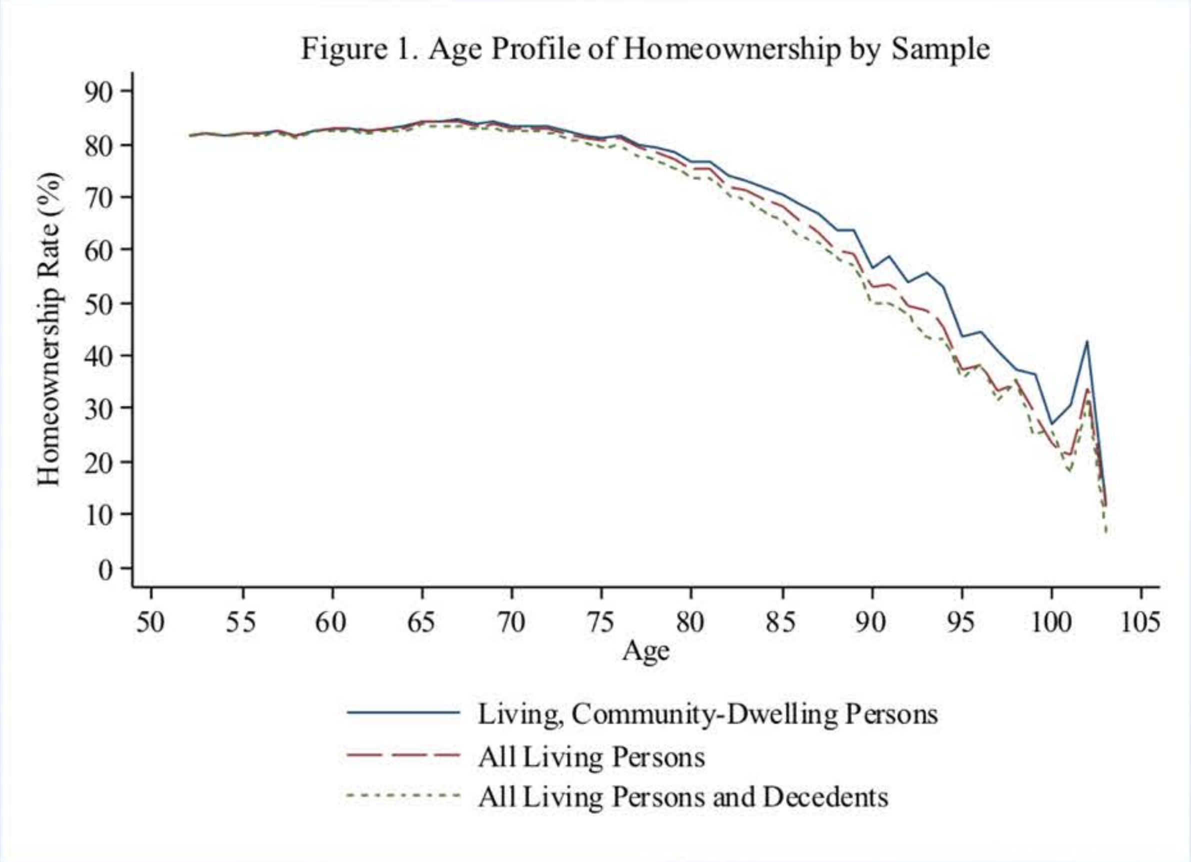
- Living survey respondents admitted to a nursing home, hospice, or other long-term care facility
- Observations on decedents drawn from the HRS “exit” interviews

Homeownership in Old Age

Figure 2. Age Profile of Homeownership and Residency in a Nursing Home, Long-Term Care Facility, or Hospice at the Time of Interview

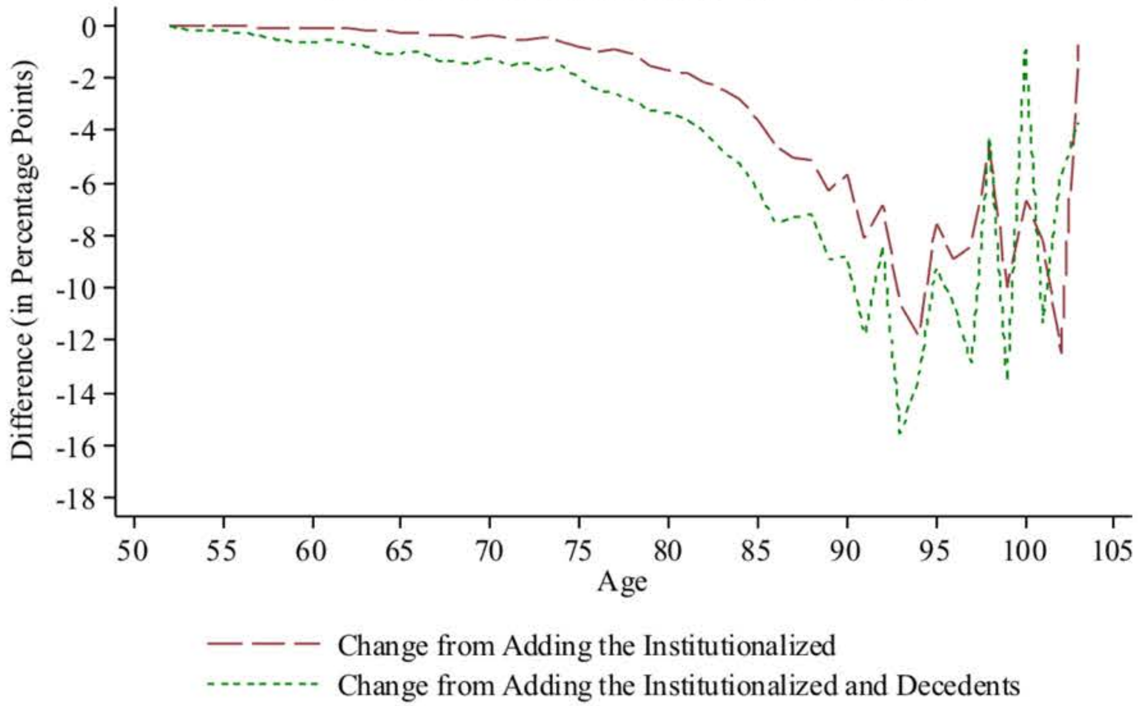


Homeownership Age Profile



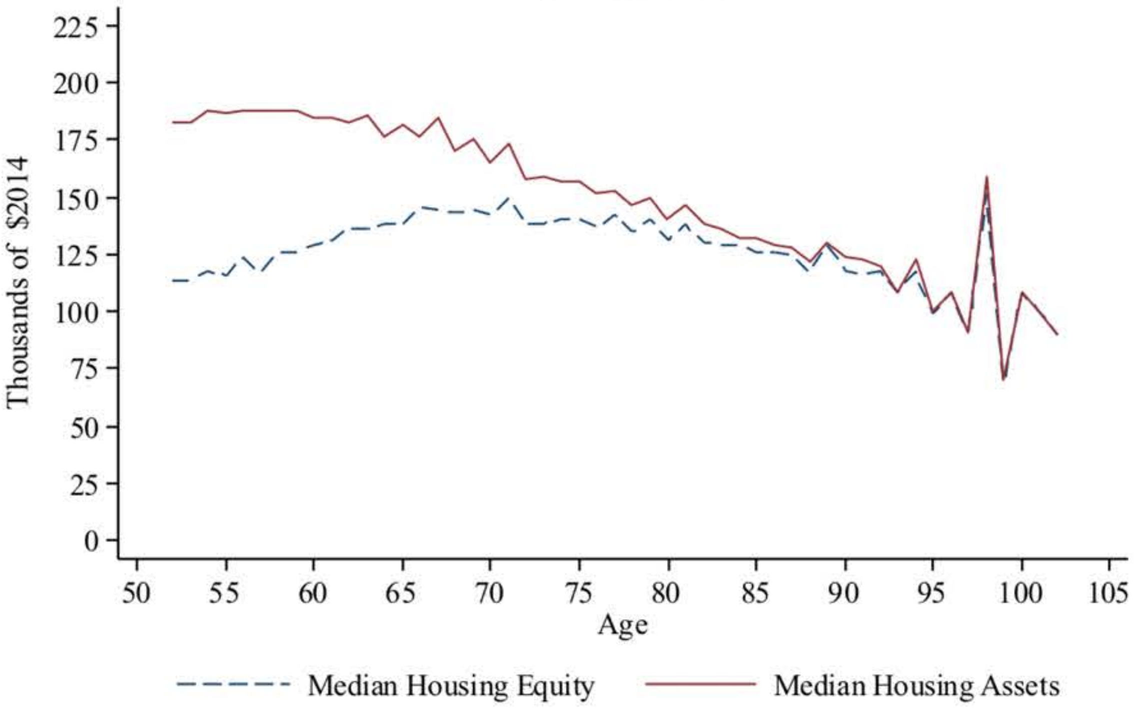
Homeownership in Old Age

Figure 3. Difference in Homeownership Rates from Expanding the Sample to Include the Institutionalized and Decedents



Housing Wealth in Old Age

Figure 7. Age Profile of Real Median Housing Assets and Home Equity for Homeowners

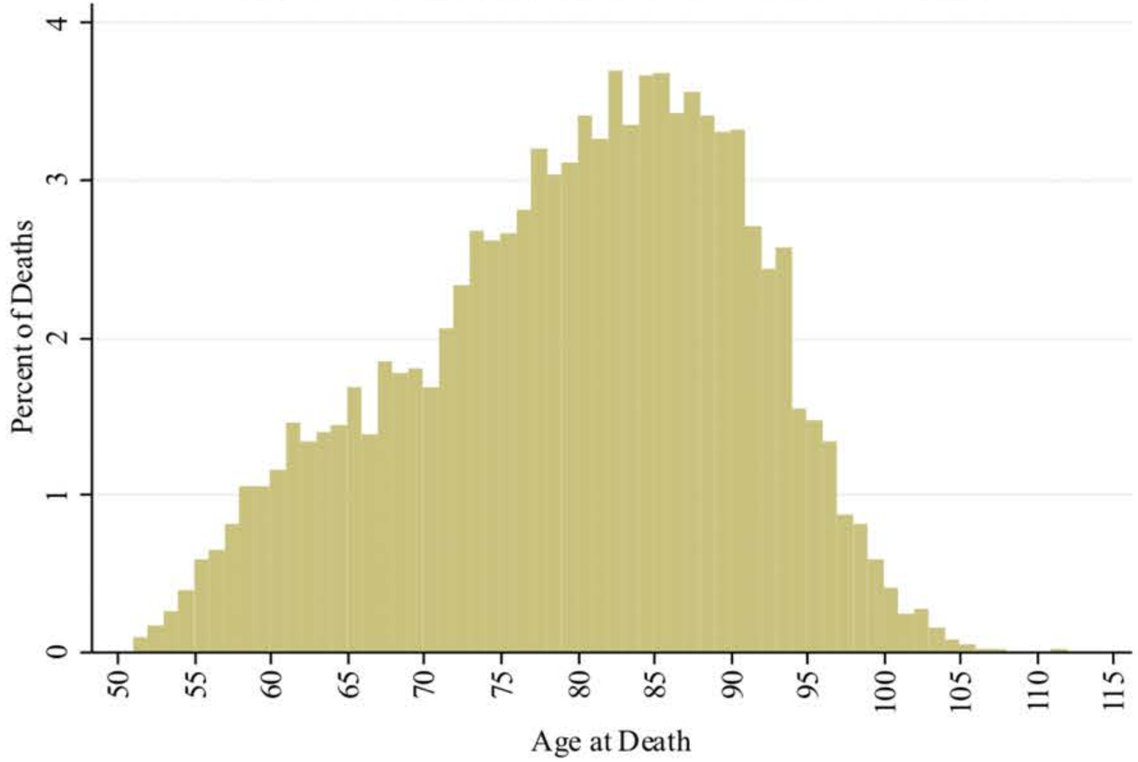


Summary of Findings: Death

- In prior literature, age profile is sufficient statistic for life-cycle hypothesis
- But LCH places restrictions on time path of wealth at date of death nears (or expected date of death, if mortality risk)
- In reality, there is a distribution of dates of death
- Many individuals die at ages that are not oldest old

Homeownership at the End of Life

Figure 8. Distribution of Age at Death for All Individuals

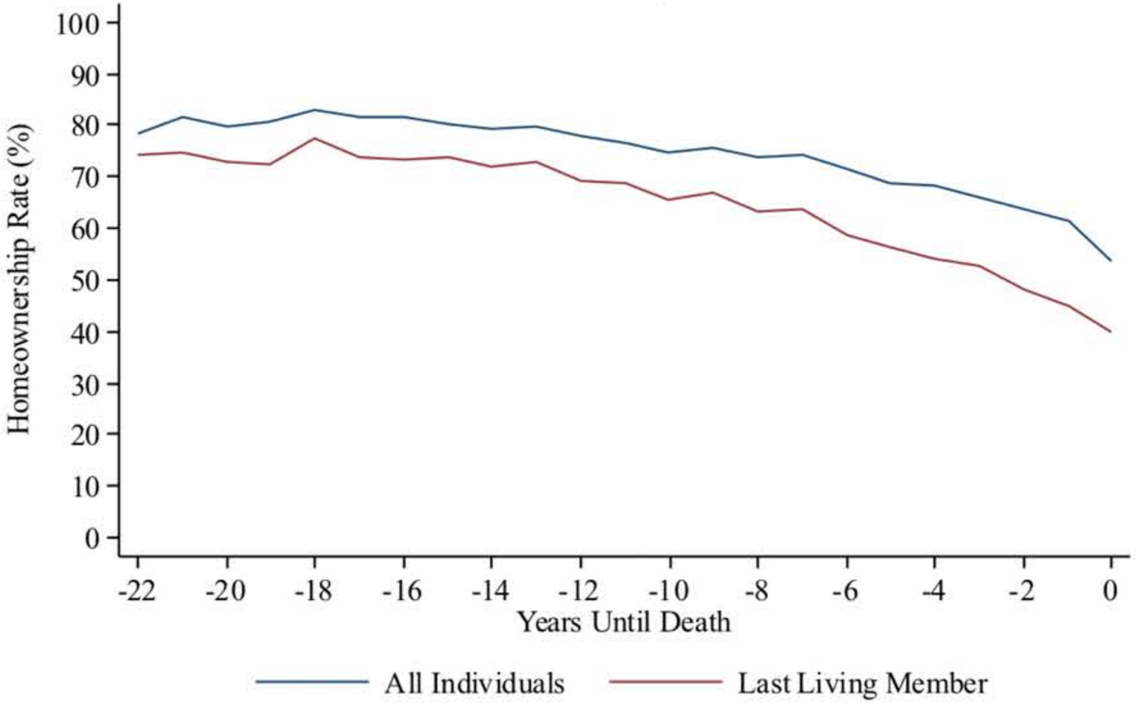


Summary of Findings: Death

- To address this, we construct how the homeownership profile declines as the date of death approaches

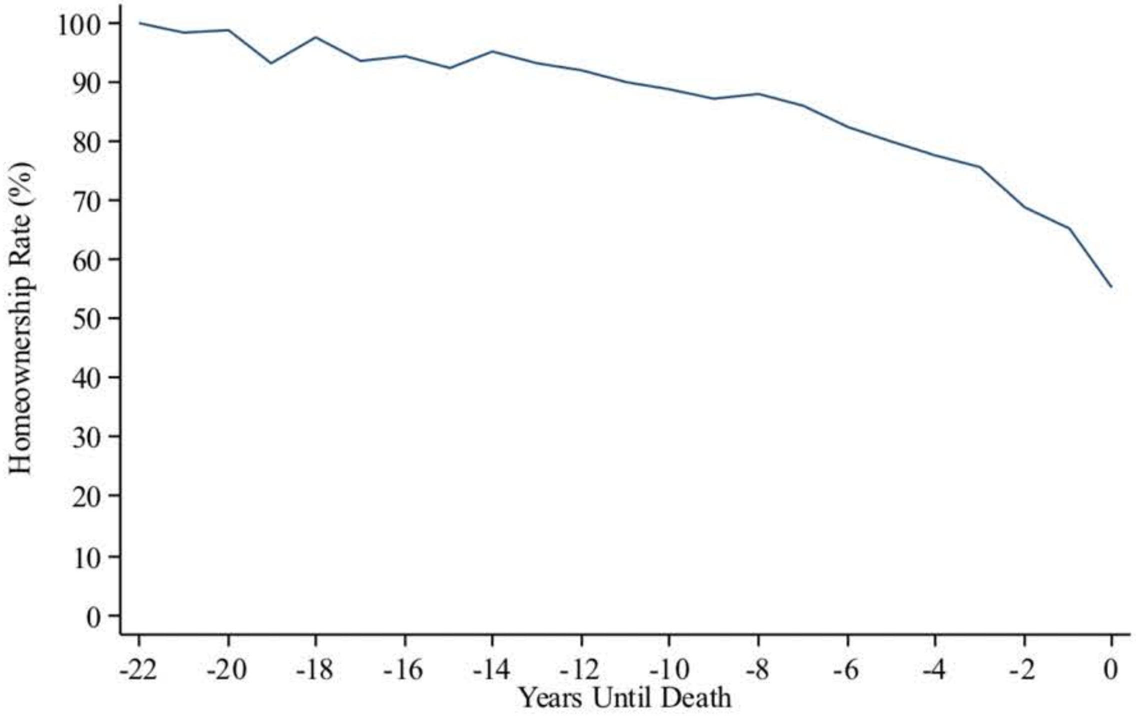
Homeownership at the End of Life

Figure 9. Homeownership Rate Prior to Death for All Individuals and Last Living Member



Homeownership at the End of Life

Figure 10. Homeownership Trajectory Prior to Death for Individuals Born 1918-23 Who Were Unmarried Homeowners in 1993



Summary of Findings: Bequests

- Key question: are housing bequests intended or unintended?
- To examine, we use questions in prior waves (when alive) on medical diagnoses, functional status, and bequest intentions
- Estimate a competing-risks proportional hazard model of tenure transitions from homeownership
  - own-to-own transitions
  - death

Role of Bequest Intentions

- Are housing bequests intended or unintended?
- Competing risks proportional hazard:

$$\lambda_{it} = \lambda_{0t}\, e^{\mathbf{Z}'_{it}\boldsymbol{\beta}}$$

$$\mathbf{Z}'_{it}\boldsymbol{\beta} = \theta_1 \Pr(Bequest)_{it-1} + \theta_2 \Pr(Bequest)_{st-1} + \phi_1 D^{Married}_{it-1} + \phi_2 D^{Widowed}_{it}.$$

- Failure: Own-to-rent transition
- Competing risks: Own-to-own transition; Death

Role of Bequest Intentions

- Estimated on same of 2,126 individuals from CODA cohort
- 432 had own-to-rent transition
- 302 had own-to-own transition
- 554 died as homeowners
- 838 censored

Role of Bequest Intentions

- Bequest Intentions

> "Using a number from 0 to 100, what do you think are the chances that you will leave a financial inheritance?"

- Health shocks

> "Has a doctor ever told you that you have high blood pressure or hypertension?"
>
> A doctor is defined as a
>
> "…medical doctor and includes specialists such as dermatologists, psychiatrists, ophthalmologists, osteopaths, cardiologists, as well as family doctors, internists and physicians' assistants. Also include diagnoses made by nurses and nurse practitioners."

- Rich set of other controls (ADLs, income, wealth, demographics, etc.)

Estimation Results

- Bequest motives appear to be an important reason
- An intended bequest of $10,000 lowers likelihood of the sale of a house and own-to-rent transition by 23 pp
- Substantially less of current housing wealth of the elderly will be available for retirement consumption if bequest intentions are followed through
- Intended bequests dampen demand for reverse mortgages

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

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Disclaimer

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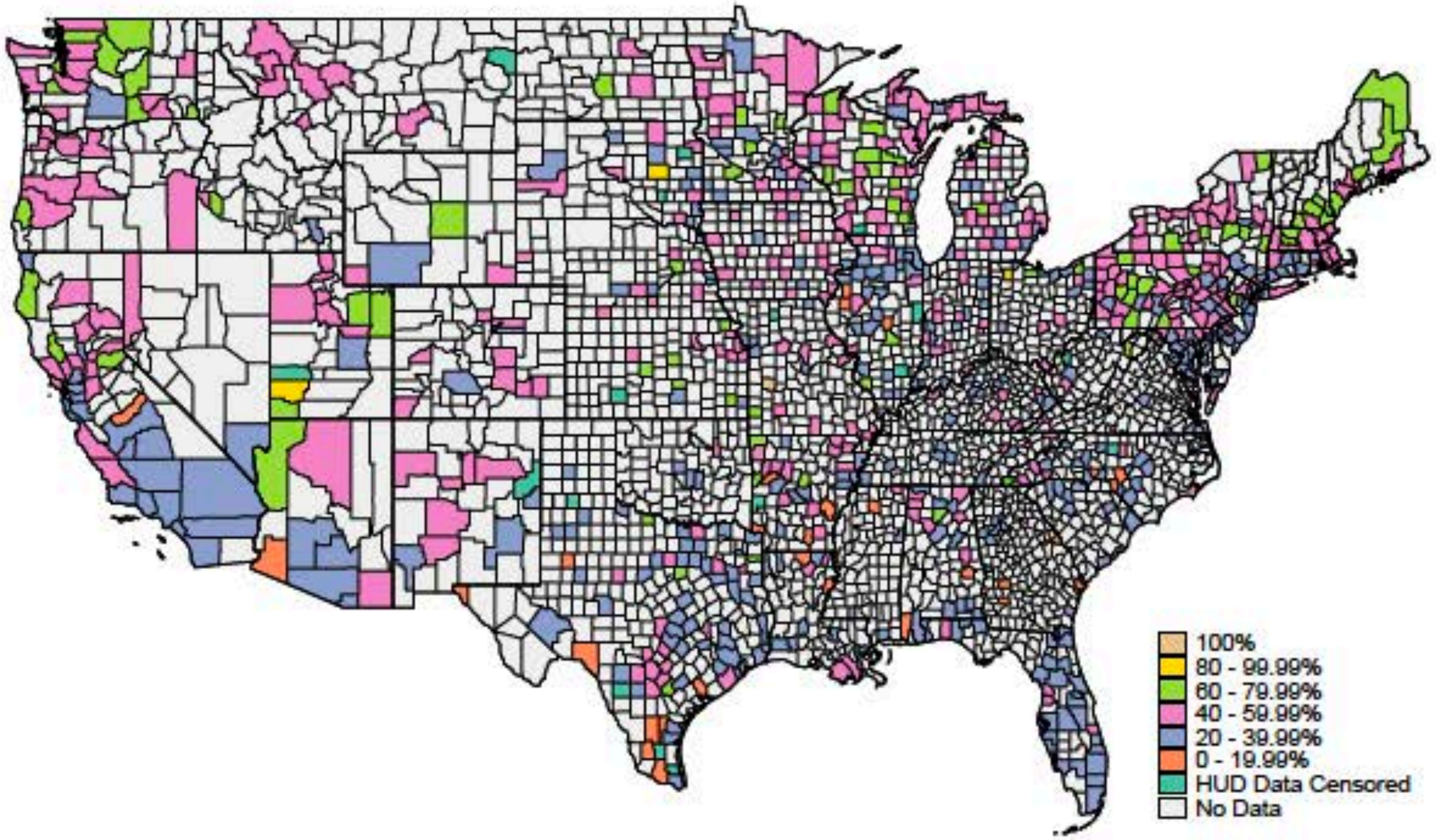
Motivation

- Interactions of social safety net programs are important for understanding policy.
- Example: SSI recipients automatically qualify for Medicaid, SNAP, and housing choice vouchers (HCVs) but are disqualified from TANF.
- ...but housing assistance is rationed and disability status seems important in the data:
  - income-eligible households with disabilities are three times as likely to receive housing assistance than those without disabilities.
  - 36% of prime-aged households receiving HCVs have household heads with disabilities.
- Broad question: How does SSI and HCV participation interact? Are they complements or substitutes?

Descriptive Summary of HUD HCV Data

% Prime-Aged Household Heads in HCVs with Disabilities by County, 2017



HCVs

To deal with the oversubscription of HCVs, local Public Housing Authorities (PHAs) manage waitlists based on 3 types of systems:

1. Queue
2. Lotteries
3. Preference-based (most common: household heads with disabilities)

HCVs

To deal with the oversubscription of HCVs, local PHAs manage waitlists by opening and closing them. Some:

1. always remain open.
2. were closed for our entire 8 year sample.
3. opened and closed during our sample period. Each time a waitlist opens or closes, it must be in public sources (e.g., newspaper advertisements).

Research Question

Broadly: How do HCVs interact with other safety net programs?

Specifically: Does opening a waitlist in areas with a HCV disability preference increase SSI applications and awards? TANF?

SS(D)I responsive to economic conditions & programs:

- economic conditions (Autor and Duggan 2003)
- work requirements for AFDC (Garrett and Glied 2000, Schmidt and Sevak 2004)
- State Medicaid expansions to non-elderly non-disabled adults without dependent children (Burns and Dague 2017)
  - but not ACA-related Medicaid expansions (Soni et al 2017, Schmidt et al 2019)

...but no work focused on housing assistance.

HCV work largely focused on lotteries and experiments

- Much of what economists think about housing assistance comes from MTO experiments in 6 cities (Baltimore, Boston, Chicago, Los Angeles, New York, Seattle), moving households from public housing to HCVs.
  - Katz et al (2001); Ludwig et al (2001); Leventhal and Brooks-Gunn (2003); Shroder (2003); Ludwig et al (2005); Kling et al (2005); Sanbonmatsu et al (2006); Galiani et al (2015); DeLuca and Rosenblatt (2017); Bergman et al (2019)
- The rest comes from HCV lotteries.
  - Examples: Carr and Koppa (2018) in Houston; Jacobs and Ludwig (2012) in Chicago; Abt Report for HUD (2006) in Atlanta, Augusta, Fresno, Houston, LA, Spokane.

...but what is happening with HCVs across the nation?

Contribution

- Document disability preferences in HCVs for PHAs across the country.
- Consider policy interaction between SSI and HCVs for low-income populations with disabilities with a nationally representative quasi-experimental setup.

Program Interaction

The incentives for applying for SSI due to potential HCV receipt are theoretically ambiguous.

- When PHAs prioritize household heads with disabilities, applying for SSI increases the likelihood of receiving an HCV: opening of an HCV waitlist $\uparrow$ SSI applications.
- SSI application period is long (average of 9 months) and working during the process threatens the application: opening an HCV waitlist $\downarrow$ SSI applications.
- Expectation of receiving an HCV increases with preference-based waitlist opening. Receiving an HCV lowers value of SSI (since it increases rent): $\downarrow$ SSI applications.
- Housing is typically the largest expenditure for low-income households, the economic burden of the SSI application process is considerably lower after obtaining an HCV: opening an HCV waitlist $\downarrow$ SSI applications.

Data Collection

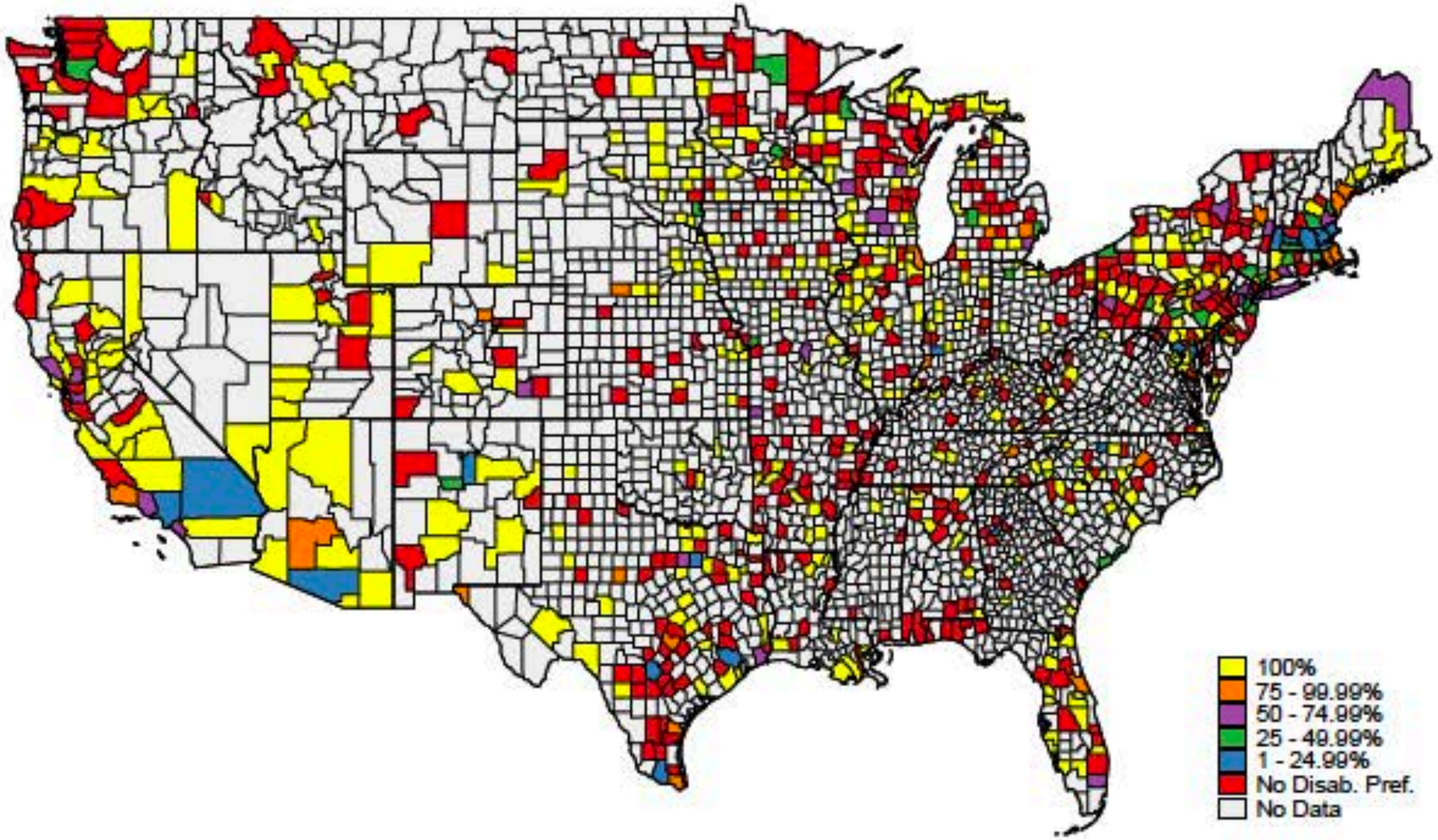
- Contacted 1,397 PHAs (of 2,132 PHAs with HCVs).
  - No clear selection of the sample of respondents.
- Local PHA stated disability preference (48% yes).
- Waitlist opening and closing dates from 2010-2017.
  - 23% remain open
  - 9% always closed
  - Average months open per year is 7.
- Also collecting for some: if have disability preferences, how do they verify?

Disability Preference in HA

Ex., NYC:
Documentation includes but is not limited to: letters regarding qualification for or receipt of SSI payments or disability benefits from the responsible agency; proof of residence in an institution; documents showing hospitalization for a disability; or a letter from another knowledgeable professional such as a health or service professional or a social worker

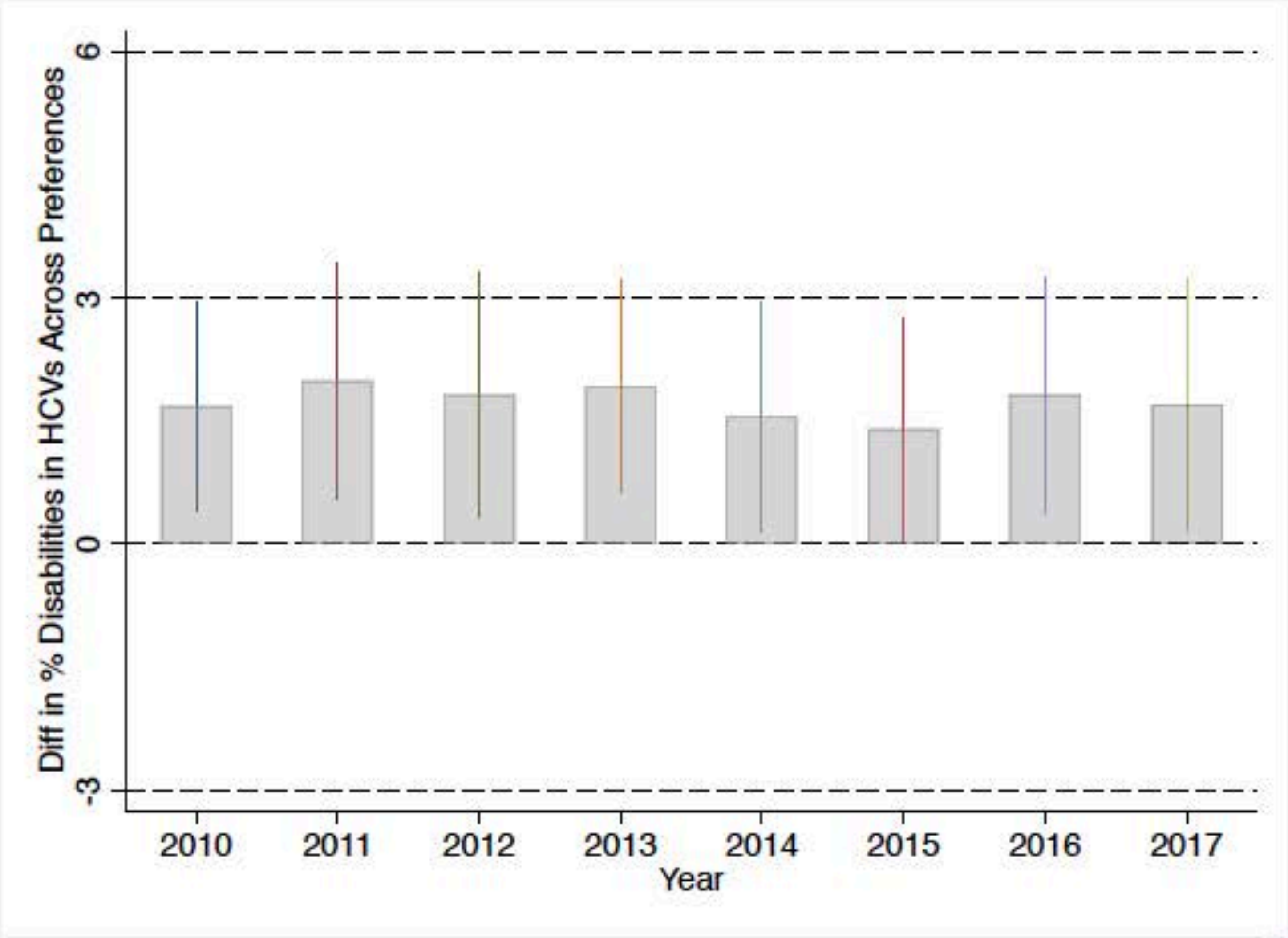
Ex., Minneapolis:
For family members claiming disability who do not receive disability benefits from the SSA, a knowledgeable professional must provide third-party verification that the family member meets the HUD definition of disability.

% HCV units in county with a disability preference

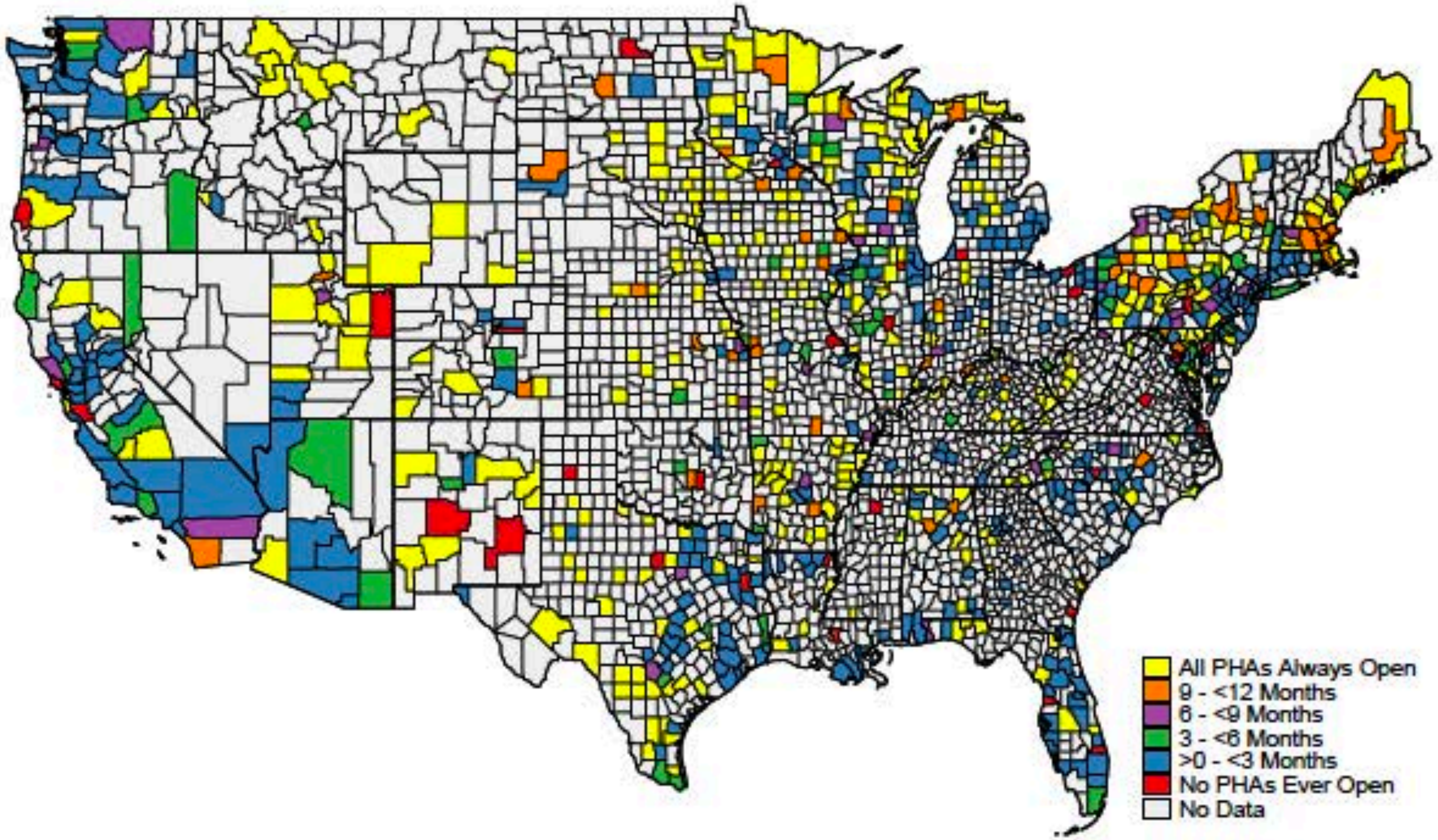


Differences Across PHAs by Disability Preference

PHAs with disability preferences have more prime-aged household heads with disabilities in every year



Months HCV waitlist is open



Data Sources

- Hand-collected policy variation.
  - $X_{ct} = \sum_{j=1}^{J} mo_{jt} \times dp_{jt} \times (\frac{1}{Units_{ct}} \times units_{jt})$
- HUD Picture of Subsidized Housing for number of HCV Units by PHA by year (2010-2017).
- County-level prime-aged SSI applications and awards from 2010-2017 come directly from SSA.
- County-level TANF caseload data for 1,693 counties in the 29 states that universally report to the HHS.

Empirical Strategy

- Use Policy Variation to see if counties with a greater disability preference and a year with open waitlists affect program participation:

$$Y_{cst} = \beta_0 + \beta_1 X_{cst} + \beta_2 Z_{st} + \beta_3 Q_{cst} + \gamma_c + \eta_t + \delta_{r(s)t} + \epsilon_{cst}$$

- $\mathbb{Y}_{cst}$: logged county SSI applications, awards, or TANF receipt
- X_{cst}: average months each year the waitlist is open within PHAs with disability preferences
- Z_{st}: state policy environment
- Q_{cst}: county-level covariates
- γ_c: county FE
- $\delta_{r(s)t}$: SSI office region-by-year FE
- η_t: year FE
- Cluster standard errors at the county level

Results

Having 1 more month of an open waitlist in a PHA with a disability preference decreases SSI applications by 2.6 percent.

	ln(SSI Apps)	ln(SSI Apps)	ln(SSI Awards)	ln(SSI Awards)
X	-0.0026*	-0.0031**	-0.0023	-0.0034*
	(0.0015)	(0.0014)	(0.0016)	(0.0018)
Lag X		0.0019		0.0011
		(0.0014)		(0.0021)
N	6,231	5,448	6,148	5,369

Results

Some evidence that having 1 more month of an open waitlist in a PHA with a disability preference increases TANF receipt, though the effects are not statistically different from zero.

	ln(TANF)	ln(TANF)
X	0.0055	0.0048
	(0.0078)	(0.0066)
Lag X		0.0018
		(0.0154)
N	1,916	1,915

Placebo Test

There is no relationship between months open and program participation in areas without disability preferences.

	ln(SSI Apps)	ln(SSI Awards)	ln(TANF)
MO	-0.0006	-0.0016	0.0100
	(0.0019)	(0.0030)	(0.0117)
N	2,606	2,579	822

Discussion

- We find that when PHAs with disability preferences open their waitlists, SSI applications fall.
- These findings suggest that the potential benefits of rental assistance to low-income populations are important enough to skip SSI applications.
- We do not observe a change in SSI applications (or awards) one year after preference-based waitlist openings.
- Our results suggest that an expansion in housing assistance could reduce reliance in other safety net programs.

“HOME OWNERSHIP AND HOUSING DEBT IN RETIREMENT: FINANCIAL ASSET FOR CONSUMPTION OR ALBATROSS AROUND THE NECK OF RETIREES?”

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SSA RDRC Conference
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Abstract

- 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 household's standard of living in retirement. However, if a mortgage is not paid off that creates a greater amount of mandatory expense that may threaten the ability of the value 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 homeowners are financially more secure in retirement.

- Using the Health and Retirement Study (HRS) panel data, this research paper addresses three related topics. First, updating information on how household mortgage-related debt evolved for various cohorts in the HRS. Second, an inquiry into how homeowners have used home debt near and in retirement. Third, are there important public policy lessons on the role of using home-related debt for achieving a financially secure retirement?

Selected Literature Review

- Paying off a mortgage before retirement was once considered a rite of passage. As Michelle Singletary, the financial columnist for the *Washington Post*, noted:

  > "There was a time when people had mortgage-burning parties to celebrate the day they were released from their biggest debt. My grandmother, Big Mama, longed for the day she would no longer have a *mortgage albatross around her neck*. Without a mortgage, Big Mama lived comfortably in retirement for more than two decades on Social Security and a small pension. She didn't have a retirement nest egg of seven figures, either (Singletary 2018)." (Emphasis added.)

- However, mortgage-burning parties no longer seem the norm. While 37% of U.S. homes no longer have a mortgage attached to them (Hagan 2019), the share of households owning a home age 65 or over with a mortgage has increased from 32% in 2009 to 38% in 2017, according to data from the American Community Survey (Neal 2019). Currently there are over 9 million households age 65 or older that have mortgage debt (Rexrode 2020).

- Recent surveys show that older Americans have taken on substantially more debt and face more financial insecurity as they near retirement, compared to their predecessors, mostly due to having purchased more expensive homes with smaller down payments (Lusardi, Mitchell, and Oggero 2017, 2018).

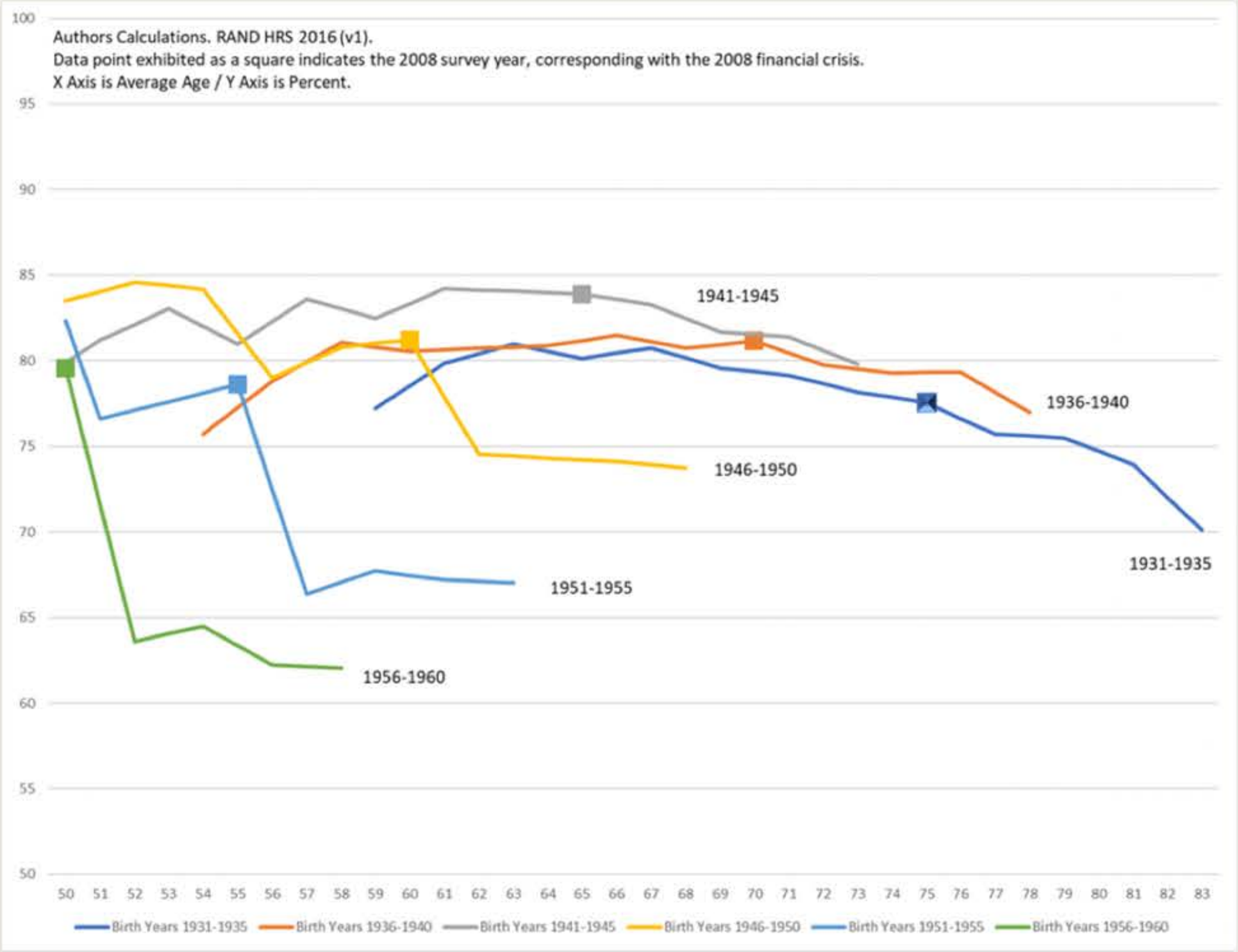
DATA ANALYSIS & RESULTS

Selected Charts & Tables

(Please see full paper for additional tables, charts and analysis.)

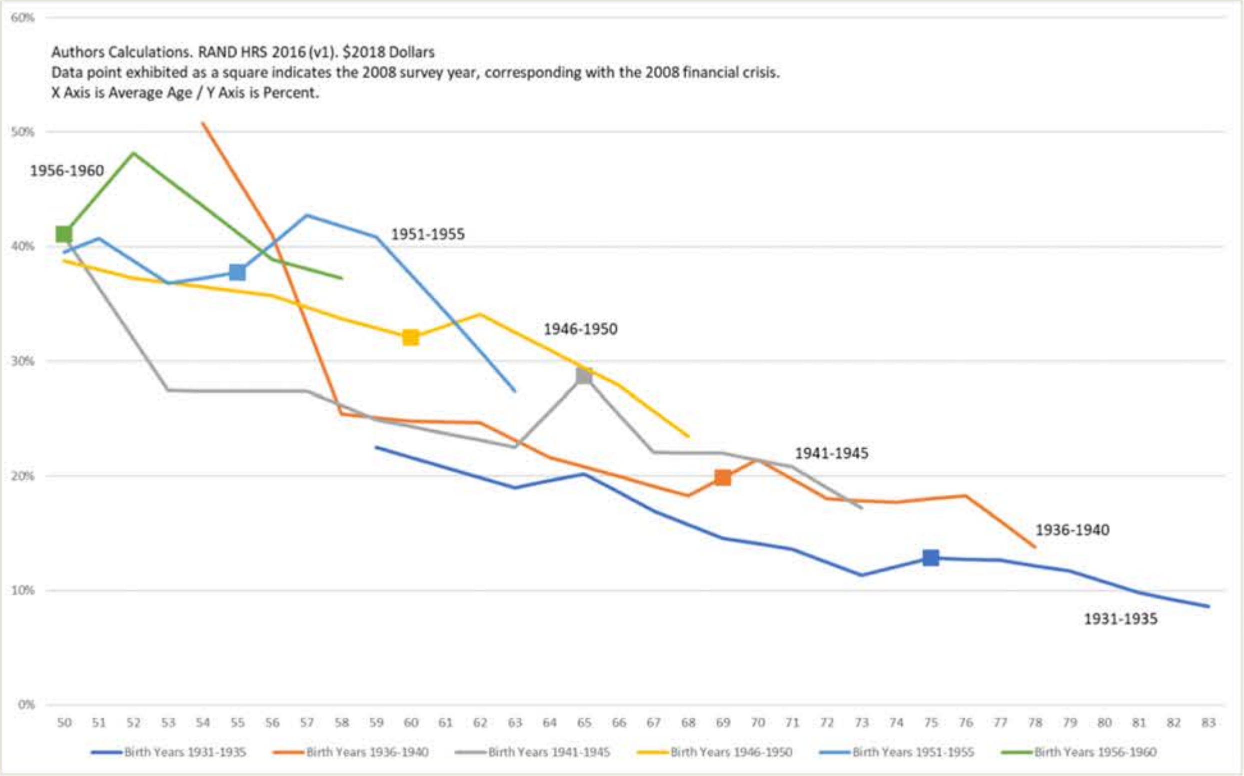
Home Ownership Rates by Birth Year Cohort (Percent)

- Households were segmented into five-year birth cohorts: those born 1931–1935, 1936–1940, 1941–1945, 1946–1950, 1950–1955, and 1956–1960.
- Homeownership rates for all cohorts declined after the 2008 Great Recession.
- The decline in homeownership rates was more pronounced for the younger cohorts, with those born in 1956-1960 exhibiting approximately a 17-percentage-point drop in homeownership rates immediately following the Great Recession. For those born in 1936-1940, homeownership rates only slightly declined in the two years after the Great Recession.
- As of the 2016 HRS, homeownership for each cohort remains below its pre-Great Recession level.
- Comparing the birth year cohorts at a specific average age is also illuminating, as both the 1956-1960 and 1951-1955 birth year cohorts exhibit less home ownership than the other older three cohorts.
- As retirement-age households reach more advanced age, homeownership rates decline.



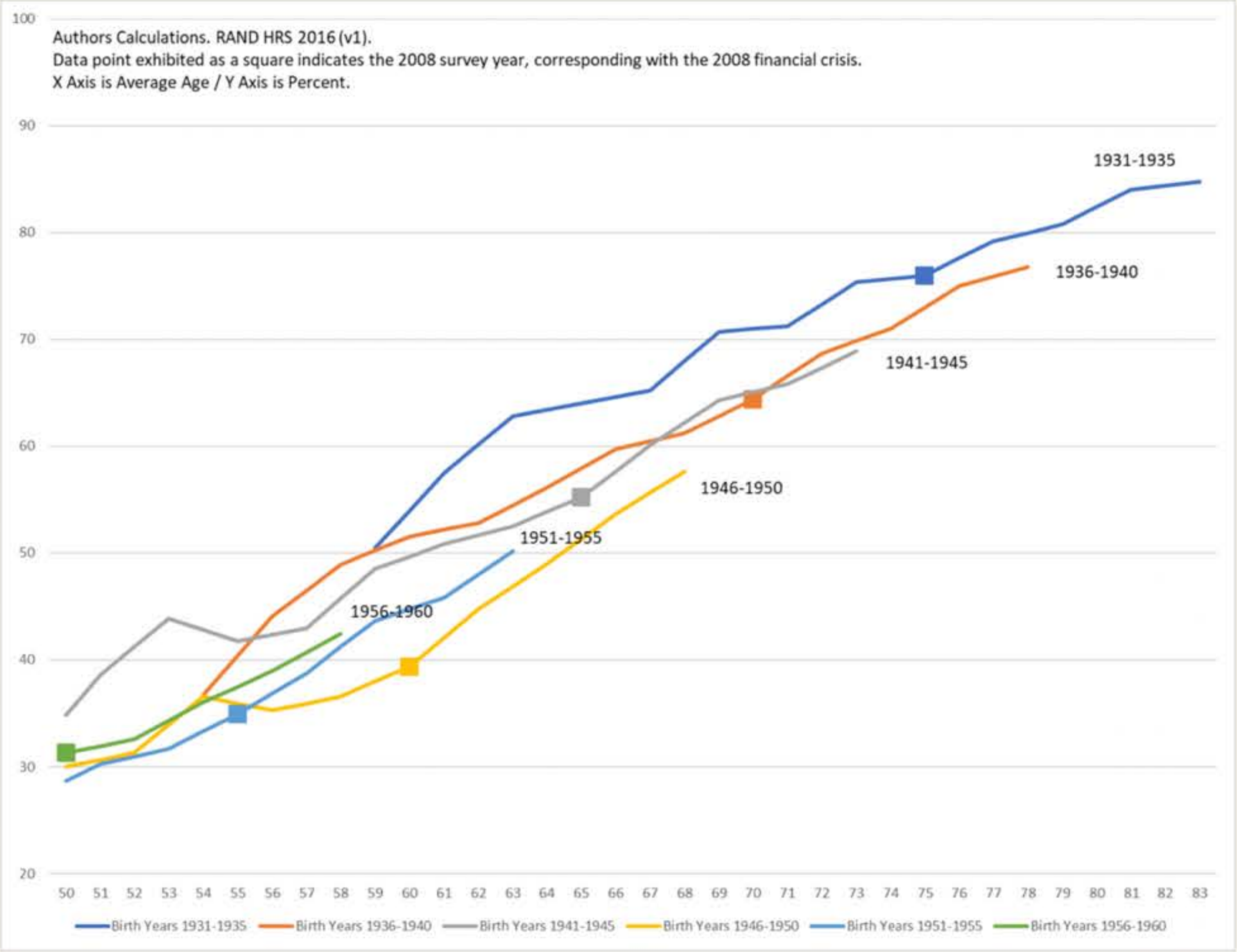
Average Loan-to-Value (LTV) by Birth Year Cohort (Percent)

- The home is an important asset in retirement, and the HRS data include information on home and mortgage values, allowing the construction of loan-to-value ratios.
- Home values for all age cohorts generally rise with the economy. However, each cohort experienced a significant reduction in the average value of primary residences as a result of the 2008 financial crisis.
- On the basis of averages alone, data from the 2016 survey show that none of the cohorts have recovered those losses in value since the crisis.
- The general patterns of decline are relatively uniform for each cohort, suggesting that any shock to the housing market could have a major impact on the financial well-being of retirees.
- Reassuringly, homeowners have continued to pay down their mortgages, as shown in the next slide. As one would then expect, the loan-to-value ratio has generally continued to decline, securing home value that might otherwise be at risk in a future shock to the housing market.



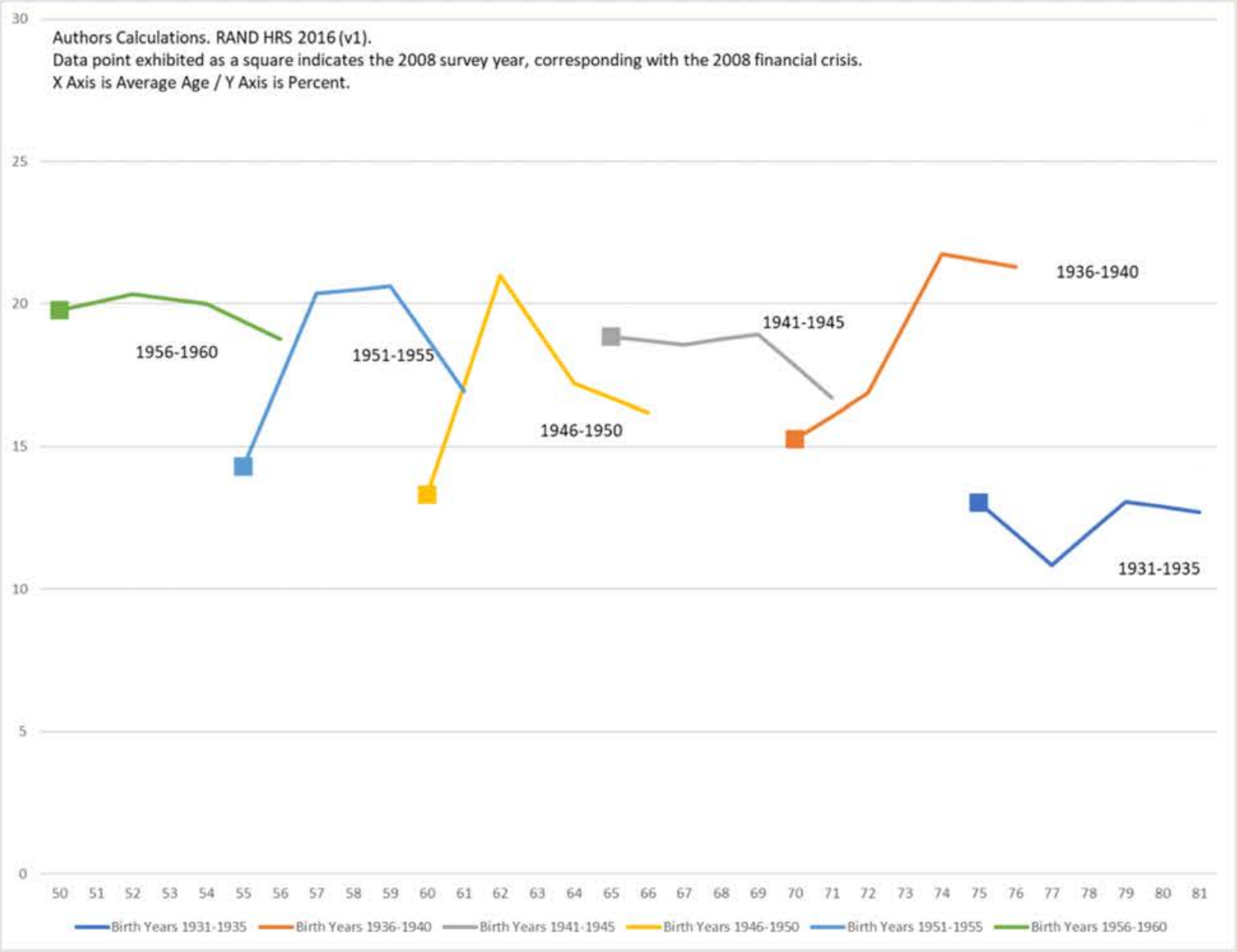
Paid Off Mortgage by Birth Year Cohort (Percent)

- 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 those that own their homes 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 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.



Households that Refinanced by Birth Year Cohort (Percent)

- 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.
- The older 1931-1935 birth year cohort, who had average ages of between 75 and 81 during the survey period, exhibit the lowest level of refinancing. Between 11% and 13% 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) exhibit a consistent level of homeowners that refinanced during the survey period, near 20%.
- Interestingly, the middle birth year cohorts, all showed an increase in the percentage of those with a home that refinanced after the Great Recession.



Reasons for Refinancing by Birth Year Cohort

Reasons for Refinancing: Birth Years 1931-1935	Average Age	75	77	79	81
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		29.7%	61.1%	64.3%	68.0%
To Reduce the Amount of Mortgage Payments		N/A	13.9%	14.3%	12.0%
To Pay Off the Mortgage Faster		N/A	2.8%	3.6%	N/A
To Pay Off a Balloon Mortgage		5.4%	N/A	N/A	N/A
To Raise Cash for Other Things		37.8%	13.9%	7.1%	8.0%
Had To/Was Forced To/Didn't Have a Choice		2.7%	N/A	N/A	N/A
To Consolidate Debt		10.8%	5.6%	7.1%	4.0%
To Get a Fixed Interest Rate		5.4%	N/A	3.6%	4.0%
Other		N/A	2.8%	N/A	4.0%
Don't Know		5.4%	N/A	N/A	N/A
Refused		2.7%	N/A	N/A	N/A

Reasons for Refinancing: Birth Years 1936-1940	Average Age	70	72	74	76
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		30.9%	53.0%	69.4%	60.4%
To Reduce the Amount of Mortgage Payments		7.4%	12.8%	14.3%	21.9%
To Pay Off the Mortgage Faster		3.7%	4.3%	3.1%	N/A
To Pay Off a Balloon Mortgage		2.5%	1.7%	N/A	1.0%
To Raise Cash for Other Things		42.0%	17.1%	6.1%	9.4%
Had To/Was Forced To/Didn't Have a Choice		1.2%	N/A	2.0%	N/A
To Consolidate Debt		2.5%	3.4%	2.0%	5.2%
To Get a Fixed Interest Rate		N/A	1.7%	2.0%	1.0%
Other		7.4%	6.0%	1.0%	1.0%
Don't Know		1.2%	N/A	N/A	N/A
Refused		1.2%	N/A	N/A	N/A

Reasons for Refinancing: Birth Years 1941-1945	Average Age	65	67	69	71
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		49.0%	54.2%	68.6%	70.5%
To Reduce the Amount of Mortgage Payments		8.0%	11.5%	12.8%	10.2%
To Pay Off the Mortgage Faster		4.0%	2.3%	4.7%	1.1%
To Pay Off a Balloon Mortgage		2.0%	0.8%	N/A	1.1%
To Raise Cash for Other Things		29.0%	13.7%	5.8%	9.1%
Had To/Was Forced To/Didn't Have a Choice		N/A	2.3%	2.3%	N/A
To Consolidate Debt		3.0%	3.1%	3.5%	1.1%
To Get a Fixed Interest Rate		2.0%	5.3%	N/A	2.3%
Other		2.0%	6.9%	2.3%	4.6%
Don't Know		N/A	N/A	N/A	N/A
Refused		1.0%	N/A	N/A	N/A

Reasons for Refinancing: Birth Years 1946-1950	Average Age	60	62	64	66
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		37.2%	58.4%	74.3%	72.7%
To Reduce the Amount of Mortgage Payments		14.1%	14.5%	7.3%	10.0%
To Pay Off the Mortgage Faster		2.6%	0.6%	2.8%	2.7%
To Pay Off a Balloon Mortgage		N/A	1.8%	N/A	0.9%
To Raise Cash for Other Things		30.8%	14.5%	5.5%	6.4%
Had To/Was Forced To/Didn't Have a Choice		2.6%	0.6%	0.9%	N/A
To Consolidate Debt		2.6%	5.4%	5.5%	3.6%
To Get a Fixed Interest Rate		5.1%	1.2%	0.9%	0.9%
Other		N/A	2.4%	1.8%	2.7%
Don't Know		1.3%	N/A	0.9%	N/A
Refused		1.3%	0.6%	N/A	N/A

Reasons for Refinancing: Birth Years 1951-1955	Average Age	55	57	59	61
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		39.1%	67.9%	72.7%	74.9%
To Reduce the Amount of Mortgage Payments		10.1%	5.1%	10.3%	11.7%
To Pay Off the Mortgage Faster		2.9%	2.2%	2.6%	0.6%
To Pay Off a Balloon Mortgage		1.5%	N/A	1.0%	0.6%
To Raise Cash for Other Things		40.6%	11.0%	3.6%	2.9%
Had To/Was Forced To/Didn't Have a Choice		1.5%	0.7%	1.0%	1.8%
To Consolidate Debt		1.5%	3.7%	4.1%	0.6%
To Get a Fixed Interest Rate		2.9%	4.4%	1.6%	1.2%
Other		N/A	4.4%	6.0%	5.9%
Don't Know		N/A	N/A	N/A	N/A
Refused		N/A	0.7%	N/A	N/A

Reasons for Refinancing: Birth Years 1956-1960	Average Age	50	52	54	56
	Survey Year	2008	2010	2012	2014
To Get a Lower Interest Rate		6.0%	64.0%	63.9%	75.7%
To Reduce the Amount of Mortgage Payments		5.0%	12.0%	12.0%	6.0%
To Pay Off the Mortgage Faster		N/A	N/A	5.8%	1.1%
To Pay Off a Balloon Mortgage		1.0%	N/A	1.4%	N/A
To Raise Cash for Other Things		2.0%	8.0%	4.8%	4.3%
Had To/Was Forced To/Didn't Have a Choice		1.0%	N/A	2.4%	1.6%
To Consolidate Debt		N/A	4.0%	3.4%	4.3%
To Get a Fixed Interest Rate		N/A	4.0%	0.5%	0.5%
Other		1.0%	8.0%	5.8%	6.5%
Don't Know		N/A	N/A	N/A	N/A
Refused		1.0%	N/A	N/A	N/A

Authors Calculations. RAND HRS 2016 (v1). Includes All Individuals: Respondents and Spouses by Wave.

- A relatively consistent number of respondents across cohorts replied 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 that refinanced and replied that they did so in order to reduce the amount of mortgage payments ranged from a low of 5.1% for the 1951-1955 birth year cohort in 2010, to a high of 21.9% for the 1936-1940 birth year cohort in 2014. However, the number that chose this response was often in a much tighter range of 10% to 14%.

- 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 percentage of people indicating they refinanced in order to consolidate debt reach 6%. The same goes for those that responded they refinanced in order to move to a fixed interest rate. At no point do more than 5.4% indicate that reason for refinancing. In 2008, 10.8% of those that refinanced in the 1931-1935 birth year cohort, the oldest HRS birth year cohort, did so to consolidate debt.

- 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% indicated they did so in order "To Raise Cash for Other Things." This was the greatest response for this cohort in 2008. Similarly, it was also the greatest response for the 1936-1940 birth year cohort (42.0%) and the 1951-1955 birth year cohort (40.6%), and a close second for the 1941-1945 birth cohort (29.0%) and the 1946-1950 birth year cohort (30.8%).

Conclusion and Discussion

- Whether or not home ownership and housing debt in retirement is a financial asset that allows for consumption smoothing or an albatross around the neck of retirees requires a much more nuanced answer than either a yes or no. As the results of this research show, while the percentage of homeowners paying off their mortgage before retiring has been declining with each new birth year cohort, most retirees that own a home still tend to pay off their mortgage as they get older. Hence, the data suggests that older households are generally managing their home-related debt in retirement, just delaying the age at which they are mortgage free.

- Further, the number of homeowners that refinanced to "raise cash for other things" was relatively low during the 2010, 2012 and 2014 HRS waves. However, the number was quite high during the 2008 HRS, suggesting that while some homeowners refinanced to fund consumption, in times of economic recession home equity is a financial lifeline for many retirees and those nearing retirement. We may see similar patterns as a result of the 2020 economic recession.

- Didn't have time to discuss HELOCs, but the percentage of homeowners that have a HELOC is relatively consistent and stable across all birth year cohorts.

- Younger birth year cohorts reported an increase in the percentage of homeowners that had a HELOC with a positive balance after the 2008 Great Recession in the 2010 HRS. But then the percentage declined in both the 2012 and 2014 HRS.

- The other three cohorts all exhibited a reduction in the percentage of homeowners that had a HELOC with a positive balance after the 2008 Great Recession, further suggesting that the home can be an asset in or near retirement that provides a financial lifeline during turbulent economic times.

Conclusion and Discussion, Continued

- Similar to the narrative about whether there is a “retirement crisis” on the horizon, the narrative that there is a home-debt related retirement crisis brewing because more homeowners are entering retirement with home-related debt creates an incomplete picture of the true financial landscape faced by many current and future homeowners in retirement. While some homeowners are overleveraged, the research literature suggests that high credit card debt is more likely to cause financial distress and lead to bankruptcy than high home-related debt.

- Social Security benefits are an important component of financial security in retirement for millions of Americans, Social Security benefit payments are likely taking an increasing role in the ability of retirees to qualify for a mortgage or a refinance in retirement. Borrowers over age 65 account for nearly 10% of all mortgages originated annually, and Social Security benefit payments are being counted as income by mortgage lenders when determining whether a retiree qualifies for a mortgage.

- Given that the story of home debt in retirement is more complicated and nuanced than is often portrayed in the popular press, further research needs to be done before rushing to any policy conclusions.

- Further research is needed to understand how debt and financial well-being in retirement differ for those who rent versus those that have housing assets.

- We may see similar patterns in the use of home equity and home debt as a result of the 2020 economic recession as we did from the 2008 Great Recession.

- As the current economic recession and health pandemic have shown, additional research is also necessary regarding racial, gender-based, or geographical disparities that can impact home ownership rates and financial well-being in retirement. Policymakers will need answers to these questions when considering how changes to Social Security’s financing or benefits might impact the financial well-being of retirees.

QUESTIONS?

Thank you!