Are Older Americans Spoiling the Economy for Everyone Else?

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MarketWatch Blog by Geoffrey T. Sanzenbacher

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How to get seniors to spend $12 trillion in home equity.

Recently, I **read** an opinion column arguing that older Americans are hoarding the nation's wealth and housing stock. To reduce their power, the author suggested things like the reintroduction of mandatory retirement ages or the creation of a progressive tax on homes to encourage downsizing.

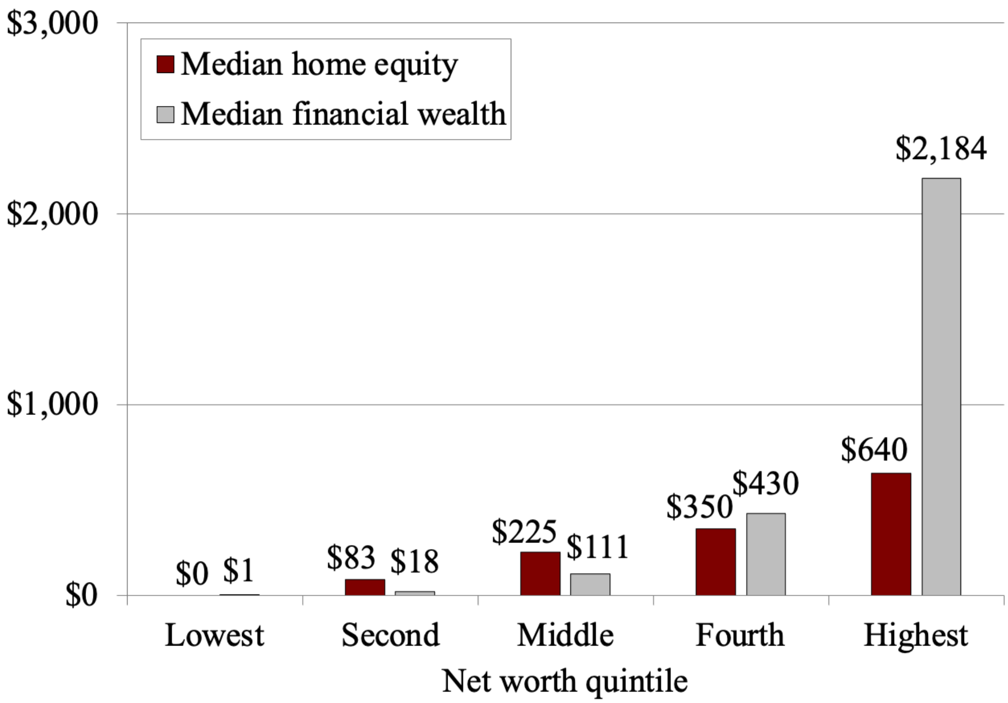
It's true that one-third of owner-occupied homes are owned by people ages 65 and over, even though they represent just over one-sixth of the population – a reflection of their higher rates of homeownership.

This situation is often presented as a problem for the younger generation, who may be blocked from buying homes of their own. But holding onto homes well into retirement can also represent a financial problem for retirees themselves, and for the entire economy.

The potential for a problem stems from two facts. The first is that for many people ages 65 and over, the equity in their primary residence is a major source of wealth. Indeed, as Figure 1 shows, in the middle of the wealth distribution, home equity is important. It represents the majority of wealth for the second and third quintiles and nearly half for the fourth. It's only for the top 20 percent – who hold nearly 20 times(!)

more financial wealth than the middle – that home equity becomes small relative to financial wealth.

Figure 1. *Median Home Equity and Net Financial Wealth of Households Ages 65 and Over by Net Worth Quintile, 2022 (in Thousands of 2022 Dollars)*



Source: Author's calculation from U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (2022).

The second thing that makes housing wealth a problem is that it's illiquid compared to other types of assets. This means many retirees have much of their wealth locked up in a form that they are hesitant to spend. This isn't just an issue for retirees who may find themselves with wealth they can't access easily. It also means that a vast store of the nation's wealth – the $12 trillion in home equity owned by those 65 and over – isn't going to be spent and shared throughout the economy.

Can this wealth be unlocked?

Any solution will have to overcome several barriers. The most obvious one is the cost of liquidating that wealth by either downsizing to a cheaper home or moving to a rental. This cost includes agent fees, taxes, and lost time.

There are emotional costs for these sales exist as well, because unlike other forms of wealth, people have sentimental attachments to their homes and may view downsizing or renting as a personal defeat.

And since houses can be bequeathed tax-free, having a valuable property can help homeowners who want to leave something to the next generation. The result of all these barriers? **Few older Americans downsize** or sell their homes.

There are some financial products that allow people to stay in their homes and cash out some of their wealth.

One such option is a reverse mortgage, whereby homeowners take out a loan against their home equity. But unlike a typical home-equity loan, they don't make payments each month. Instead, interest accrues on the loan and is repaid when the home is sold, often when the homeowners pass away. Reverse mortgages unlock wealth while overcoming the costs and emotional aspects of selling a house, but they can put a serious dent in bequests as fees and interest add up. They're also complicated. Perhaps it's for these reasons that so few people get a reverse mortgage. One study found that around **2 percent** of eligible homeowners had one.

A simpler alternative to a reverse mortgage is a program that allows eligible retirees to **defer their local property taxes** until they sell their house or pass away – but participation in these state-authorized programs is also very low.

Another interesting option currently being marketed by **a U.S.-based company** is being branded as a "lifestyle agreement," a type of life estate. In this arrangement, a homeowner agrees to sell the house to the company today in exchange for monetary payment, while also retaining the right to live in it rent-free and without the risk of foreclosure.

This payment is often a lump sum combined with an annual amount for a fixed amount of time. For example, in exchange for a $1 million home, a 79-year-old could get $100,000 today and then $32,000 for the next 12 years. After 12 years is up, the payments stop, but the former owners can keep living in the home.

To me, this sort of agreement seems more straightforward than a reverse mortgage. Unlike with a reverse mortgage, the home is sold, so there isn't a risk of foreclosure for things like failing to pay property taxes or homeowners insurance. And because there's no loan, fees and interest don't accrue into a larger balance than homeowners realize.

These agreements have their own potential issues, however.

Because the home is sold, it cannot be left as a bequest, and, in exchange for immediacy and the value of the elimination of property taxes and insurance costs, the amount paid out is considerably less than the home's value. Finally, a homeowner runs the risk of dying before the full amount is paid out, although payments can still go to a surviving spouse, partner, or beneficiary.

The bequest issue especially may be a barrier for many households, but the company is betting that many baby boomers are looking to live their best lives now and will therefore value the option of using their housing wealth in this way.

If not, we will have to keep waiting for an important source of household and national wealth to get unlocked.