Security Matters

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Home Ownership and Housing Debt in Retirement

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Summary

This research uses the Health and Retirement Study panel data for 1992- 2016 to examine the relationship between housing debt and its impact on retirement security. The most valuable asset for many retirees is their home. This asset can be used to support spending and as an investment. However, the benefits home ownership brings retirees may depend on whether the home is paid for at the time of retirement. Retirees that no longer have to pay mortgages have the ability to use retirement income for other purposes. Additionally, home equity can be used to pay for future expenses in retirement, such as for health-related spending or a financial emergency. However, retirees with outstanding mortgages have greater expenses. A mortgage in retirement could result in greater financial stress later in life for a retiree on a fixed income if an increasing share of their monthly Social Security retirement benefit is required to make the monthly mortgage payment.

Key Findings

- Whether or not home ownership and housing debt in retirement is a financial asset for current spending or limits overall spending, is more nuanced than a simple yes or no.
- The percentage of homeowners with a paid off mortgage before retirement is decreasing. However, most retirees still tend to pay off their mortgages as they age.
- Retirees generally can manage household debt in retirement but are delaying the age they are mortgage free.
- Some homeowners refinance to cover their living expenses. In an economic recession, this behavior greatly increases. This indicates home equity is a financial lifeline and an asset for many retirees and near retirees during an economic crisis.
- Social Security benefit payments are likely playing an expanding role in the ability of retirees to qualify for a mortgage or a refinance in retirement.

These outcomes that suggest that a home-debt related retirement crisis is brewing because more homeowners are entering retirement with home-related debt do not tell the whole story. This framework paints too simple a picture, and an incomplete one, of the true financial landscape faced by many current and future homeowners in retirement. Further research should be considered before the creation and implementation of policy conclusions on this issue of mortgage debt in retirement.

Practitioner Ideas

Financial counselors and coaches may see more clients entering retirement with an existing mortgage. Furthermore, borrowers over age 65 account for 10% of all new mortgages since Social

Security counts as income by mortgage lenders. Having a mortgage in retirement doesn't necessarily mean an increase in financial stress. While housing-related debt could mean an increase in fixed expenses, being a homeowner could also provide an opportunity to tap into home equity if needed.

When working with clients in or close to retirement, financial counselors and coaches could:

- Review projected income and expenses as part of retirement planning. Consider how future fixed income may affect lifestyle spending, including housing-related expenses such as mortgage payments, home repairs, property taxes, or homeowner association fees.
- Ask about the client's comfort level around different types of debt, such as a mortgage, credit cards, or student loans. Non-mortgage related debt may cause more financial stress for older adults and could be a higher priority for paying down.[1] Counselors and coaches could then assist with creating a debt-management plan that reflects their clients priorities.
- Discuss the role of home equity in later years and across various financial situations. Some older homeowners may anticipate using a home equity line of credit to pay for existing expenses, while others may want to reserve home equity for an expected emergency or increasing health costs.

If tapping into home equity is of interest to an older homeowner, financial educators can also review the pros and cons of various options, including private home equity loans and federally-insured reverse mortgages. Refer to community partners and trusted resources for comparing financial products that match their client's priorities and income in retirement.

Key Resources

Planning for Retirement, Consumer Financial Protection Bureau
https://www.consumerfinance.gov/consumer-tools/retirement/

Retirement Benefits, Social Security Administration
https://www.ssa.gov/benefits/retirement/learn.html#h2

Home Equity Loans and Credit Lines, Federal Trade Commission
https://www.consumer.ftc.gov/articles/0227-home-equity-loans-and-credit-lines

Home Equity Conversion Mortgages for Seniors, U.S. Department of Housing and Urban Development
https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome

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[1] See related research brief and practitioner brief by Haurin, Loibl, and Moulton