Security Matters

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Housing Wealth and Economic Security in Retirement: Does Borrowing From Home Equity Increase Adherence To Prescription Drugs?

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Practitioner applications provided by the Center for Financial Security, UW-Madison

Summary

This study looks at the use of housing wealth or home equity and how it's related to one sign that a person is experiencing severe economic insecurity: cost-related medication non-adherence (CRN). CRN is when people take less medication than prescribed due to the costs. Housing wealth is the primary source of wealth for many older adults that are low-income and solely rely on social security for their income. Many older adults tap into their home equity as a source of savings to pay for health shocks. It is unlikely borrowing from housing wealth is used solely for medication cost, however, borrowing increases cash flow and the ability to pay expenses such as medication. This study aims to measure this relationship using data from the 1998-2016 waves of the U.S. Health and Retirement Study.

Key Findings

- The study found that close to seven percent of homeowners age 50 and older report cost-related medication non-adherence. Mortgage borrowing showed a statistically significant effect on lowering cost-related medication non-adherence. The average homeowner borrows $50,000 in home equity over a two-year period, which lowers cost-related medication non-adherence by about four percentage points.
- The effect of borrowing on cost-related medication non-adherence has the greatest financial impact for homeowners age 65 and older; those relying on primarily Social Security for their incomes; homeowners with less than $10,000 in non-housing financial assets; and homeowners with a recent health shock.
- Cost-related medication non-adherence increases after a health shock, such as a diagnosis of cancer or diabetes. Borrowing from a mortgage after a health shock significantly lowers the likelihood of cost-related medication non-adherence.
- Looking ahead to 2036, about two-thirds of homeowners in the boomer cohorts would have enough home equity to borrow $50,000 based on standard lending guidelines.

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Practitioner Ideas

Some clients borrow from their home equity to help supplement their income or pay down debts. While this type of borrowing can temporarily increase economic security and the ability to afford medications, a traditional home equity loan also means higher mortgage payments in the future. These higher monthly payments are associated with a small increase in cost-related medication non-adherence and could lead to future financial stress.

To help individuals determine the best options for their situation, financial counselors and coaches could consider the following conversations with their clients:

- When reviewing financial stressors with clients, it's common to ask about current expenses, including housing costs, credit card debt, and medical costs. It can be helpful to take a deeper dive into a discussion related to prescription costs and adherence. Have they had a recent change in health? Are people splitting pills to make ends meet?
- Clients might be paying for prescriptions through insurance, Medicare Part D, or out-of-pocket. Depending on their situation, clients may benefit from a Prescription Assistance Program (PAP) through drug companies which provide free or discounted medicines to lower income individuals.
- Ask homeowners, especially older adults on a fixed income, about their plans to stay in their home. Some individuals feel strongly about staying in their own home as long as possible, while others might already be considering downsizing or another change in their living situation. If homeowners' express interest in staying in their home, it's important to plan for continued affordability and cash flow.
- Provide resources, including pros and cons, for homeowners interested in pursuing a home equity loan. Co-create a financial plan using loan funds that involves debt reduction, medication adherence, and covering other financial stressors related to staying in the home. Also plan for future higher mortgage payments when repaying the loan.
- For homeowners aged 62 and over, share information on Home Equity Reverse Mortgages (HECMs), also known as reverse mortgages. A HECM might be a possibility for reducing current financial stressors without resulting in a higher future mortgage payment.

Key Resources

Medicine Assistance Tool (MAT) – search engine for patient assistance resources
https://medicineassistancetool.org

RX Assist – directory of Patient Assistance Programs
https://www.rxassist.org

U.S. Department of Housing and Urban Development – HECM program basics
https://www.hud.gov/program_offices/housing/sfh/hecm/hecmabou