Center for Financial Security
UNIVERSITY OF WISCONSIN-MADISON
Retirement & Disability Research Center

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

*Research conducted by Jason J. Fichtner, PhD, Johns Hopkins University*

For many retirees, the home is their most valuable asset. If the home is paid for at retirement, the retiree no longer has to service a mortgage or pay monthly rent, freeing up retirement income for other purposes. However, an outstanding mortgage creates a greater amount of mandatory expense, making it difficult for Social Security benefits to replace income available for 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.

### Home Ownership and Housing Debt in Retirement

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

### Homeownership rates declined after the 2008 Great Recession

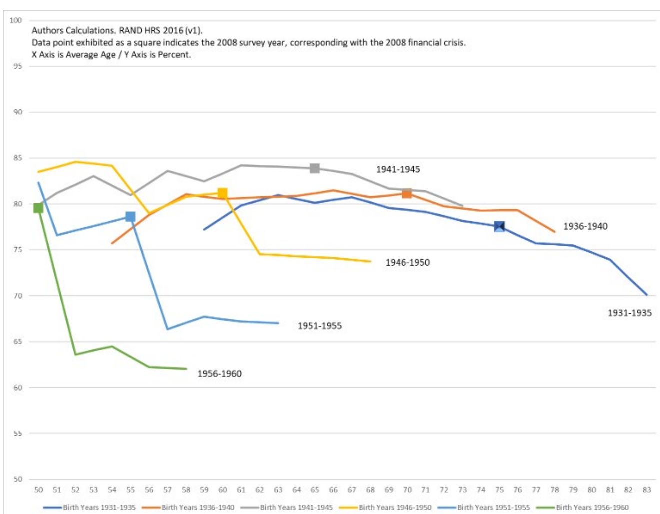


*Figure 1. Homeownership Rates by Birth Year Cohort (Percent)*

The homeownership rates displayed in Figure 1 offer some interesting insights. First, 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. 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 birth year cohorts exhibit less home ownership than the other older three cohorts. Fourth, as one might expect for retirement-age households, as individuals 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.

**The percentage of households that own their primary home and pay off their mortgage steadily increases with age.**

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 who own their homes who 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 who owned a home had paid off their mortgage. The trend of paying off the mortgage was uninterrupted by the Great Recession. Although Figure 1 shows that homeownership rates declined after the Great Recession, those that maintained homeownership  did continue 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.

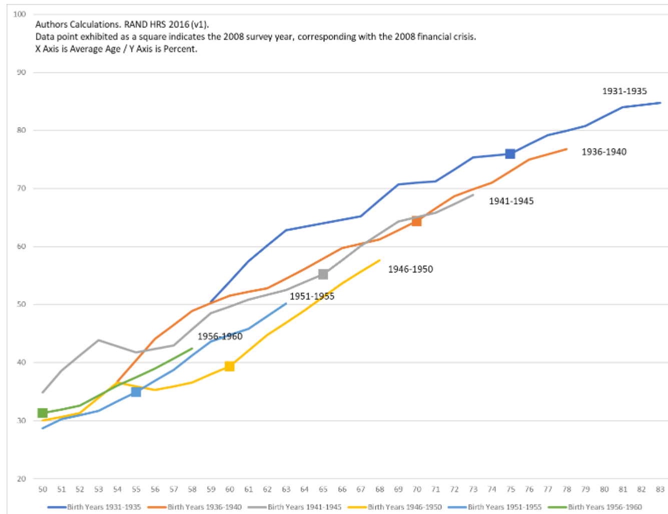


*Figure 2. Paid Off Mortgage by Birth Year Cohort (Percent)*

## Implications

The paper finds that HRS survey respondents showed a high level of homeownership rates and that a house is often the primary asset in retirement.

- Whether or not home ownership and/or housing debt in retirement is a financial asset that allows for consumption smoothing or an albatross around the neck of retirees requires a more nuanced answer than a simple yes or no.
- While the percentage of homeowners paying off their mortgage before retiring has declined with each new birth year cohort, most retirees who own a home still tend to pay off their mortgage as they get older. Hence, these data suggest that older households are generally managing their home-related debt in retirement, just delaying the age at which they are mortgage-free.
- This study's findings suggest that while some homeowners refinanced to fund consumption, in times of economic recession home equity is a financial lifeline for many retirees and near-retirees. Homes can be an asset in or near retirement that provides a financial lifeline during turbulent economic times.
- Similar to the narrative about whether a "retirement crisis" looms on the horizon, the narrative that a home-debt-related retirement crisis is brewing because more homeowners are entering retirement with home-related debt is too binary. This binary frame paints a far too simple and incomplete picture of the true financial landscape faced by many current and future homeowners in retirement, and further research needs to be done before rushing to any policy conclusions.

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