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Research Brief

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Debt Stress and Mortgage Borrowing in Older Age: Implications for Economic Security in Retirement

Debt held by older adults in the U.S. has grown over the past decade, both in dollars and as a proportion of people carrying debt into retirement (See Figure 1 for share of people by age with debt). This study examines the stress associated with different forms of debt held by seniors and documents the relationships between mortgage debt and their decisions regarding the claiming of Social Security benefits using the Health and Retirement Study (HRS).

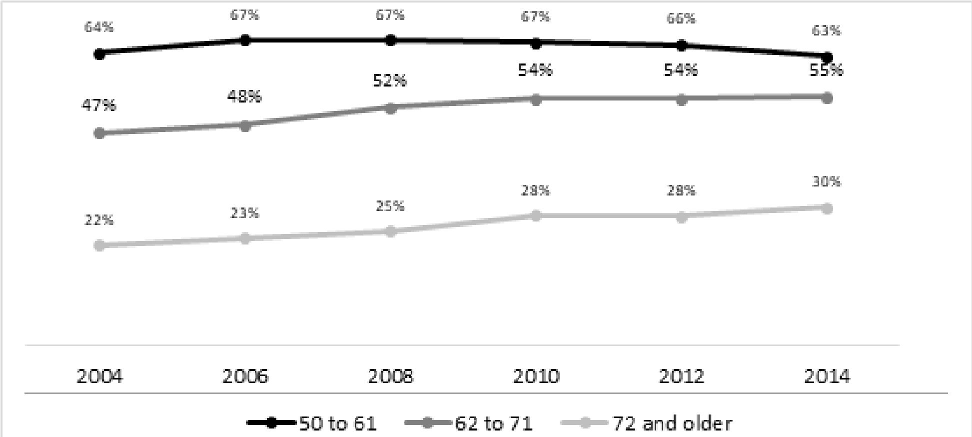

Figure 1: Share of Older Adults with Debt, 2004 to 2014
Source: *Author's calculations using the 2004-2014 Health and Retirement Study data*

Mortgage Debt is Related to Financial Stress in Older Age But Less So than Other Debt

Both mortgage and non-housing debt contribute to debt-related stress. However, mortgage debt is much less stressful than credit card debt. Of the types of mortgage debt, first mortgages are associated with less stress than home equity lines of credit (HELOCs) or other mortgages. Comparing the stress from mortgage debt held at or before the age of

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65, relative to new mortgage debt incurred after age 65, both forms of mortgage debt are associated with similar levels of stress. Taking on a mortgage after age 65 does not appear to produce more stress than mortgages taken out at slightly younger ages.

Reverse Mortgages Contribute Less to Debt Stress than Forward Mortgages

Reverse mortgages are a special type of loan that are available only to homeowners age 62 and older. These mortgages allow homeowners to extract equity in their home, but without requiring a monthly payment. Money borrowed can be structured as a line of credit, with a monthly payment similar to an annuity, or withdrawn as a lump sum. In the U.S., the federally insured Home Equity Conversion Mortgage (HECM) comprises most of this loan market.

Based on a survey of adults age 62 and older who considered obtaining an HECM in 2010 or 2011, we measure debt stress levels for all respondents based on a standard survey question. [1] The data show that HECM debt is actually less stressful than forward mortgage debt. However, we cannot rule out that stress may increase as the HECM loan debt grows over time, as opposed to forward mortgage debt, which will decline over time, lowering debt stress.

Financial Stress is not Associated with Early Claiming of Social Security Benefits

Financial stress might be predicted to be associated with claiming of Social Security benefits at early ages. Using HRS data on people who claim Social Security at age 62, the earliest age possible, we study rates of financial stress, such as reporting difficulty paying bills, and experiencing ongoing financial strain for 12 or more months. Both measures of financial stress are negatively associated with early claims of Social Security, meaning that people exhibiting greater financial stress are more likely to delay claiming benefits. Financially stressed people may be trying to work longer and wait for larger Social Security benefits at an older age. People reporting a high level of stress at younger ages may benefit from delaying claiming Social Security to receive an increased monthly benefit.

Implications

Debt-related stress is a growing concern, given the growing amount of debt held by people as they enter retirement. Debt is associated with financial stress, with credit card debt being the most

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[i] See Dunn, L. F., & Mirzaie, I. A. (2016). Consumer Debt Stress, Changes in Household Debt and the Great Recession. Economic Inquiry, 54(1), 201-214.

stressful. Of mortgage debt, first mortgages are less stressful than most other mortgages and reverse mortgage debt is associated with even less stress than forward mortgages. One reason reverse mortgages may alleviate debt-related stress is that people may use the home equity they extract with a reverse mortgage to pay off consumer debt—the transfer of a higher-cost month debt to a loan without a monthly payment and a lower rate of interest may end up being a decision that makes seniors feel less financially stressed.

While higher levels of financial stress might seem to result in people being more likely to claim retirement benefits as soon as possible, higher levels of debt stress are actually associated with a reduced rate of people claiming Social Security benefits at age 62. In part, this may be due to seniors managing their debt payments by working longer and using that earned ncome to pay down debt and accumulate savings for a bit longer, as well as waiting for a larger Social Security retirement benefit at a slightly older age.