

Home Equity in the Retirement Portfolio

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NRMLA Annual Meeting
October 26, 2011



An economist's perspective

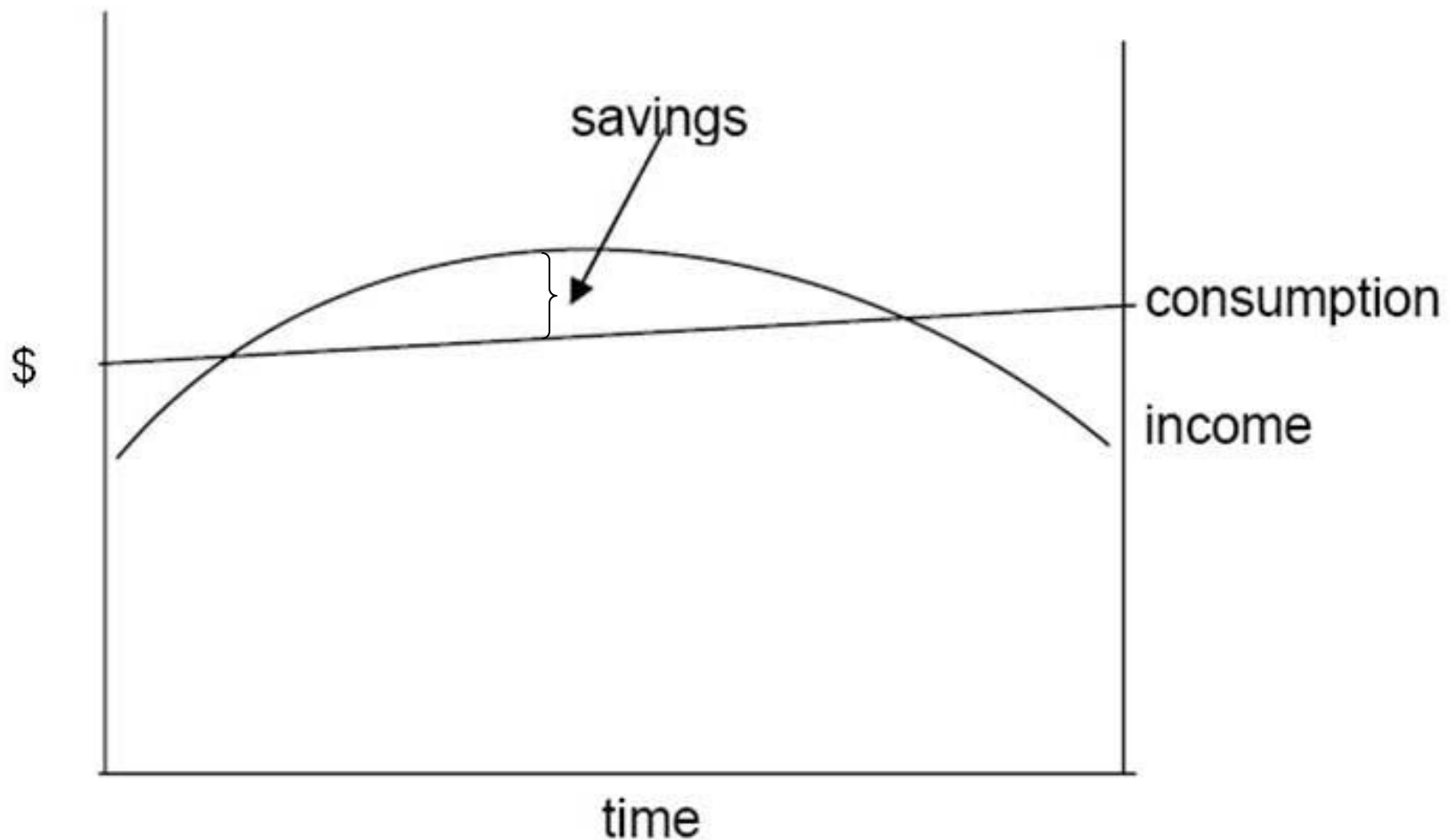
- Reverse mortgages provide a means of dissaving
- To understand why people may (or may not) want reverse mortgages, need to understand:
 - Whether/why they save during working life
 - Whether/why they dissave during retirement
 - Whether/why housing is special



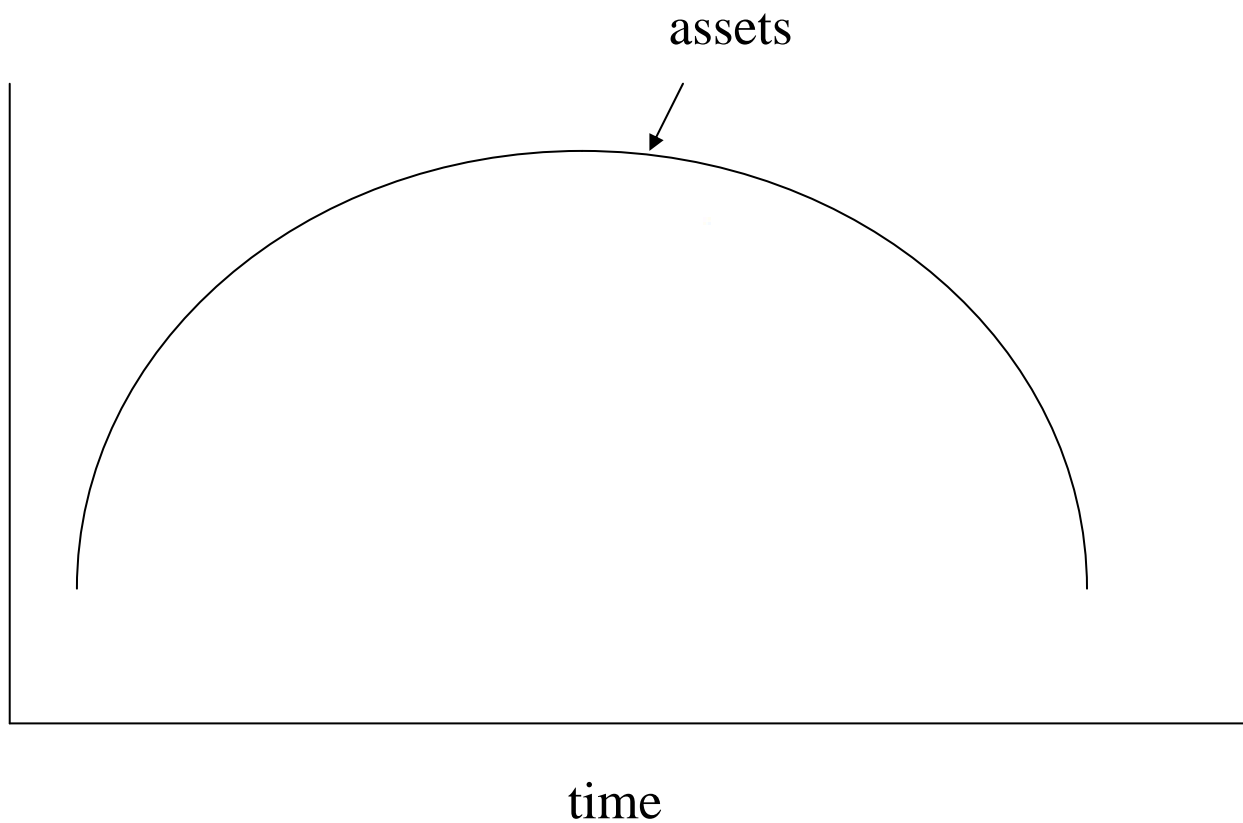
Why do people save? (Keynes, 1936)

- “To provide for an anticipated future relationship between the income and the needs of the individual” (life-cycle motive)
- “To build up a reserve against unforeseen contingencies” (precautionary motive)
- “To bequeath a fortune” (bequest motive)
- “To enjoy a sense of independence and the power to do things” (independence motive)

Implications for savings behavior?

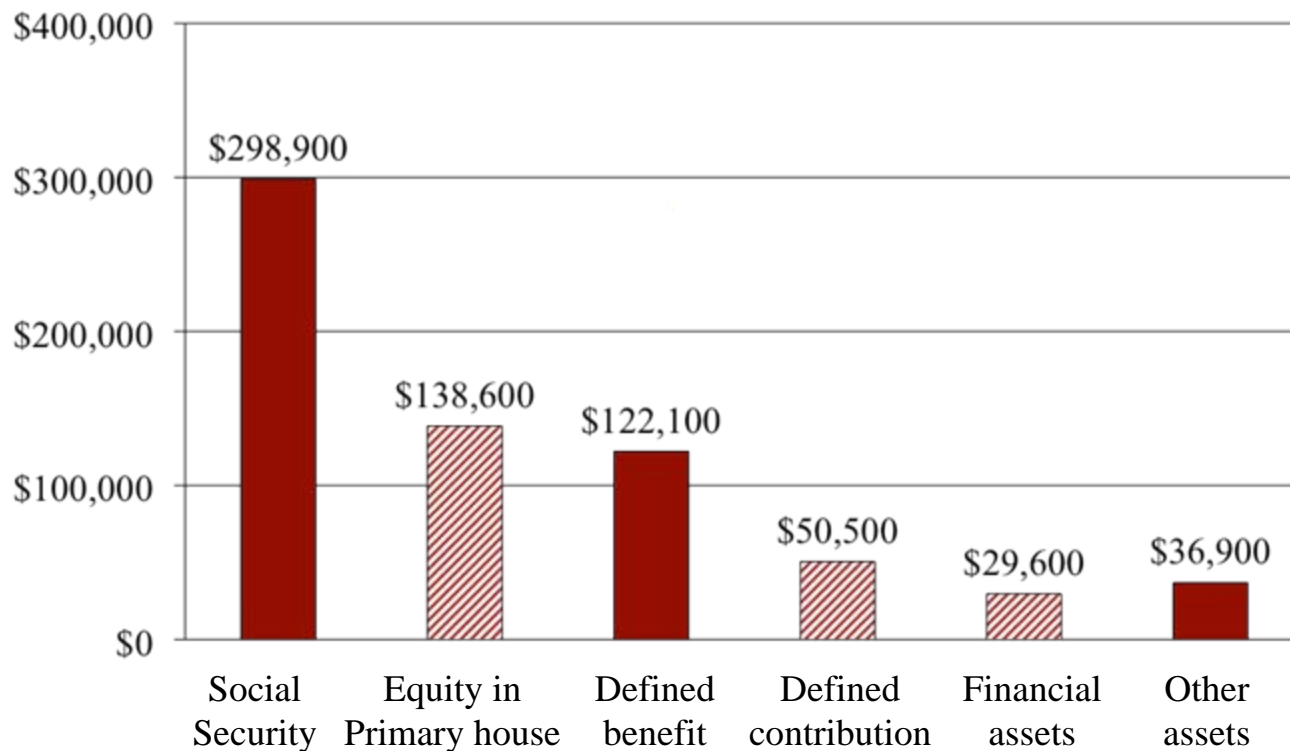


Implications for savings behavior?



By retirement, have people saved? Yes

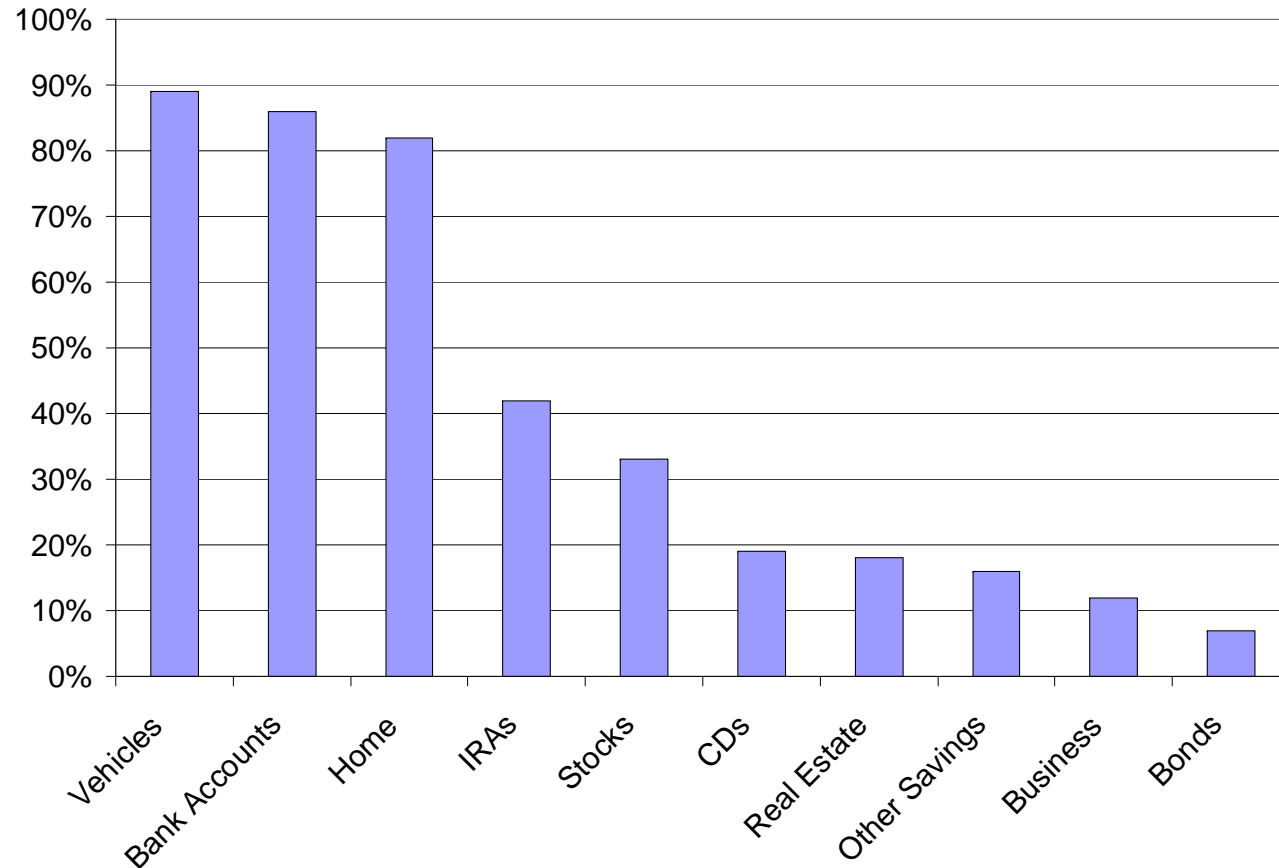
Wealth Holdings of a Typical Household Ages 55-64, 2007



Source: Anthony Webb, 2011 (calculations from 2007 Survey of Consumer Finances).

What assets do people most commonly hold at retirement?

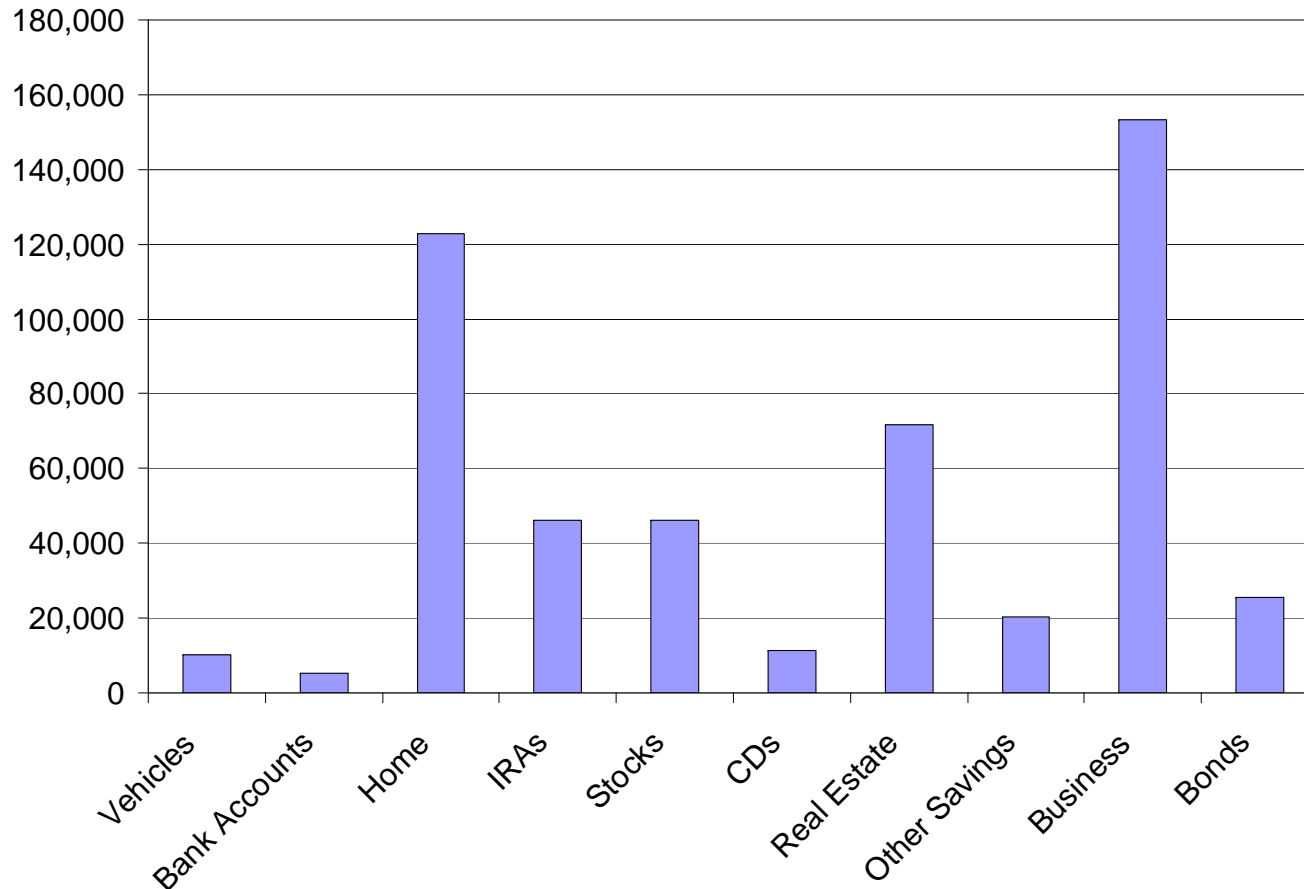
Percent of Households Age 60-64 Holding Asset



Source: author's calculations from 2002 Health and Retirement Study.

What is the typical value for those who hold the asset?

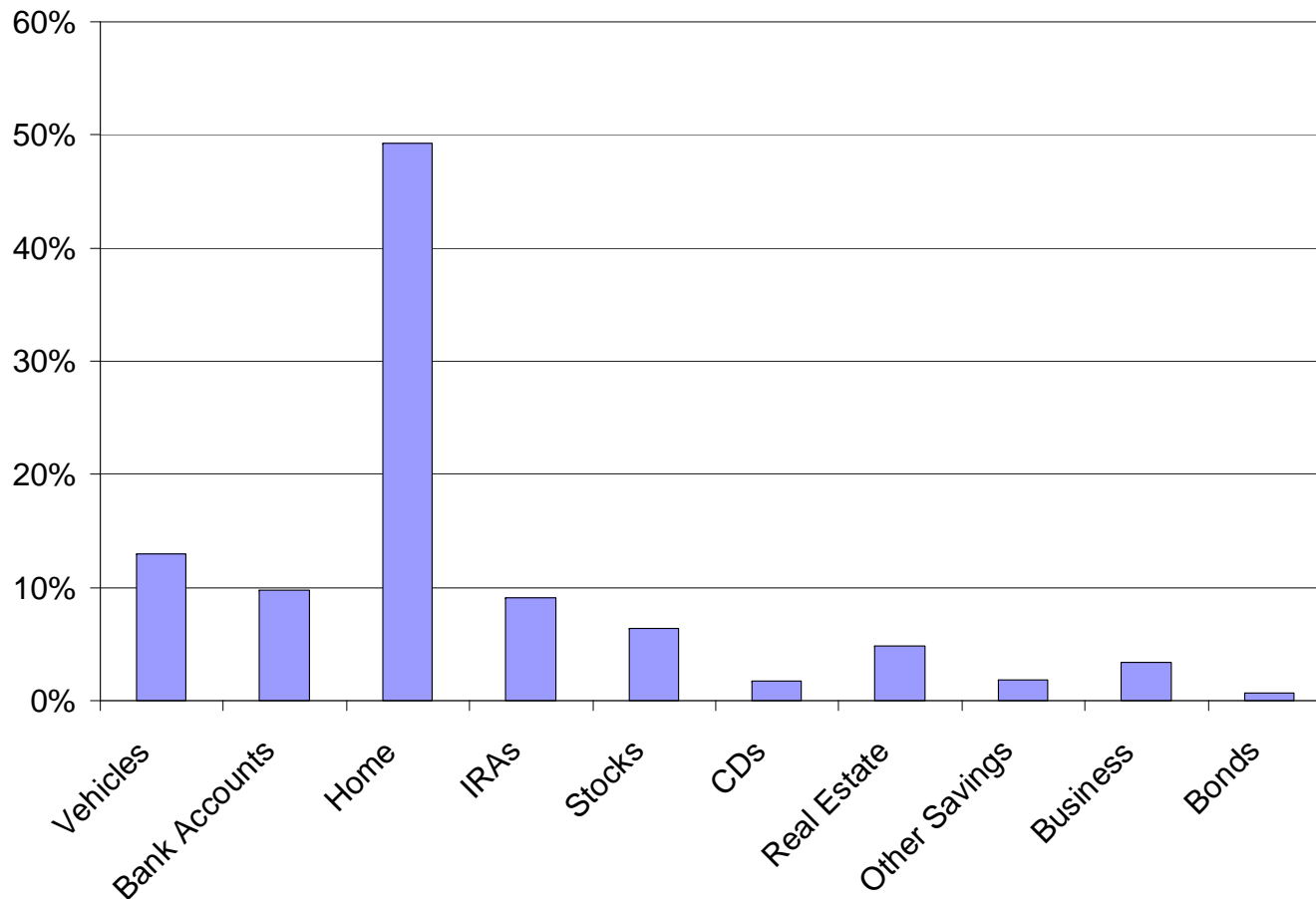
Typical Value for Households Holding the Asset



Source: author's calculations from 2002 Health and Retirement Study.

What is the overall importance of each asset type in retirement portfolios?

Share of Total Assets by Asset Class



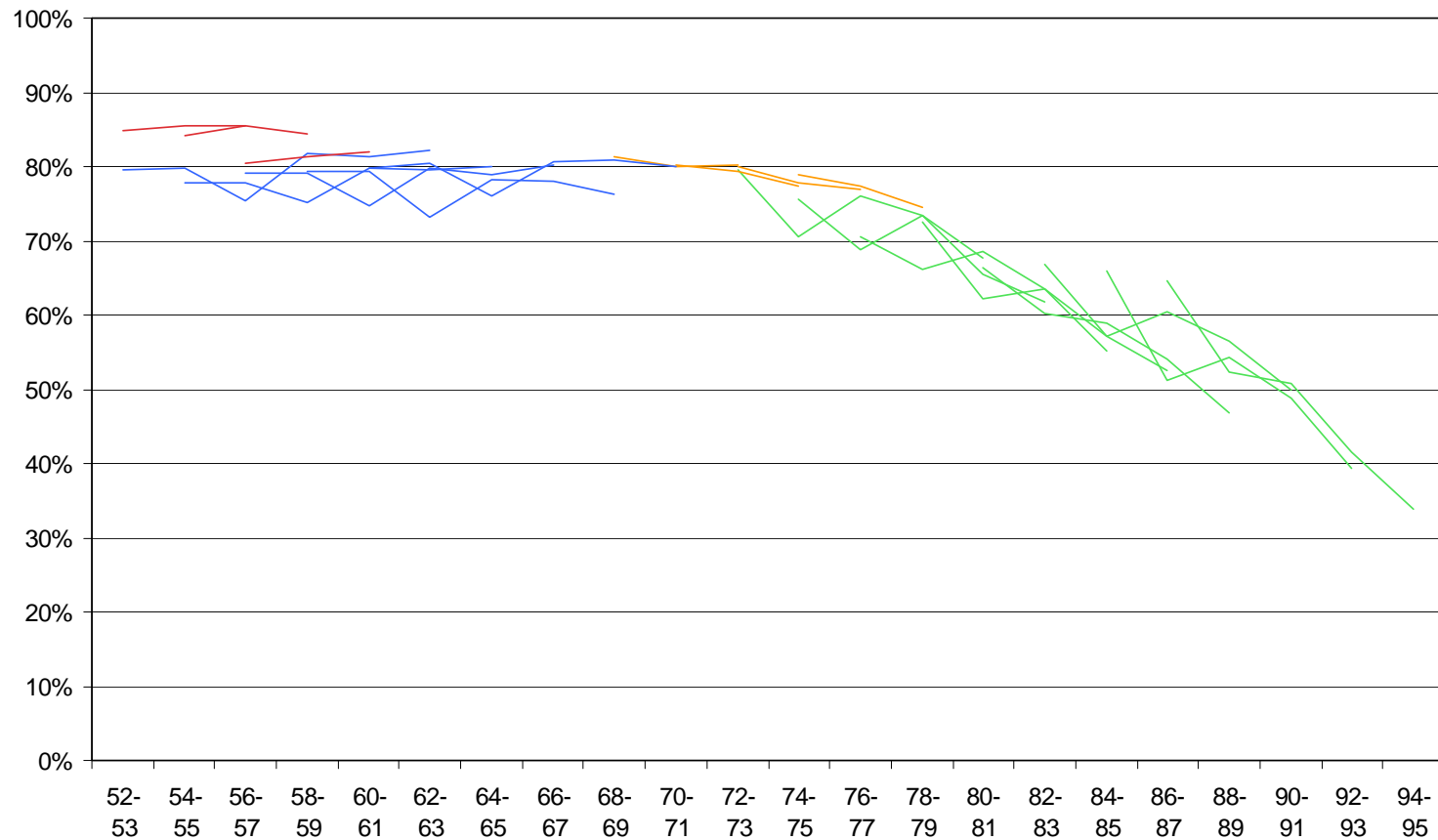
Source: author's calculations from 2002 Health and Retirement Study.

Do people dissave in retirement in general?

- Best studies follow a group of people over time
- Findings from those (few) studies are mixed:
 - Some find *increasing* assets with age
 - Some find modest decreases, or decreases for singles but not couples
- Interesting recent work suggests people dissave from 401(k)s and IRAs very slowly

Do people dissave housing?

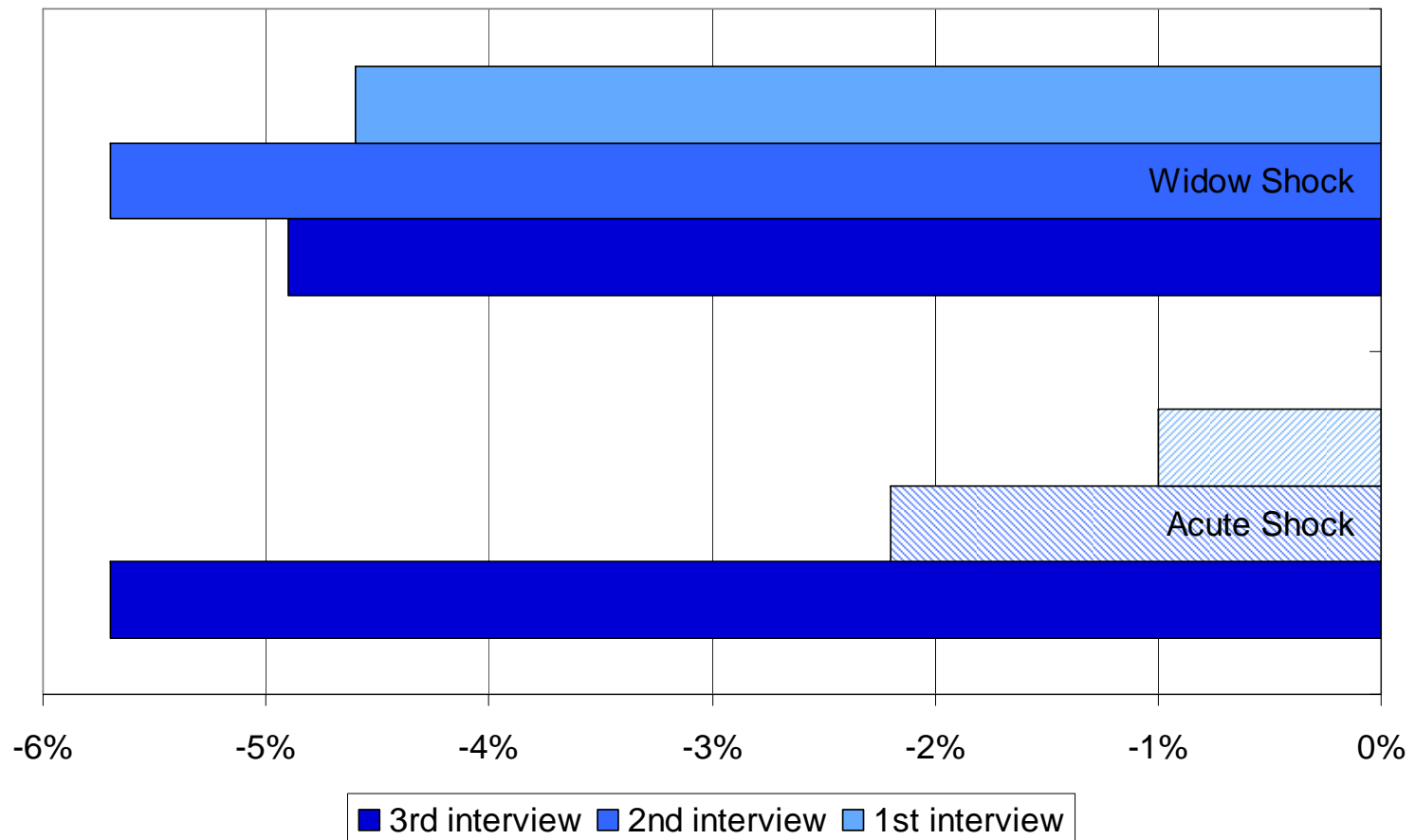
Home Ownership by Age



Source: author's calculations from 2002 Health and Retirement Study.

What triggers a home sale?

Effect of Health Shocks on Probability of Asset Ownership



Source: author's calculations from 1992-2002 Health and Retirement Study.



Do people dissave housing? Not much

- Little decline in home ownership rates until 80s
 - When people do exit home ownership, often because one spouse died or entered nursing home
- Also relatively little consumption of home equity without exiting home ownership
 - People who sell a house and buy a new one tend to buy a more expensive house
 - Relatively little use of reverse mortgages

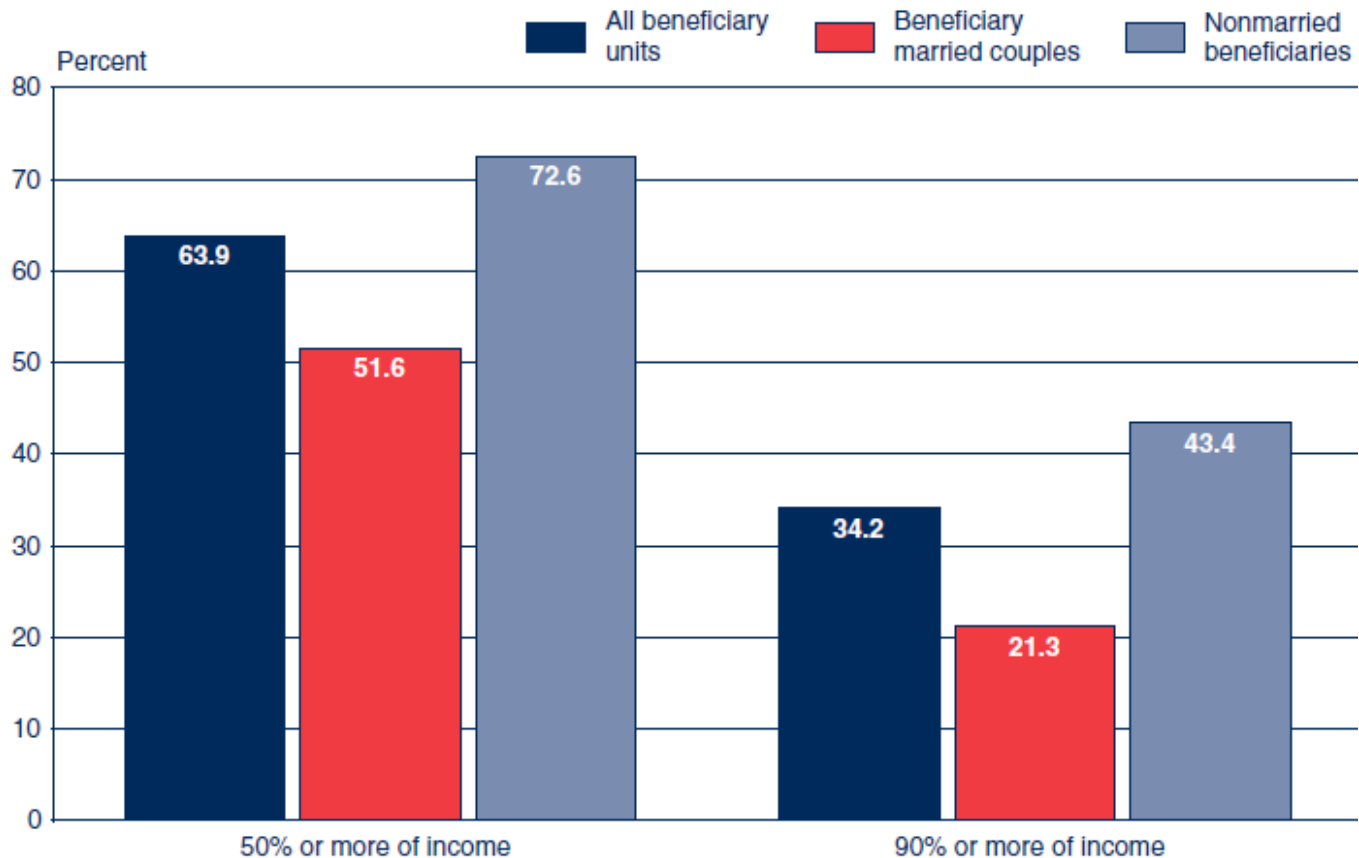


Why don't people dissave housing?

- Decision to continue to hold housing wealth may relate to Keynes' other reasons for saving: precautionary, bequest, independence
- Yet many elderly may be spending too little – note high reliance on Social Security income
- Conclusion: even if a reverse mortgage is not right for all, likely optimal for more than 2%

Should people spend more of their home equity in retirement? Maybe

Percentage of aged beneficiary units receiving Social Security benefits, by relative importance of benefits to total income, 2008



Source: Social Security Administration, Income of the Aged Chartbook (2008).