

# *Are Homeownership Patterns Stable Enough to Tap Home Equity?*

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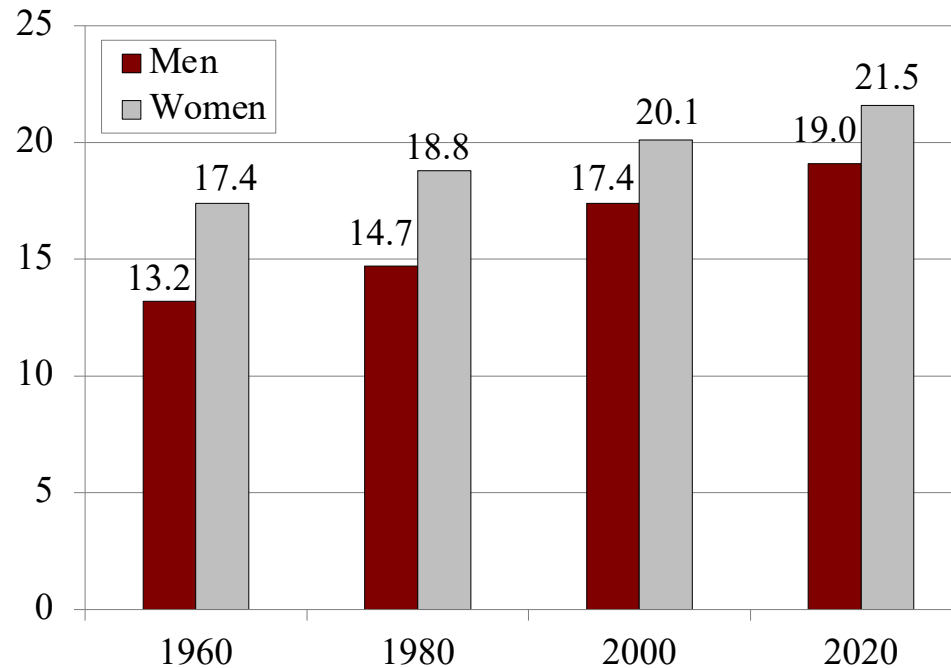
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# Overview

- Background and Motivation
- Data and Methodology
- Results

# Many retirees may need to consider tapping home equity due to a changing retirement landscape, including longer lifespans...

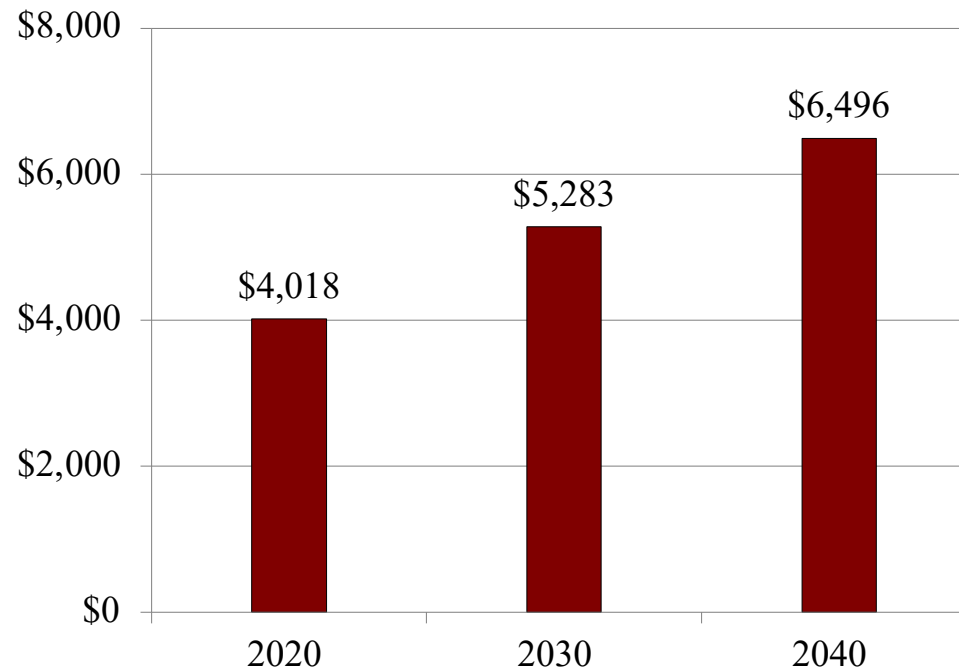
Life Expectancy at Age 65, 1960-2020



Source: U.S. Social Security Administration. 2020. *Social Security Trustees Report*.

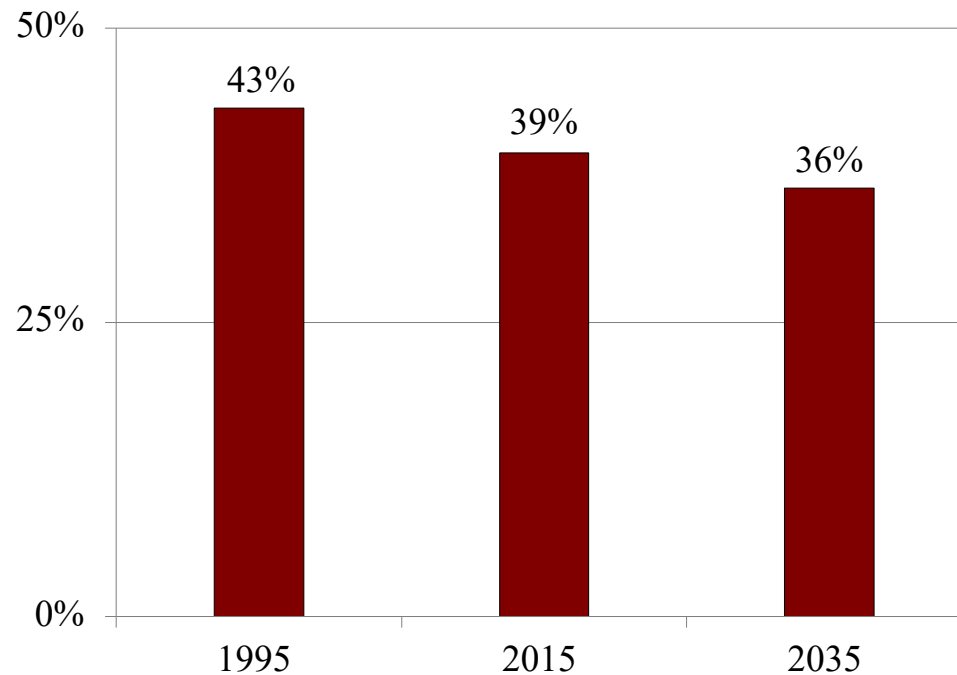
# ...rising health care costs...

Average Annual Medicare Part B & D Premiums  
and Out-of-Pocket Payments, 2019 Dollars



# ...and lower income replacement rates from Social Security.

Social Security Replacement Rates for Average Earner Retiring at Age 65, 1995, 2015, and 2035



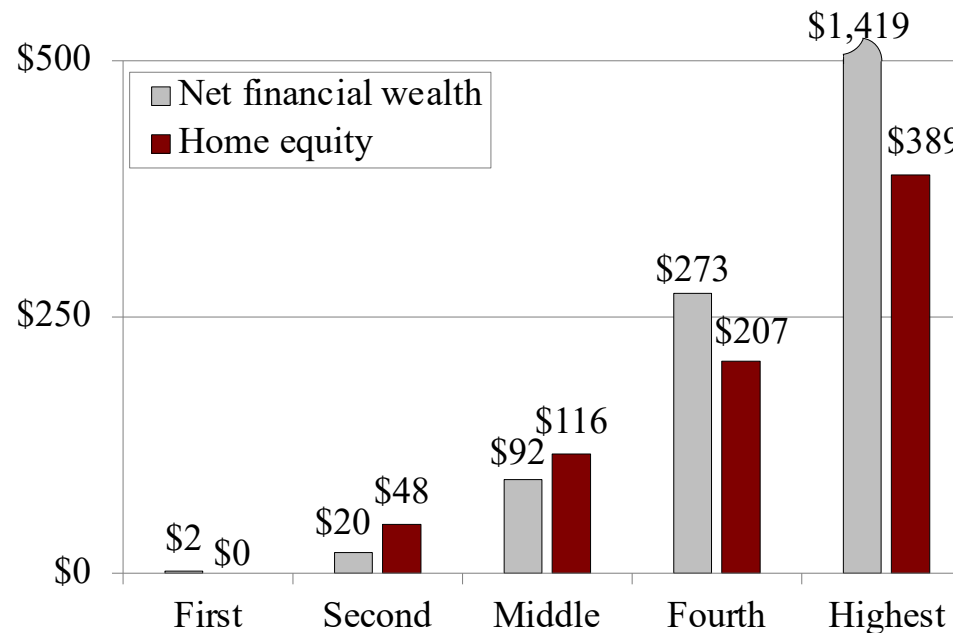
Note: Replacement rates for 2035 are based on scheduled benefits, not payable benefits.

Sources: Michael Clingman, Kyle Burkhalter, and Chris Chaplain. 2016 and 2020. "Replacement Rates for Hypothetical Retired Workers."

Actuarial Notes 2016.9 and 2020.9. U.S. Social Security Administration; and U.S. Social Security Administration. 2012. *Social Security Trustees Report*.

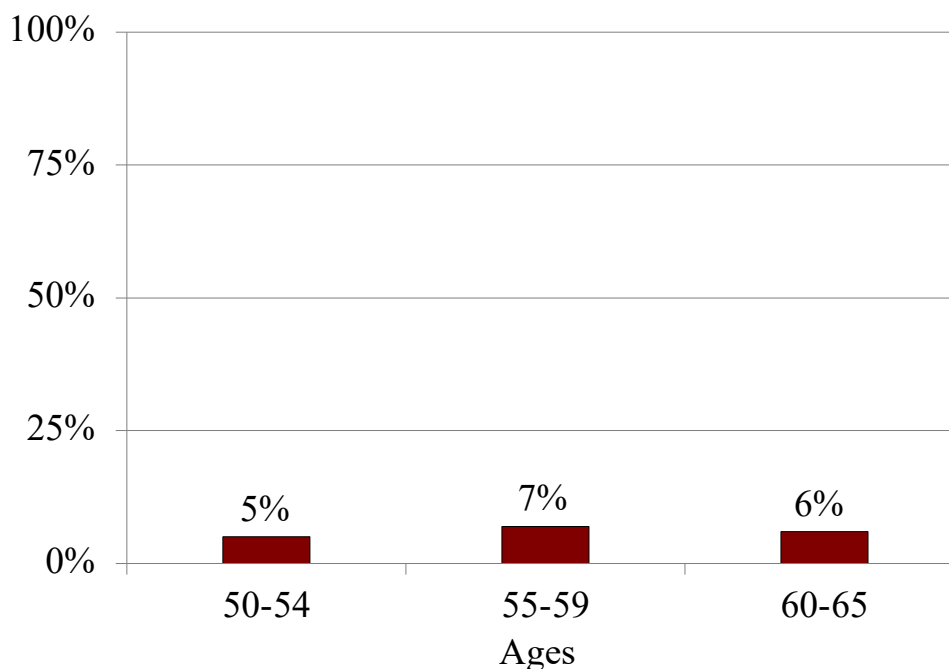
# For many households, home equity is larger than their financial assets.

Median Net Financial Wealth and Home Equity of Households Ages 65-69 in 2016,  
by Net Worth Quintile, Thousands of 2019 Dollars



# But very few households plan to tap home equity – and even fewer actually do it.

Percentage of People Who Plan to Use Home Equity for Living Expenses, 2007



Source: Alicia H. Munnell, Jean-Pierre Aubry, and Mauricio Soto. 2007. "Do People Plan to Tap Their Home Equity in Retirement?" *Issue in Brief* 7-7. Center for Retirement Research at Boston College.



# A basic policy question is whether tapping equity is a financially viable option for most.

- While people generally prefer to age in place, they may end up moving for various reasons.
- If those who move have already tapped their equity, they must pay back the outstanding loan, potentially leaving them with inadequate resources at a vulnerable time in life.
- Our question is, to what extent are homeownership patterns stable enough to tap home equity?

# This research contributes to the literature by:

- exploring housing trajectories over a 40-year span by creating a synthetic cohort, much longer than timeframes in previous research;
- using sequence analysis to visualize and group together households with similar residential patterns; and
- identifying the characteristics of groups with housing trajectories that are suitable or unsuitable for tapping equity.

# The data are from the *Health and Retirement Study* (HRS).

## Sample Restrictions for Households in the HRS and AHEAD Cohorts

Restriction	HRS	AHEAD
Total in cohort	6,456	5,788
Ages 50-54 in 1992	2,934	-
Ages 70-74 in 1993	-	2,099
Homeowners at first observation	2,354	1,652
Not dropped by HRS	2,022	1,564
Has all observations	1,205	985
Has consistent reporting of housing tenure	1,142	931

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

The first step in creating the synthetic cohort is testing a way to splice together the core sample and donor pool if the data stop at 2008.

Synthetic Cohort for Testing Purpose

Survey year	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016
Core sample	50-54	52-56	54-58	56-60	58-62	60-64	62-66	64-68	66-70	68-72	70-74	72-76	74-78
Donor pool				66-70	68-72	70-74	72-76	74-78					

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

# The donor pool produces a close match in terms of household characteristics.

Comparison of Actual Data with Matching Result by Different Methods

Status	Actual cohort	Synthetic cohort	
		Splicing	Random match
<i>Housing status in 2010 (Ages 68-72)</i>			
Owning a home	91.6%	91.7%	83.1%
Renting	2.8	1.9	3.3
Nursing home	1.1	1.6	2.3
Dead	4.5	4.8	11.6
<i>Housing status in 2016 (Ages 74-78)</i>			
Owning a home	77.8%	79.9%	63.8%
Renting	3.9	3.9	3.7
Nursing home	1.7	1.1	1.7
Dead	16.6	15.1	30.8

Note: Statistics are for the households who are still alive at the matching wave in 2008.

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

This splicing process using the HRS (core) and AHEAD (donor) cohorts allows us to follow the synthetic cohort from ages 50-96.

### Synthetic Cohort Methodology

Survey year	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016
Core sample	50-54	52-56	54-58	56-60	58-62	60-64	62-66	64-68	66-70	68-72	70-74	72-76	74-78
Donor pool				74-78	76-80	78-82	80-84	82-86	84-88	86-90	88-92	90-94	92-96

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

# Sequence analysis places households with similar housing trajectories together.

- This technique provides a way to detect patterns that might not be obvious using statistics.
- For example, simply counting the number of moves does not reveal if they occur at regular intervals or at the beginning or end.
- The timing and order of any moves is important for assessing whether the household has a stable enough pattern to tap equity.
- An early move followed by a long span in the new home suggests tapping equity could be beneficial, while a late life move may not.

# This simple example helps illustrate how sequence analysis works.

## Hypothetical Housing Trajectory of Three Respondents

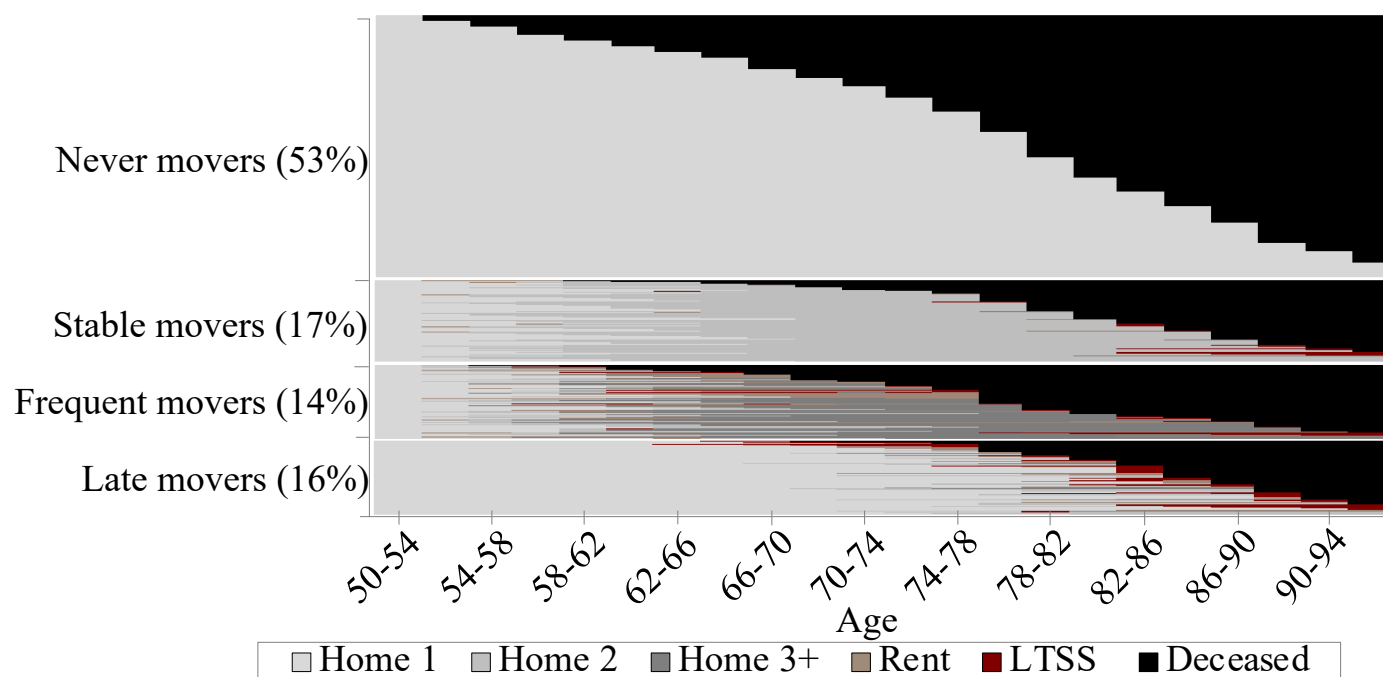
Year	1992	1994	1996	1998	2000	2002
Respondent A	H <sub>1</sub>	H <sub>2</sub>	H <sub>2</sub>	H <sub>2</sub>	H <sub>2</sub>	D
Respondent B	H <sub>1</sub>	H <sub>2</sub>	H <sub>2</sub>	D	D	D
Respondent C	H <sub>1</sub>	Rent	Rent	LTSS	LTSS	D

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.



# The results shows that most homeowners exhibit enough stability to tap home equity.

Sequence Groups for Home-Owning Households in the Synthetic Cohort



Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

# We also looked at who moves and why.

## Characteristics of Sequence Groups for Home-owning Households Ages 50-54 in 1992

Characteristics	Sequence group				All
	Never movers	Stable movers	Frequent movers	Late movers	
Share of total sample	53 %	17%	14%	16%	100 %
White	81	87	90	83	84
College degree	20	34	27	22	23
Two-earner couple	65	69	59	69	66
<i>With any ADL impairment</i>					
Last observation	38	37	41	54	41
Unemployed <sup>a</sup>	13	13	21	11	14
Number of children	3.1	3	3.6	3.1	3.1
<i>Household income</i>					
First observation	\$75,000	\$95,000	\$83,000	\$80,000	\$81,000
Last observation	\$33,000	\$34,000	\$30,000	\$27,000	\$31,000
<i>Financial wealth</i>					
First observation	\$13,000	\$27,000	\$15,000	\$27,000	\$18,000
Last observation	\$11,000	\$31,000	\$9,000	\$47,000	\$20,000
<i>Housing wealth</i>					
First observation	\$89,000	\$105,000	\$78,000	\$108,000	\$95,000
Last observation	\$119,000	\$112,000	\$31,000	\$0	\$94,000

<sup>a</sup> Share of observations unemployed.

Notes: Characteristics are for the head of household except for ADL limitations (for the last survivor). Wages and wealth are in 2018 dollars.

Source: Alicia H. Munnell, Abigail N. Walters, Anek Belbase, and Wenliang Hou. 2020. "Are Homeownership Patterns Stable Enough to Tap Home Equity?" *Journal of the Economics of Ageing* 17: 1-11.

# Key findings from the demographic analysis:

- *Never Movers* look very much like the average in terms of race, income, and wealth.
- *Stable Movers*, who buy a new home around the time of retirement and then stay there, tend to be the most privileged – they have more education, income, and wealth.
- *Frequent Movers* are less likely to be two-earner couples; and they have more children, experience more unemployment, and have less financial wealth.
- *Late Movers* look similar to never movers, but are more likely to experience a health impairment and be forced to move in their 80s. It's hard to tell early on which households will end up here.

# Conclusion

- Many retirees may need to consider tapping home equity, so the question is whether it is financially viable for most.
- Using a synthetic cohort, this study follows households from their 50s to their 90s.
- The sequence analysis results show that a full 70 percent of households do not move once they retire. And only 14 percent move frequently.
- The bottom line is that most homeowners experience enough residential stability to tap home equity through either a reverse mortgage or a property tax deferral program.