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Housing and Financial Security

Housing costs typically represent the single largest expense for any household. Homeowners who pay off their mortgages before retirement, however, reduce those costs sharply. Their accumulated home equity also provides a cushion against rising expenses for health care and support services. Renters are not only more likely to face housing cost burdens, but also to have much less wealth to sustain them in old age. Regardless of tenure, though, many households in their 50s and 60s are saddled with high levels of debt as they approach retirement.

INCOMES OF OLDER HOUSEHOLDS

Incomes usually peak when households are in their late 40s and then begin to fall as the share of individuals able or needing to work declines. The drop in incomes accelerates in the 60s and continues thereafter as more households leave the workforce and begin to rely solely on Social Security, pensions, and income from savings. By the time they reach their 80s, many older adults may have lost a partner or spouse, which may mean a reduction in pensions and Social Security benefits.

Extended work lives, however, have become more common in recent decades. According to the Current Population Survey, 31 percent of households aged 65–69 were employed in 2013—an increase of 9 percentage points from 1993. The share of employed households aged 70–74 also rose from 12 percent to 18 percent. While only 4 percent of households aged 80 and over were earners in 2013, this still represents a significant increase from the 2 percent share 20 years earlier.

Longer work lives have been associated with higher incomes, with the real median household income of 65–69 year olds up 26 percent from 1993 to 2013, and that of 70–74 year olds up 23 percent. While there is concern that a lack of retirement savings is forcing people to work later in life, the increase in labor force participation has so far occurred primarily among more educated and highly compensated workers in less physically demanding occupations (Leonesio et al. 2012). Many other individuals may in fact want to work later in life, but may have difficulty finding employment because of disabilities, limited demand for their skills, or age discrimination (CDC 2012).

Despite increases in employment among older households, a decline in household income with age is still very much evident. In 2012, the median income of households aged 55–59 was more than \$5,000 lower than that of households aged 45–49, with the disparity widening to \$15,000 between households in their late 50s and those in their late 60s. Households aged 80 and over have a median income of only \$25,000. Indeed, nearly a quarter (24 percent) of these households live on less than \$15,000 annually. On average, low-income households aged 65 and over rely on Social Security payments for 85 percent of their incomes.

While differing substantially earlier in life, incomes tend to converge with age (Figure 10). At ages 50–64, the median incomes of whites and Asians are as much as \$30,000 higher than those of blacks and Hispanics. The typical homeowner earns over \$40,000 more than the typical renter, while the typical married couple earns over \$50,000 more than a single person. But by the time households reach their 80s, median incomes for most of these groups are below \$30,000. Married couples are an exception, but their median income is only slightly higher at \$36,700. Thus, while many minority, renter, and single-person households are more likely to have lower incomes before they retire, most households in their 80s face financial pressures.

INCREASING PRESENCE OF LOW-INCOME HOUSEHOLDS

Over the coming years, rapid growth in the 65-and-over population will bring a substantial rise in the number of low-income households. Assuming the income distribution of this age group remains the same as it is today, 6.5 million households will have incomes under \$15,000 in 2024—a jump of 1.8 million, or 37 percent, in a single decade. Growth in the number of older households with incomes between \$15,000 and \$29,999 would add another 2.9 million to the ranks of low-income households. This sharp increase will strain the capacity of programs aimed at providing affordable housing and supportive services to these populations.

Several factors may lead to an even larger increase in the low-income older population. To begin with, fewer of today’s workers will benefit from pension plans, which have traditionally provided important financial support for moderate-income retirees. In addition, the incomes of households in their peak earning and pre-

retirement years have been falling. Between 2000 and 2012, real median household incomes declined by more than \$8,000 among those in their early 40s, \$12,000 among those aged 50–54, and more than \$4,000 among those aged 55–59. Lower incomes will likely reduce the savings and investments that these households will have available to support their retirement.

HIGHER INCIDENCE OF HOUSING COST BURDENS

One-third of adults aged 50 and over—nearly 20 million households—pay excessive shares of their incomes for housing. Of this group, 10.2 million are moderately cost burdened and 9.6 million are severely burdened. Reflecting the sharp falloff of income with age, 37 percent of households aged 80 and over have at least moderate burdens, including 20 percent with severe burdens. While the incidence of cost burdens for all age groups is much higher than a decade ago, the increases are particularly large for 50–64 year olds (9 percentage points) and for those aged 65 and over (6 percentage points).

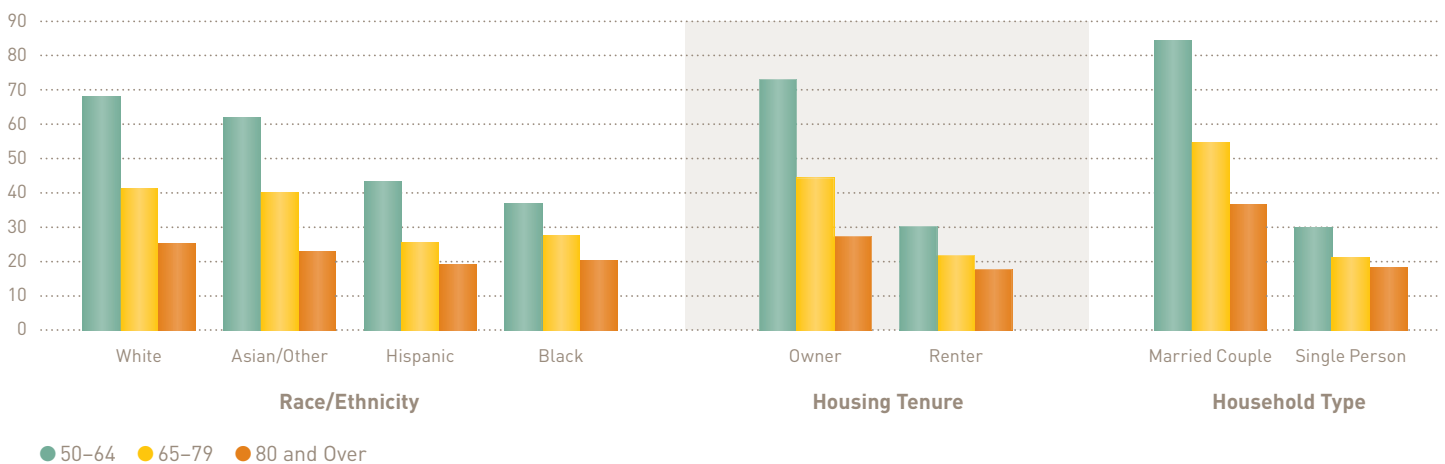
A key determinant of cost burdens is whether households own or rent their housing. With their generally lower incomes, older renters are more likely to pay excessive amounts of income for housing, with their cost-burdened shares ranging from nearly half for those aged 50–64 to about six in ten for those aged 80 or older.

But many homeowners still paying off mortgages have at least moderate housing cost burdens, and the shares increase sharply with age. From roughly a third of those aged 50–64, the cost-burdened share jumps to 45 percent of owners with mortgages aged 65–79 and to 61 percent of those aged 80 and over—higher than

FIGURE 10

Incomes for All Household Types Drop with Age, Reducing Disparities Across Groups

Median Household Income by Age Group (Thousands of dollars)



Notes: Income may include earned income, asset income, pensions, and Social Security. Whites, blacks, and Asian/others are non-Hispanic. Hispanics may be of any race. Data include only married couple households without children present.

Source: JCHS tabulations of US Census Bureau, 2013 Current Population Survey.

the share of same-age renters. By comparison, the cost-burdened shares of owners without mortgages are under 15 percent for those aged 50–79 and under 25 percent for those aged 80 and over (Figure 11). On average, the monthly housing costs (including property taxes, insurance, and utilities) of older adults owning their homes free and clear are less than a third of those for older owners with mortgages and less than half of those for renters.

Housing cost burdens are most common among low-income older households, including 77 percent of those with annual incomes of less than \$15,000 and 54 percent of those with incomes of \$15,000–29,999. Even within the lowest income group, though, owners without mortgages are less likely to be cost burdened (69 percent) compared with those paying off mortgages (99 percent) and those who rent (75 percent). Among those with incomes in the \$15,000–29,999 range, the cost-burdened shares drop to 23 percent for homeowners without mortgages and 69 percent for renters, but remain high at 88 percent for those paying off mortgages.

With their lower incomes and higher likelihood of renting, large shares of older minority households have housing cost burdens. In 2012, 39 percent of older Asian, 43 percent of older Hispanic, and 46 percent of older black households were cost burdened, compared with just 29 percent of older white households. While similar for renters and homeowners with mortgages, the disparities are much smaller for households owning homes free and clear, with the cost-burdened shares ranging only between 15 percent for whites and 22 percent for blacks—again demonstrating the enormous benefit of being mortgage-free.

CONSEQUENCES OF HOUSING COST BURDENS

Housing costs that exceed 30 percent of household incomes force households to cut back sharply on other necessities. Especially for those in the lowest expenditure quartile (a proxy for low income), skimping on food is a common tactic. On average, severely cost-burdened households in this quartile spend more than 40 percent less on food than households living in housing they can afford, making clear the link between hunger and high housing costs among older adults (Figure 12).

All older age groups with housing cost burdens reduce their outlays for transportation, typically the next-largest expenditure category in their budgets. Meanwhile, severely cost-burdened households aged 80 and over cut back most on health care, with outlays that are \$157 (59 percent) lower per month than those of households in affordable housing. Households aged 50–64 with severe cost burdens also spend roughly 70 percent less on health care as well as on retirement savings.

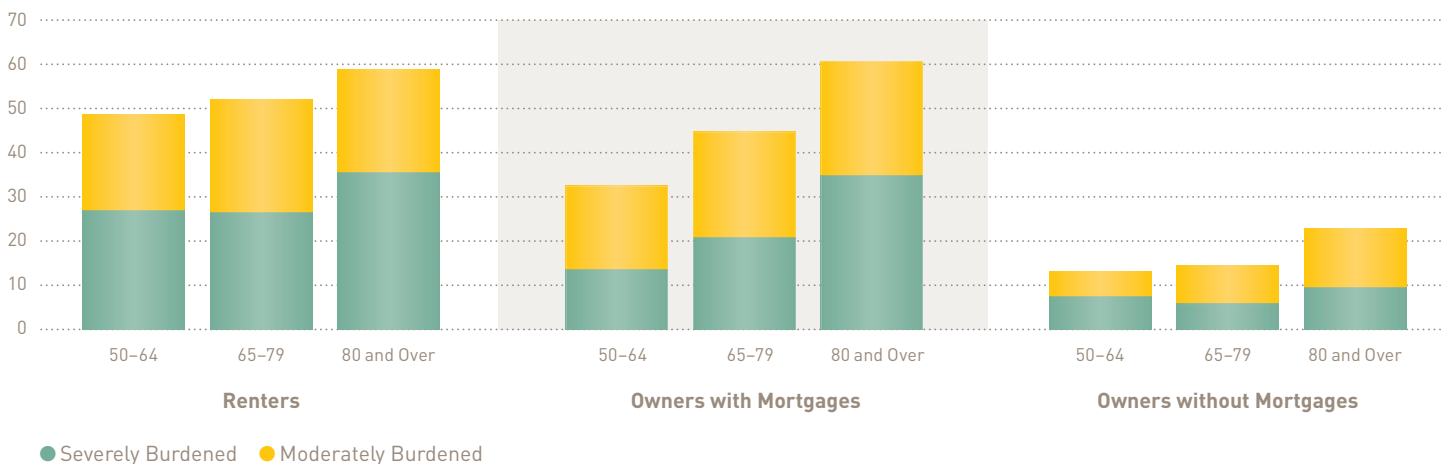
Low incomes, high housing costs, and limited availability of subsidized units are significant causes of homelessness among older adults, as is isolation prior to becoming homeless (National Coalition for the Homeless 2009). According to the latest HUD count (2013a), about 279,800 individuals aged 51 and over were homeless in 2012. The older adult share of the sheltered homeless population in fact increased from 17 percent in 2007 to 19 percent in 2012.

Homeless older adults are at great risk of becoming victims of crime; furthermore, not all shelters are accessible and some older

FIGURE 11

Households Owning Their Homes Outright Are Much Less Likely to Be Cost Burdened

Share of Households by Age Group (Percent)



Note: Moderately (severely) cost-burdened households spend 30–50 percent (more than 50 percent) of income on housing costs.
Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey.

adults may be unable to wait in lines for shelter beds (National Coalition for the Homeless 2009, 2014). Life expectancy for these individuals is shorter than average and chronic ailments are common, requiring that health and supportive services be part of the response to homelessness (Culhane et al. 2013).

As the older population increases, homelessness among older adults with low incomes is expected to rise sharply. The National Alliance to End Homelessness projects that, assuming shelter and poverty rates remain constant, the number of homeless adults aged 62 and over will more than double from about 44,000 in 2010 to over 95,000 in 2050 (Sermons and Henry 2010).

DEBT BURDENS ON THE RISE

More than 70 percent of homeowners aged 50–64 were still paying off their mortgages in 2010 (Figure 13). At the same time, the average loan-to-value (LTV) ratio spiked to 56 percent amid plunging house values following the recession. While not as dramatic, a similar pattern is evident among homeowners aged 65 and over, with the share of owners with mortgages climbing to 40 percent and the average LTV ratio hitting 45 percent. Given the strong correlation between having a mortgage in retirement and being cost burdened, the financial position of many older homeowners has become increasingly precarious.

A rising tide of consumer debt has also increased the financial pressures on older adults. Even after accounting for inflation, non-housing debt among households aged 50–64 rose from about \$8,700 on average in 1992 to \$17,100 in 2010. These additional bur-

dens include about \$2,000 more in credit card debt, \$1,700 more in auto loans, and \$3,000 more in student loans. The growth in non-housing debt among households aged 65 and over was more moderate, up from \$4,300 to \$7,200 over the same period—again reflecting higher credit card and auto loan debt.

WEALTH DISPARITIES

Accrued wealth provides financial stability for older adults, ensuring the means necessary to pay for day-to-day expenses as well as supportive services later in life. Homeownership is strongly associated with wealth, given that home equity contributes significantly to household balance sheets. Indeed, the median net wealth of homeowners aged 50 and over in 2010 was 44 times that of renters (Figure 14).

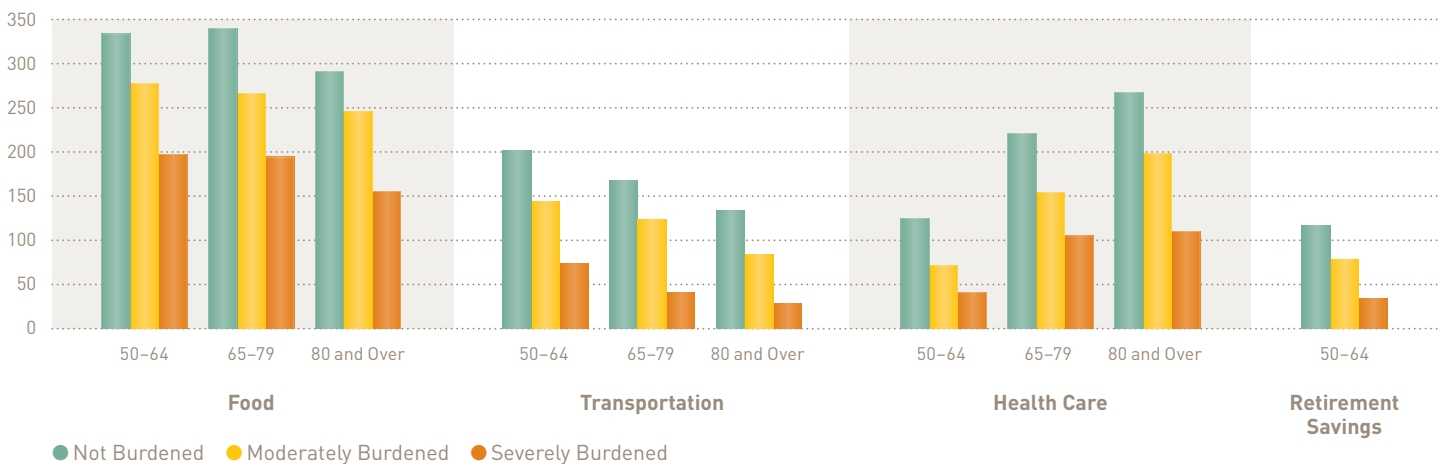
While their assets vary widely, older homeowners at the median in 2010 had \$267,100 in net wealth to draw down in retirement, and even those in the 25th percentile had accumulated \$104,500. Excluding housing wealth, the median owner still had \$117,000 in other assets. In sharp contrast, the median renter had accumulated only \$6,100 in net wealth, while even those in the 75th percentile had holdings as low as \$27,700.

Homeowners aged 50 and over are three times more likely to own stocks, certificates of deposit, and savings bonds than renters. Aside from home equity, retirement accounts are the largest source of owners' savings, with median holdings of \$93,000. But while 58 percent of 50-and-over owners had retirement accounts in 2010, only 26 percent of renters had any savings in this form.

FIGURE 12

Low-Income Households with Housing Cost Burdens Have Much Less to Spend on Other Critical Needs

Average Monthly Spending by Households in the Lowest Expenditure Quartile, by Age Group (Dollars)

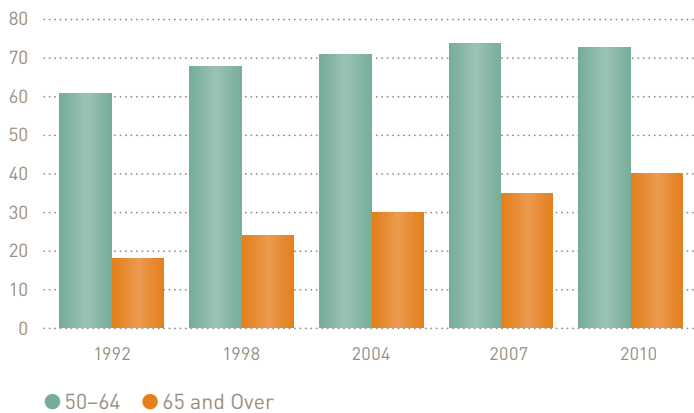


Notes: Moderately (severely) cost-burdened households spend 30–50 percent (more than 50 percent) of income on housing costs. Lowest spending quartile is a proxy for low-income households. Source: JCHS tabulations of the US Bureau of Labor Statistics, 2012 Consumer Expenditure Survey.

FIGURE 13

Households Are Carrying Much More Mortgage Debt into Their Retirement Years

Share of Owners with Mortgage Debt by Age Group (Percent)



Note: Estimates include only owner households with mortgages on primary residences.
Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

Average Loan-to-Value Ratio for Owners with Mortgages by Age Group (Percent)

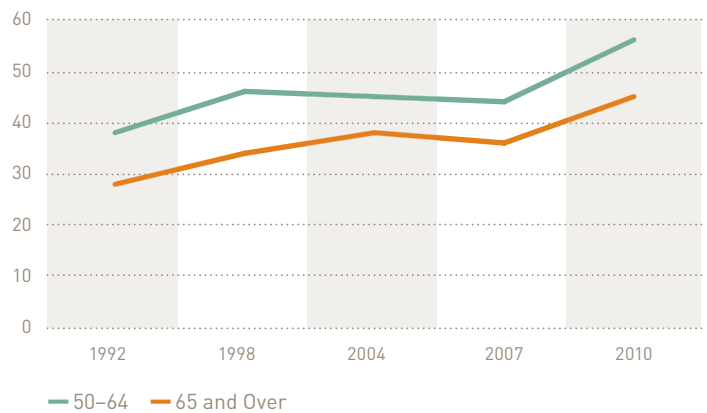


FIGURE 14

Even Excluding Home Equity, Owners Have Substantially More Wealth than Renters

Distribution of Net Wealth among Households Aged 50 and Over (Dollars)

	Percentile				
	10th	25th	Median	75th	90th
Owner					
Total Wealth	38,100	104,500	267,100	694,600	1,888,700
Home Equity	14,000	50,000	111,000	240,000	450,000
Other Assets	4,600	22,900	117,000	496,500	1,491,800
Renter					
Total Wealth	-1,800	60	6,100	27,700	155,700

Notes: Total net wealth includes both financial and nonfinancial assets. Percentiles for each category of wealth are calculated separately; as a result, percentile values for the components of homeowner wealth do not sum up to total homeowner wealth within each percentile.
Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

Meanwhile, the median older owner held \$10,000 in cash while the median renter held only \$1,000, providing little cushion in the event of an emergency.

Lower-income and minority owners hold most of their wealth in home equity. Indeed, housing wealth accounts for more than 75 percent of the total net wealth of older homeowners in the bottom income quartile and nearly 60 percent of that of older homeown-

ers in the lower-middle quartile. The shares for minority homeowners are also significant, with home equity contributing two-thirds of the net wealth of the median older black homeowner and more than three-quarters of the net wealth of the median older Hispanic homeowners.

With so much of their wealth in the form of home equity, low-income owners took an especially big financial hit during the housing crash. The median net wealth of older owners in the lowest income quartile plunged 30 percent between 2007 and 2010, while the net wealth of highest-income owners dipped just 1 percent. Older renters were not unscathed, with their median net wealth down 19 percent during this period. Notably, renters in the top income quartile saw a 48 percent drop in net wealth. The losses were greatest among those aged 50-64, with the median household losing nearly a third (32 percent) of net wealth during the Great Recession.

As this experience made all too clear, having housing equity be the primary source of net wealth poses risks for older homeowners if house prices were to drop sharply in the future. Some analysts have raised concerns that this could in fact happen in some markets if large numbers of aging baby boomers flood the market with homes for sale—particularly given that members of the diverse millennial generation may not have the resources or the desire to buy the larger suburban houses that these older households own.

But if current trends continue, most baby boomers are unlikely to sell their homes until they reach their mid-80s, or two decades from now. It is also impossible to predict how changes in the economy, the mortgage market, and immigration over this period will affect housing demand. Indeed, a variety of actions can be taken today that would reduce the risk of a housing demand/supply mis-

match tomorrow, including the provision of new care options to enable older households to stay in their homes longer and greater opportunities for younger households to afford to buy homes.

ASSISTING OLDER COST-BURDENED RENTERS

For many older renters, securing federally subsidized housing is the key to financial stability. But few are fortunate enough to receive this assistance. In 2011, 3.9 million households aged 62 and over without children had very low incomes (at or below 50 percent of area median), a common eligibility threshold for programs targeting the “elderly.” Of these, only 1.4 million (36 percent) benefited from rental assistance. A large majority (58 percent) of very low-income households aged 62 and over without assistance face either excessive housing costs, live in severely inadequate units, or both (HUD 2013b). HUD administrative data indicate that 1.1 million older renters lived in either public housing or privately owned developments with unit-based assistance in 2013. This includes roughly 263,000 Section 202 units providing housing with supportive services for older adults (Haley and Gray 2008). Another 483,000 assisted renters (30 percent) relied on housing choice vouchers.

According to JCHS projections, the number of renter households aged 60 and over is likely to increase by about 20 percent by 2020 and by another 25 percent between 2020 and 2030. Assuming the number of very low-income older renters grows at a similar rate, the ranks of older households eligible for rental assistance would increase by 1.3 million between 2011 and 2020 and another

1.3 million between 2020 and 2030 (Figure 15). Just to keep the share at its current level, the number of older renters receiving assistance would have to rise by 450,000 by 2020 and by 900,000 by 2030—still leaving 3–4 million to find affordable and adequate housing in the private market.

On top of concerns about escalating demand is the threat of loss of the existing subsidized stock. Contracts for hundreds of thousands of units with project-based rental assistance are set to expire over the next decade. Many at-risk units are located near transit, which are of particular importance to older renters who do not drive. A detailed analysis by AARP found that a substantial share of assisted housing units in 20 large metropolitan areas were within a half-mile of public transit, and that the contracts for more than two-thirds of those developments would expire within five years (Harrell et al. 2009).

To preserve the current supply of—and add new units to—the assisted stock, many states use some degree of targeting to older adults under the federal Low Income Housing Tax Credit (LIHTC) program (Corporation for Supportive Housing, 2013). Over its history, the tax credit program has generated roughly 320,800 units for older renters, with 65 percent of those units newly constructed. Given its current scale, however, the LIHTC program can contribute only marginally toward the growing need for housing for older adults.

The population over age 75 is already increasing rapidly and growth will accelerate after 2020 as the oldest baby boomers reach this age. At that time of life, renters are more likely to require assistance with activities of daily living. HUD’s Section 202 program, established in 1959, has been the primary means of expanding housing with supportive services. In its current form, the program provides ongoing funding to close the gap between the cost of providing housing and what tenants can afford to pay. Many developments are old and the subsidy contracts on an estimated 41,900 units will expire by 2024. In addition, the program no longer provides capital grants to develop new units.

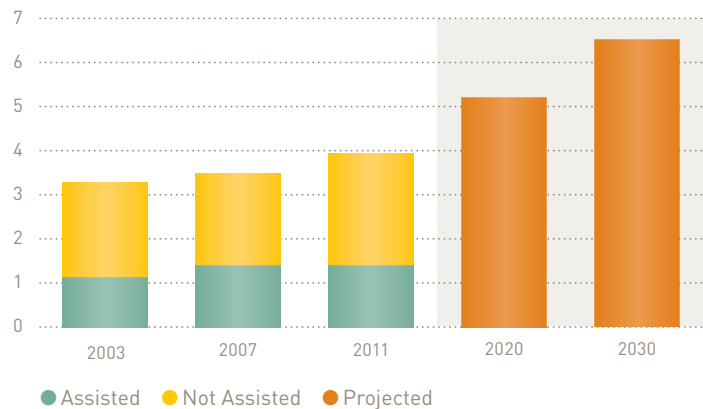
ASSISTING OLDER HOMEOWNERS

At the state level, the principal means of addressing the housing cost challenges of older homeowners is to reduce the property tax payments of those meeting certain age, income, or other eligibility criteria. Property tax relief may come in a variety of forms: homestead exemptions that reduce the appraised value of the home and thus the amount of tax due; circuit-breaker programs that provide tax credits for property tax payments exceeding a specific share of income; property tax limits, caps, or freezes; and deferrals that delay property tax payments until the home is sold or the owner dies (McNichol 2006). These programs also vary widely in the amount of financial assistance they provide, the degree of income-targeting, and whether eligibility is based on age or disability.

FIGURE 15

Rapid Growth in Older Eligible Renters Will Put Even More Pressure on Housing Assistance Programs

Very Low-Income Renter Households Aged 62 and Over (Millions)



Notes: Eligible households have very low incomes (at or below 50 percent of area median). Projections assume the number of eligible renters aged 62 and over grows at the same rate as renter households aged 60 and over.
Sources: JCHS tabulations of US Department of Housing and Urban Development, Worst Case Needs Reports to Congress, and JCHS 2013 Household Projections.

At the federal level, one support to older homeowners is the Home Equity Conversion Mortgage (HECM), managed by HUD. HECM loans are issued by private lenders and insured by the Federal Housing Administration. The HECM is a reverse mortgage that allows principal, interest, and other loan costs to accrue against the value of the home and requires no out-of-pocket payments from owners. The loans thus enable homeowners to tap their home equity without having to make monthly mortgage payments or sell their homes.

Reverse mortgages can be particularly helpful to lower-income households holding most of their wealth in home equity. For example, reverse mortgages can be used to convert a portion of housing wealth into an income stream to help cover property taxes and insurance payments, the costs of supportive care, and other living expenses. The ability to choose either a lump sum or a line of credit can assist homeowners in paying for one-time, big-ticket expenses such as home modifications or improvements. The number of HECM originations peaked at 114,600 in 2009, dropped sharply after the housing bust, and rebounded modestly to about 55,000 in 2012.

There are some concerns that borrowers can find themselves in a precarious financial position if they do not have sufficient income to meet their ongoing housing expenses, including insurance, property taxes, maintenance, and homeowners' association dues. In addition, recent studies have shown that HECM borrowers have increasingly used lump-sum payments from reverse mortgages to pay off other debts, including existing mortgages—thus exhausting their equity all at once (CFPB 2012). Improvements to the program to address these concerns include limits on the amount of drawdowns in the first year and mandatory counseling to ensure older adults are well informed in their decisions to use HECMs.

Reverse mortgages remain a valuable tool for older homeowners to access housing equity to support a variety of financial needs, and the federal role in insuring these mortgages has been of critical importance in supporting continued availability. But other means should also be available to relieve the housing cost burdens of low-income older homeowners and to ensure that their homes are well-maintained and adapted to their changing physical needs. Under the right circumstances, traditional forward mortgages and home equity loans may have lower costs than reverse mortgages and be manageable within a homeowner's budget. These products have the advantage of helping to preserve housing equity for owners' financial needs later in life.

A number of other government programs help owners defray the costs of home maintenance. State weatherization assistance, funded through the Department of Energy's Weatherization Assistance for Low-Income Persons program, provides older homeowners opportunities to save on energy costs. Grants or loans for home rehabilitation or accessibility modifications may be funded through the federally funded but locally administered HOME or Community Development Block Grant programs. Very low-income rural owners aged 62 and over may qualify for Rural Housing Repair Loans and Grants, managed by the Department of Agriculture.

Nonprofit organizations also offer support to low-income older owners seeking help with maintaining or modifying their homes to support aging in place. One such organization, Rebuilding Together, focuses on helping low-income, older, disabled, and veteran homeowners preserve and maintain their homes through the engagement of volunteers and corporate partners.