

Betting the House?

Assessing the Evolution of Home Equity in Late Career

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introduction

Housing phenomena mid 1990's – 2000's:

refinancing

– *tends to increase hh cash flow (+)*

– *tends to forestall payoff (-)*

increasing home values

– *tends to increase hh wealth (+)*

Since 2006:

refinancing – *tends to increase hh cash flow (+)*

decreasing home values – *challenge for hh wealth (-)*

tough labor market – *challenge for both (-)*

How are elder workers faring as they approach retirement?

large policy objectives

Improve elder and life-cycle outcomes:

- Did hh's perceive refi risks from 1995-2005?
 - How has home equity evolved over time?

 - How has recession impacted hh financial wellbeing?
 - At age 50 two things uncertain over a 10-20 year horizon:
 - Health
 - Fin Market performance
- (Remarkably, this is true at later ages as well!)
- We'll target elder workers nearing retirement & home equity

HRS is a biennial dataset collected by U Michigan with support from NIA

we employ:

HRS data from 1992 – 2010 (every available wave)

RAND Corp version L data are consistent and facile

we engage:

data on assets by type, by year, at hh level

demographic data

data on preferences – in particular risk preferences

>> *(betting and risk preferences are related, after all)*

Recall the two questions from our introduction:

- How are most recent cohorts faring?
- How has recession impacted hh preparation for retirement

We'll consider:

repeated cross sectional measures of the evolution of housing wealth, grouping hh's by cohort

multivariate regression analysis

Relevant HRS Sample

Variable	Number of observations	Mean	Std Deviation	Min	Max
Dependent Variables					
LTV (2010)	11,938	0.19	0.31	0.00	1.47
LTV (2008)	13,424	0.19	0.29	0.00	1.45
LTV (change from 2006 - 2010)	10,754	0.00	0.24	-1.46	1.39
LTV (measured at age 54)	7,379	0.29	0.29	0.00	1.47
LTV (measured between ages 57-59)	12,334	0.25	0.30	0.00	1.50
LTV (measured at age 62)	9,649	0.22	0.29	0.00	1.46

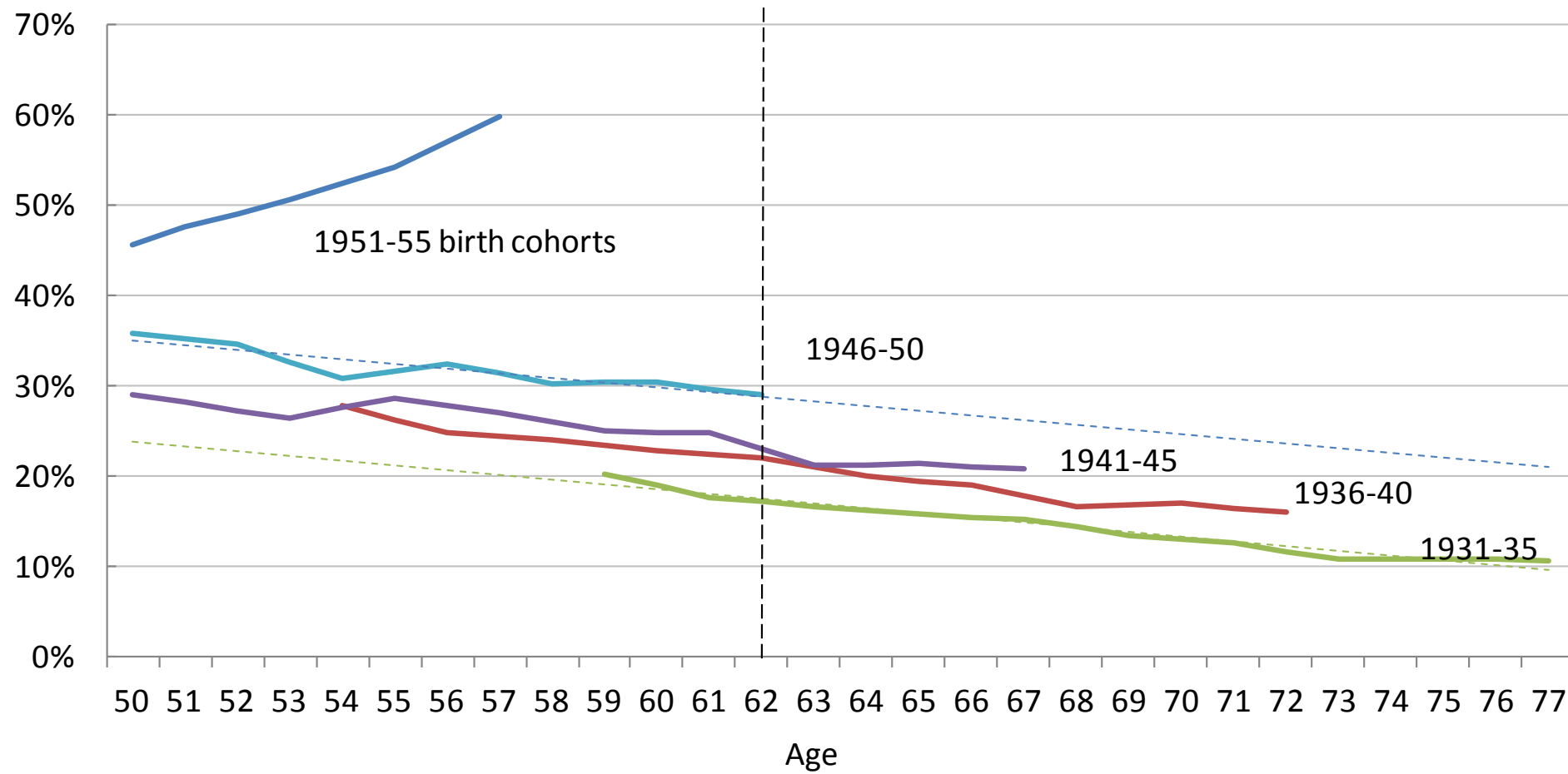
Net Housing Equity (2010)*	15,372	\$135,716	\$248,166	-\$1,900,000	\$10,000,000
Net Housing Equity (2008)*	17,217	\$169,372	\$600,322	-\$557,033	\$34,900,000
Net Housing Equity (change from 2006-2010)*	14,483	-\$55,381	\$847,175	-\$78,500,000	\$8,394,866
Net Housing Equity (measured at age 54)*	9,401	\$113,262	\$220,286	-\$5,206,612	\$7,866,306
Net Housing Equity (measured between ages 57-59)*	15,237	\$117,179	\$199,596	-\$2,734,353	\$12,200,000
Net Housing Equity (measured at age 62)*	11,967	\$113,846	\$331,957	-\$2,795,000	\$13,900,000
Independent Variables					
HH has DB pension	30,671	0.32	0.47	0.00	1.00
HH has DC retirement savings	30,671	0.32	0.46	0.00	1.00
HH is part of 1951-55 birth cohort group	30,671	0.07	0.26	0.00	1.00
Income measured between ages 57-59	15,237	\$50,190	\$65,775	\$0	\$2,532,590
Risk aversion (from 1 lowest to 4 highest degree)	19,271	3.25	1.10	1.00	4.00
Level of education	30,625	2.93	1.44	1.00	5.00
Financial planning period (1:shortest to 5:longest)	24,472	2.95	0.89	1.00	5.00
Est. probability of a household surviving to age 75, normailzed	19,769	1.22	0.32	0.00	1.83
h10atotf_b~s	13,334	0.02	0.12	-1.13	3.00
Measure of retirement satisfaction (1: very -> 3: not at all)	11,344	1.59	0.63	1.00	3.00
Measure of relative ret satisfaction (1: better, -> 5 not as good)	10,152	2.42	1.39	1.00	5.00
HH member has applied for DI at some point in the past	28,381	0.15	0.36	0.00	1.00
HH head is female	30,671	0.57	0.50	0.00	1.00
HH head is black	30,671	0.15	0.36	0.00	1.00
HH head is of other race	30,671	0.05	0.21	0.00	1.00
HH head is of hispanic origin	30,643	0.09	0.28	0.00	1.00

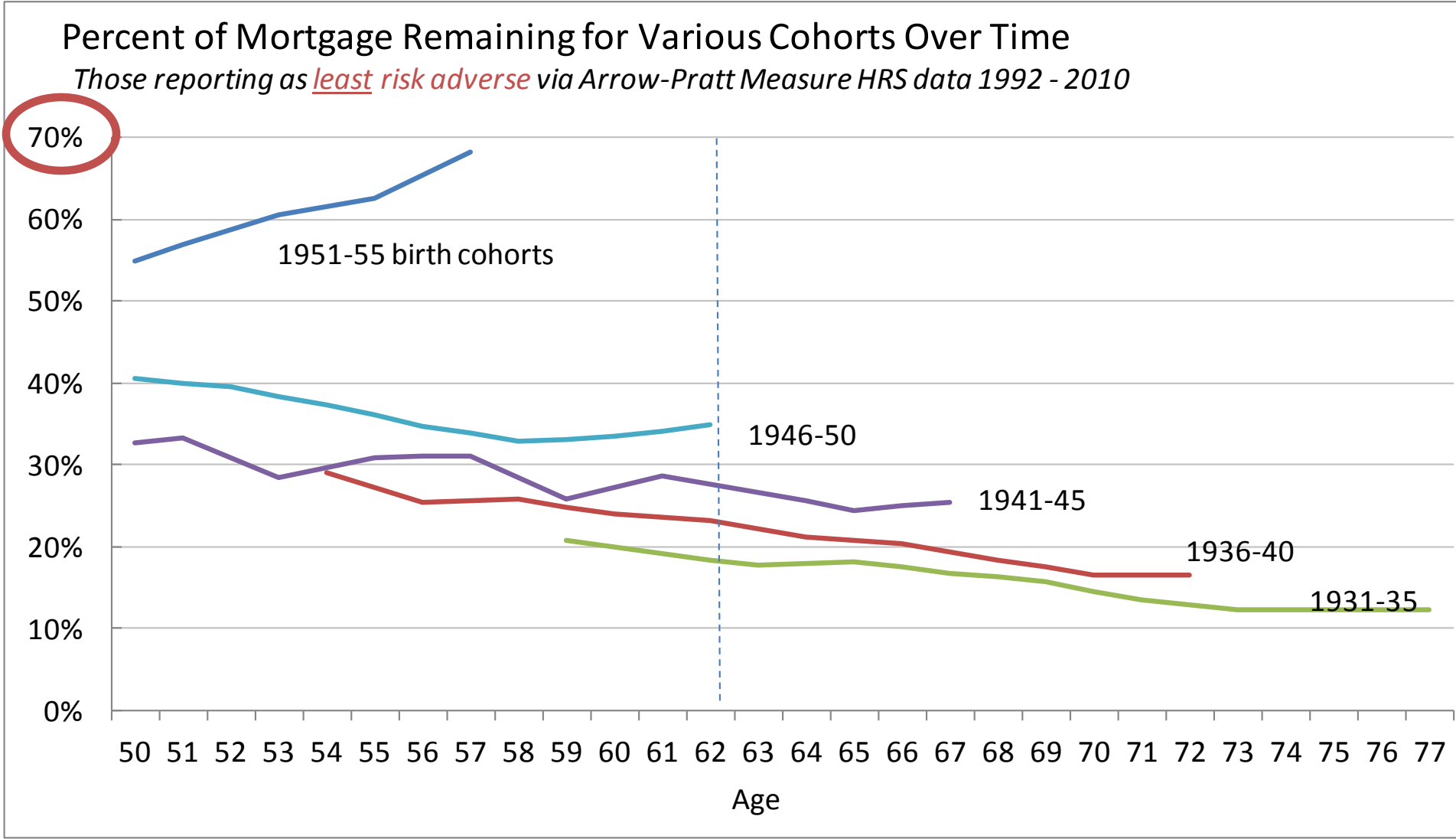
(*): measured in 2010 dollars

Loan-to-value evolution across cohorts

Percent of Mortgage Remaining for Various Cohorts Over Time

HRS data 1992 - 2010

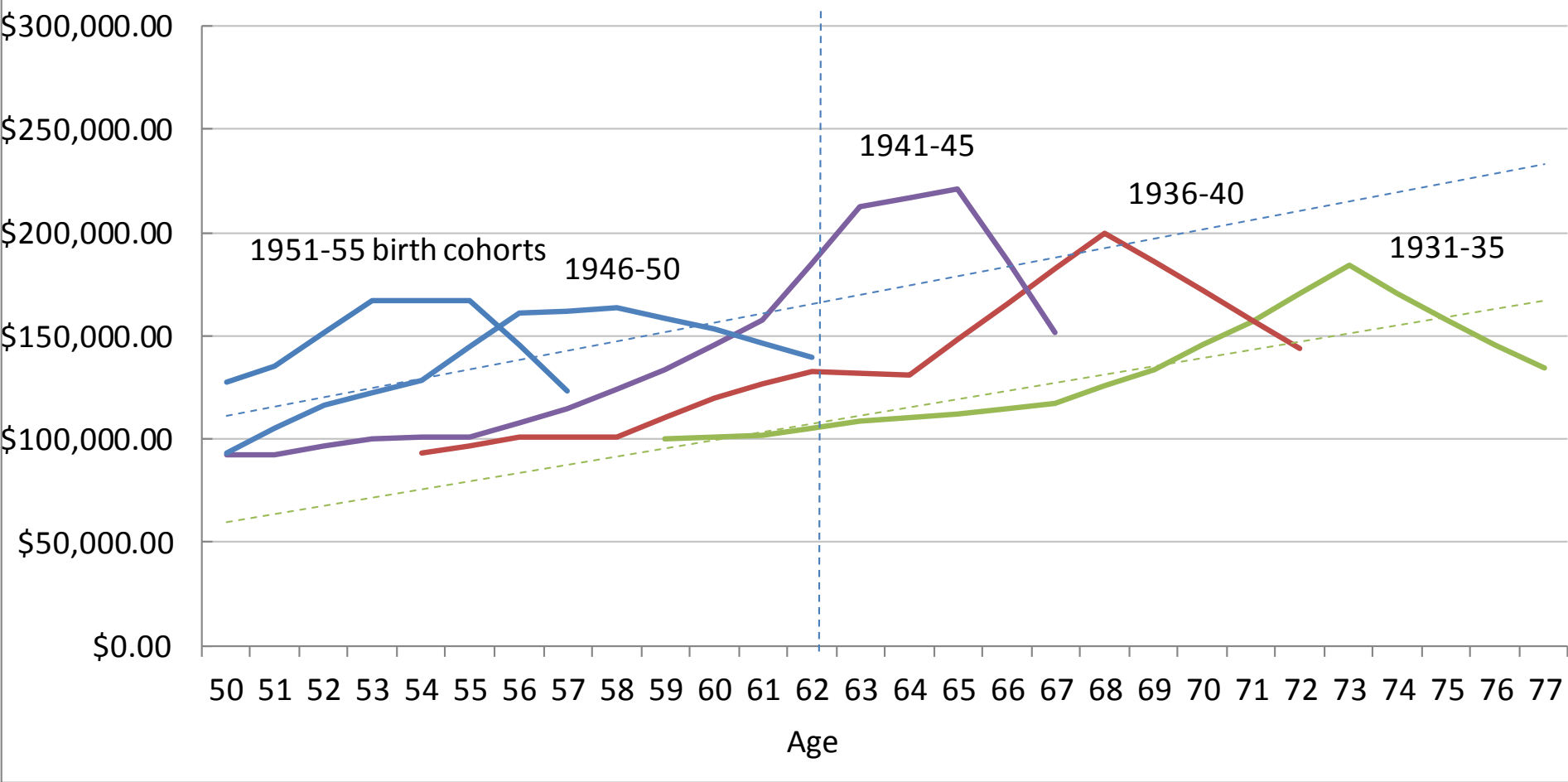




What about home equity?

Net Asset Value of Home for Various Cohorts Over Time

HRS data 1992 - 2010 constant 2010 dollars



regression results

VARIABLES	2010		change 2006 - 2010		Measured between ages 57-59	
	net home eq.	LTV	net home eq.	LTV	net home eq.	LTV
Bonds : financial assets <i>ratio</i>	64,789** (26,359)	-0.0750** (0.0352)	21,311 (69,256)	0.0376 (0.0303)	50,848*** (19,431)	-0.0973*** (0.0360)
HH has DBpension {0,1}	2,677 (7,555)	0.0121 (0.0109)	37,150* (20,059)	0.0102 (0.00946)	-9,276* (5,569)	0.00388 (0.0109)
HH has DC ret svngs {0,1}	-10,492 (7,194)	-0.00390 (0.0102)	-27,269 (19,046)	-0.0104 (0.00888)	-7,675 (5,303)	-0.0134 (0.0103)
1951-55 cohort hh {0,1}	30,381 (18,642)	0.0625** (0.0264)	-48,425 (49,553)	0.0659*** (0.0234)	26,997** (13,743)	0.0545** (0.0270)
Income at ages 57-59 <i>ln(\$2010 value)</i>	19,230*** (3,577)	0.0157*** (0.00506)	-10,650 (9,538)	0.00755* (0.00441)	15,195*** (2,637)	0.0250*** (0.00512)
Risk aversion <i>(1-4) increasing in aversion</i>	-3,402 (2,994)	-0.00392 (0.00426)	2,104 (7,963)	0.00205 (0.00371)	282.0 (2,207)	-0.0113*** (0.00431)
Education <i>(1-5) increasing in level</i>	17,332*** (2,751)	0.0237*** (0.00391)	-4,476 (7,329)	0.00829** (0.00341)	12,539*** (2,028)	0.0270*** (0.00395)
Birth cohort <i>(1931-1955) - continuous</i>	-762.3 (683.0)	0.0112*** (0.000970)	2,605 (1,802)	0.000809 (0.000839)	1,886*** (503.5)	0.00585*** (0.000983)
HH longevity <i>(normed HH max pr live to 75)</i>	36,290*** (13,480)	0.0604*** (0.0194)	9,724 (35,889)	0.00766 (0.0169)	16,228 (9,937)	0.0940*** (0.0197)
retirement satisfaction <i>(1-3) decreasing in satisfaction</i>	-961.8 (6,549)	0.0435*** (0.00959)	34,423** (17,400)	0.0208** (0.00842)	-7,893 (4,827)	0.0303*** (0.00960)
" relative to those before <i>(1-5) decreasing in satisfaction</i>	-12,604*** (2,782)	0.00366 (0.00404)	-3,820 (7,405)	-0.00127 (0.00355)	-7,510*** (2,050)	0.00845** (0.00408)
planning period (proxy for discount) <i>(1-5) increasing in outlook period</i>	24,771*** (4,953)	-0.0222*** (0.00719)	-2,129 (13,232)	-0.0127** (0.00631)	20,006*** (3,651)	-0.0211*** (0.00718)

implications & conclusions

recent cohorts appear quite different from predecessors

- 1- while they enjoy slightly higher net assets
- 2- they endure much higher leverage – cash flow implications
- 3- regressions generally parse across habits & environment
- 4- recession has challenged all, but recent cohorts in particular
- 5- reverse mortgages, cash flow, overall well-being

implications for well being in retirement are somewhat concerning

On behalf of Stephanie Moulton and myself

Please feel free to contact me with any comments,
suggestions and questions.

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