

Demographic Trends, Housing Equity, and the Financial Security of Future Retirees

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Policy Abstract

This paper is part of a continuing series on the changing asset accumulations of individuals as they approach retirement. This study adds to this series an analysis of how home ownership, housing equity and housing value have changed in recent decades and, in particular, how housing equity has changed near retirement age. We find that the age profile of home ownership rates has changed little over the past two decades. This stability suggests that predictions of how demographic trends will affect the number of homeowners can be made with some confidence. On the other hand, there have been very large increases in the value of owner-occupied homes and in home equity over the past two decades, caused by many factors, including but not exclusively demographic trends. This makes forecasting home values and the accumulation of housing equity among individual households more difficult. We did, however, use cohort data to compare the home value, home equity, and mortgage debt of cohorts approaching retirement over the past 20 years, as a basis for projecting forward. Recent retirees have both more home equity and more mortgage debt than past retirees, which suggests that they are likely to hold more home equity at older ages than past retirees. Cohort data also show that over a 20-year period marked by very large increases in home equity, the ratio of home equity to total non-pension wealth remained remarkably stable. This empirical regularity leads us to consider whether projections of the home equity of future retirees might be based on forecasts of the wealth of future households. The recent turmoil in the housing market adds interest to such projections but also draws attention to the large changes in home value and home equity that can occur over a short period of time.