

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

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This paper is part of a continuing series on the changing asset accumulations of individuals as they approach retirement. In previous studies, we considered the implications of the transition from a pension system dominated by employer-provided defined benefit plans to a system dominated by 401(k) plans and personal retirement accounts. We concluded that future retirees in the United States were likely to have substantially greater retirement assets than current retirees. This study adds to this cumulative work an analysis of housing equity, trends in housing equity, and the role of housing equity in contributing to the financial well-being of future retirees.

About 80 percent of households with heads at retirement age own a home. Aside from Social Security and dedicated retirement saving, home equity is the primary asset of a large fraction of these homeowners. Thus the financial security of many older households depends importantly on the value of their homes. Previous studies show that housing equity tends to be withdrawn when households experience shocks to family status like entry to a nursing home or death of a spouse. If, as these analyses suggest, housing equity is conserved for a “rainy day,” then the value of housing can have important implications for the reserve of wealth in the event of such shocks. This study focuses on how home ownership, housing equity and housing value have changed in recent decades, particularly for households near retirement age; and provides suggestive observations on the likely path of housing equity for future retirees.

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. These increases appear to be the result of many factors that affect housing markets, including but not exclusively demographic trends. The wide variation in house values suggests that it is likely to be very difficult to forecast the future value of homes based on the past age profile of home values and projections of future demographic structure.

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. We also simulate the evolution of home values over the course of a typical retirement to explore the relationship between home equity at retirement and home equity at older ages. We compare the home equity of past retirees to that of those who will retire in the near future. 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.

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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. The average of the ratio of home equity to wealth over all households was essentially unchanged over the 1984 to 2004 period. 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.

The full working paper is available on our website, [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html) as paper NB07-06.

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This research was supported by the U.S. Social Security Administration through grant #10-P-98363-4 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.