Housing in Retirement Across Countries

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Saving in Retirement

In the U.S., many people die with positive wealth. Why?

- Longevity risk; medical expense and long-term care cost
- Bequest motives
- Social Security and Medicaid; public care aversion

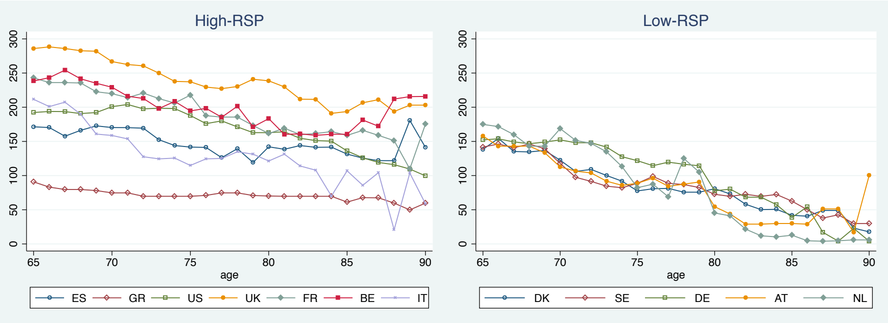
Most study net worth; model a single asset.

- Nakajima and Telyukova (2012): *housing* drives most retiree saving.
- Housing is different from financial assets.
- Changes conclusions regarding motivation for saving.

This Paper: Delve Deeper Using Cross-Country Variation

1. Document cross-country facts on saving in retirement:
   - net worth
   - homeownership rates
   - housing and financial assets
   - debt
   - institutions: social security, public insurance, housing markets, ...
2. United States versus Sweden:
   - U.S.: major risk of large out-of-pocket (OOP) medical and *long-term care* expenses
   - Sweden: universal public insurance of medical and long-term care
3. Quantify the role of spending risk in a model of saving in retirement:
   - How much of the difference in saving patterns is accounted for by differences in risk characteristics?
   - How does risk impact housing and financial assets differently?
4. Why do we care? Policy focus: financial well-being in retirement.
   - Need to understand housing separately from financial wealth late in life.
   - Not only Social Security: policy that impacts housing markets is important.

Median Net Worth: Dissaving Late in Life



Units: thousands 2000 PPP-adjusted US $. Sources: HRS, ELSA, SHARE.

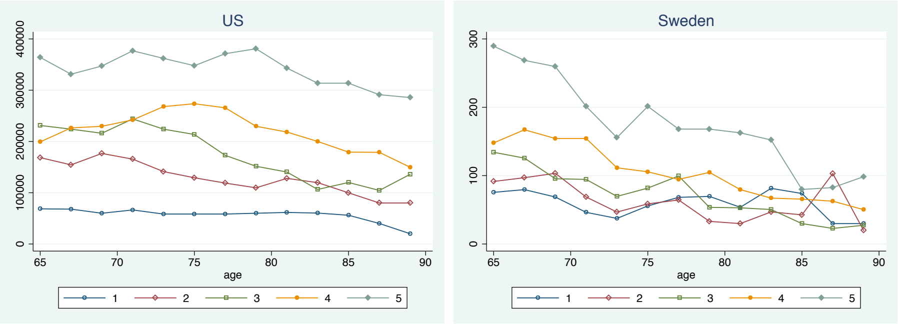
- Retirement saving puzzle (RSP): slow decumulation of net worth – US, UK, France, Belgium, Spain, Italy, Greece.
  Net worth at 86-90 is 65% of net worth at 65-69, in the median.

- More rapid decumulation of net worth: Denmark, Sweden, Netherlands, Austria, Germany.
  Net worth at 86-90 is 21% of net worth at 65-69, in the median.

US (slow dissaving) vs Sweden (fast dissaving): Assets

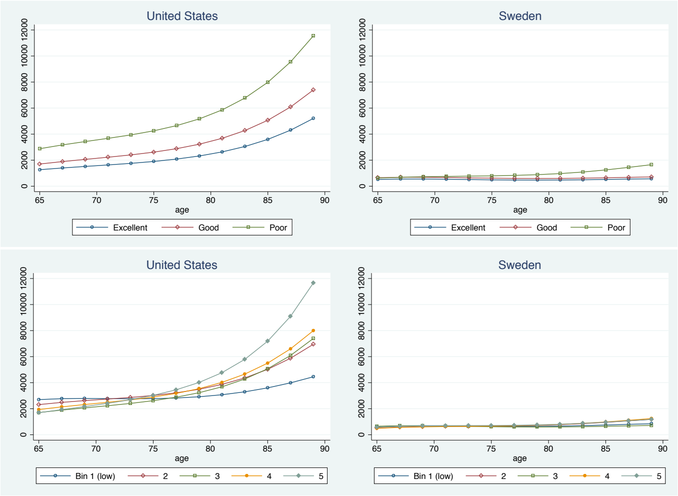
- More rapid spend-down of wealth in Sweden.
- Pronounced differences in financial assets; similar behavior of housing.

US vs Sweden: Net Worth by Income Quintile



- More inequality in the U.S.
- Differences in dissaving pervasive across income groups.

Out-of-Pocket Expenses by Health

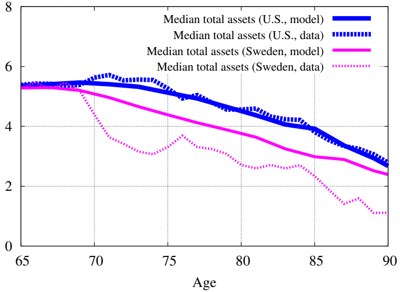


- Sweden: average OOP medical expenses at 1/10 of U.S.
- Little inequality of spending in Sweden.

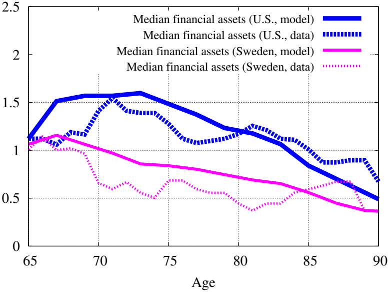
Model Overview

- Life-cycle model of retirees: age 65 up to 99
  - Homeowners and renters
  - Choose consumption, financial saving
  - House: can sell, or borrow against equity, subject to costs/restrictions
  - Bequest motive
- Retirees are uncertain about the future:
  - Health
  - Mortality
  - *Out-of-pocket* medical and nursing home expenses
- Institutions:
  - Pension income (private and public)
  - Government-provided social safety net (Medicaid)
- Model experiment:
  - Estimate parameters so model mimics the U.S.
  - Change OOP risk to look like Sweden
  - Simulate and compare to Swedish data.

Results: Role of Medical Spending Risk – Sweden vs U.S.



(a) Median Net Worth



(b) Median Financial Assets

- 49% of differences in net worth due to different OOP spending risk
- 68% of differences in financial assets due to different OOP risk
- Differences in spending risk do not affect housing assets

Summary

1. Results: U.S. (risk of high OOP cost) vs Sweden (low-cost):
   - low spending risk associated with rapid dissaving of financial assets
   - homeownership and housing assets similar in two countries
   - model: spending risk impacts only financial assets, accounts for 1/2 of difference in net worth
2. Interpretation:
   - Retirees use their financial wealth, but not housing, to insure themselves against future risk of high spending.
   - Why homeownership late in life? – Could be bequest motive, attachment to the house, rent control policies, etc.
3. Why do we care? Policy focus: financial well-being in retirement.
   - Need to understand housing separately from financial wealth late in life.
   - Not only Social Security: policy that impacts housing markets is important.
   - Ongoing work: understanding influence of housing markets across countries; reverse mortgages (Nakajima and Telyukova (2013)).

Nakajima, Makoto and Irina A. Telyukova, "Home Equity in Retirement," 2012. Mimeo, UCSD.

___ **and** ___ , "Reverse Mortgage Loans: A Quantitative Analysis," 2013. Mimeo, UCSD.