Debt Stress and Mortgage Borrowing in Older Age: Implications for Economic Security in Retirement

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Introduction

The amount of financial debt held by older adults in the U.S. has grown substantially over the past decade, both in dollar terms and as a proportion of older adults carrying debt into retirement. The median total consumer debt of older adults in 2016 was $31,300, an increase of 250 percent from 2001 levels (National Council on Aging, 2018). Prior research links higher levels of debt to increased psychological stress and decreased physical health (Drentea & Reynolds, 2015; Dunn & Mirzaie, 2016). For older adults, these effects may be exacerbated by fixed incomes and limited ability to offset higher monthly debt obligations through increased labor supply, with prior research finding that mortgage debt in particular is associated with increased probability of working and delayed probability of claiming Social Security benefits (Butrica & Karamcheva, 2018; Mann, 2011). This study examines the stress associated with different forms of debt held by older adults—including reverse mortgages, a type of debt available only to older adults; and documents the relationships between mortgage debt and older adults' decisions regarding the claiming of Social Security benefits.

While there is a small body of literature that examines the relationship between financial debt and stress, ours is the first study to focus on financial stress among older adults. We pay particular attention to different types and timing of mortgage debt for this population given the prominence of housing wealth as the primary asset in the retirement portfolio for a majority of older adult households, as well as doubling of mortgage debt held by older adults over the past two decades (Goodman et al., 2017; Mayer, 2017; Moulton et al., 2016). Our prior research indicates that the impact of mortgage debt on older adults' credit outcomes varies substantially by type of mortgage

debt, including Home Equity Lines of Credit (HELOCs), cash out refinancing of a first mortgage, and reverse mortgages (Moulton et al., 2016). For this study, we complement data from the Health and Retirement Study (HRS) with our own survey data on reverse mortgage borrowers (Haurin et al., 2017; Moulton et al., 2015; Moulton et al., 2017).

To examine this, we perform three distinct analyses. First, we estimate the relationship between debt, including different types of mortgage debt, and indicators of financial stress for older adults. Second, we identify the relationship between reverse mortgages, a special type of housing debt available only to adults age 62 and older, and financial stress. Finally, we consider how debt-related stress is associated with the decision to claim Social Security Retirement Income early at age 62.

Mortgage Debt and Financial Stress in Older Age

We first examine the relationship between mortgage debt and financial stress using six waves of the Health and Retirement Study (HRS), from 2006-2014. We estimate panel models with random effects, including two measures of financial stress as outcomes in alternate specifications. The first outcome is a behavioral indicator of financial strain added to the HRS in 2006 (Pearlin et al., 1981), measured as the respondent's difficulty to meet monthly bill payments. The second outcome is a perceptual indicator of chronic financial stress added to the HRS in 2006 (Pearlin, 2010; Pearlin et al., 1981), measured as whether the respondent reports experiencing ongoing financial strain for at least twelve consecutive months since the last survey wave, and if yes, how upsetting it has been. Primary explanatory variables include both housing and non-housing debt. Housing debt is measured by the balance on first mortgages, second

mortgages, other home loans, and HELOCs for a primary residence. In our sample, about 80 percent of respondents are homeowners, with 26 percent holding a first mortgage, 7 percent holding a HELOC, and about 2 percent holding a second mortgage or other type of home loan. Non-housing debt includes balances on credit cards and other consumer debt. In our sample, 22 percent of respondents hold credit card debt, and 20 percent hold other debt, such as medical debt or installment loans.

We find that both mortgage and non-housing debt contribute to debt-related stress. However, dollar for dollar, mortgage debt is much less stressful than credit card debt, with the stress resulting from a $1 increase in credit card debt equal to a $14 to $20 increase in mortgage debt, depending on the specification. Of the types of mortgage debt, first mortgages are associated with less stress than HELOCs or other mortgages. In an alternative specification, we compare the stress from mortgage debt held at the age of 65, relative to new mortgage debt incurred after age 65. The coefficients for new and existing mortgage debt not statistically different from one another, indicating they are associated with similar levels of stress.

Reverse Mortgages and Debt Stress

Reverse mortgages are a unique form of mortgage debt available only adults age 62 and older. These mortgages allow homeowners to extract equity in their home without a monthly payment. Principal withdrawn plus interest and fees are added to the balance of the loan, with no repayment typically required until the last borrower exits the home (e.g., upon death) as long as the borrower maintains the property and is current on property taxes and homeowners insurance payments. Money borrowed can be

structured as a line of credit, monthly payment similar to an annuity, or withdrawn as a lump sum – most commonly to payoff existing forward mortgage debt. In the United States, the federally insured Home Equity Conversion Mortgage (HECM) comprises 95% of the market. Federal mortgage insurance on the HECM protects borrowers and investors from negative equity if the balance grows to exceed the value of the home.

To estimate the relationship between HECMs and debt stress, we use primary data from a 2014-2015 survey of adults age 62 and older who considered obtaining a HECM in 2010 or 2011. All 1,088 older adults in our sample received FHA approved counseling regarding a HECM, but only 70 percent originated the loan. Debt stress levels were reported in 2014-15 for all respondents based on a survey question that was previously used by the Consumer Finance Monthly survey (Dunn & Mirzaie, 2016). We supplement the survey data with data on the same individuals from administrative data, including socio-economic characteristics collected at the time of counseling, credit attribute data, and HECM loan data provided by the U.S. Department of Housing and Urban Development.

We use two-stage least squares models, treating the decision to obtain a HECM as endogenous, with instruments including policy limits on HECM loan amounts and the locations of bank branches originating HECMs. All financial variables are treated as endogenous with instruments including lagged values of these variables, as the decision to obtain a HECM in 2010 or 2011 may affect subsequent financial indicators. Our findings indicate that, dollar for dollar, HECM debt is less stressful than forward mortgage debt. However, HECM debt grows over time and thus stress may grow over time. Meanwhile, forward mortgage debt declines over time, lowering debt stress.

Financial Stress and Early Claiming of Social Security Benefits

In our final analysis, we examine the relationship between financial stress and claiming of Social Security benefits. We use data from the 2004-2014 waves of the HRS, and measure early claiming as receiving Social Security income (other than for disability) at age 62. We measure financial stress using lagged (one wave) indicators for difficulty paying bills and experiencing ongoing financial strain for 12 months of longer.

We find that both measures of financial stress are statistically significant and negatively associated with early claims of Social Security Retirement Income. Those who report that it is difficult to pay bills at age 60 are 17 percentage points less likely to claim Social Security at age 62 and those who report a high level of ongoing financial strain are 8 percentage points less likely. Thus, holding constant an older adult's financial and socio-demographic characteristics, those exhibiting greater financial stress are more likely to delay claiming Social Security retirement benefits. There are two possible explanations. In the short run, financially stressed individuals may select to continue working rather than receiving reduced income from Social Security. Over the longer term, individuals reporting a high level of financial stress may delay claiming Social Security benefits so that they receive an increased monthly benefit.

Conclusions

Debt-related stress is a growing concern, given the growing amount of debt held by older adults as they enter retirement. Our research finds a positive relationship between debt and financial stress, with credit card debt being the most stressful. Of

mortgage debt, first mortgages are less stressful than secondary mortgages. We find that reverse mortgage debt is associated with less stress than forward mortgages, indicating that reverse mortgages may alleviate debt-related stress when respondents use the money to pay off consumer debt. Finally, we find that experiencing debt stress is associated with a reduced probability of early claiming of Social Security benefits.

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