

Retirement Implications of Housing Wealth and Spending

Zenaida Samaniego, FSA, MAAA*

* Disclaimer: Any views presented in this paper are solely from the author and do not represent the positions of the author's employer or of any other governmental agency.

Copyright 2009 by the Society of Actuaries.

All rights reserved by the Society of Actuaries. Permission is granted to make brief excerpts for a published review. Permission is also granted to make limited numbers of copies of items in this monograph for personal, internal, classroom or other instructional use, on condition that the foregoing copyright notice is used so as to give reasonable notice of the Society's copyright. This consent for free limited copying without prior consent of the Society does not extend to making copies for general distribution, for advertising or promotional purposes, for inclusion in new collective works or for resale.

Abstract

Like food and clothing, housing or shelter has traditionally been regarded as a basic expenditure of living. Government incentives to promote home ownership, such as affordable housing and deductibility from taxable income of mortgage interest and property taxes, among others, have resulted in growth in the choice of owning a home rather than simply renting. The growth in home equity ushered in a new concept of housing wealth or investment, with homeowners tapping on such equity (i.e., borrowing against equity) to finance other spending. The recent debacle in sub-prime mortgages has exposed many of the dangers lurking behind the treatment of housing, not so much as an investment, but as a source of more borrowing.

This paper will explore comparative trends in home ownership versus renters, the associated levels of housing expenditures, and the extent of equity borrowing where applicable. The ultimate goal is to stress the need in retirement to cover basic housing needs, and the risk of using housing for other purposes beyond those needs.