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Expense on Retirement Security Monograph

Home Equity: A Strategic Resource for Long-Term Services and Supports

By Barbara R. Stucki, Ph.D.

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Introduction

In the wake of the Great Recession, policymakers are becoming concerned that the financial decisions older Americans make will affect their ability to continue to live independently. This is especially true for housing wealth. Will homeowners use this asset to help them pay for assistance as they grow older? Or will they quickly exhaust this resource paying for everyday expenses or leisure activities? With Medicaid as the only safety net for people with disabilities and chronic conditions, there is a lot at stake in this evolving economic behavior.

This paper examines the current and potential role of home equity as a funding source for long-term services and supports (LTSS).[1] With growing fiscal pressure on state and federal budgets, it is becoming increasingly important to consider LTSS financing from the standpoint of private resources as well as government programs. This perspective also allows us to assess some key assumptions and pose new questions:

- Home equity is a significant source of funding for LTSS. How and when is this asset being used to sustain people with disabilities and chronic conditions?
- Not all people who need help due to physical or cognitive limitations face catastrophic expenses. Can home equity fill financial gaps and expand shorter-term options for planning and prevention?
- Home equity represents the largest proportion of retirement wealth for many families. Could shifting homeowner attitudes and needs about accessing this asset have unexpected consequences that might alter their ability to pay privately for assistance?

[1] Long-term services and supports help older adults and people with disabilities with everyday tasks such as bathing, dressing, taking medication, preparing meals, managing money or maintaining a home.

This paper examines the growing body of research on the magnitude, timing and motivations for decumulating housing wealth in retirement. The aim is to provide a more nuanced framework for incorporating housing wealth in efforts to support older people and family caregivers. With the collapse and recent rebound of the housing market, there are also new studies that examine how the use of home equity could change in response to the economic and social pressures of our aging society. The paper examines these data to highlight the growing significance of this often disregarded financial asset.

Homeownership and LTSS

Even before the recent financial crisis, there was a growing awareness that public funds alone will not be enough to deal with our nation's aging population. In the face of growing demand, legislators have been encouraging working-age Americans to plan ahead for their long-term care needs. But with 10,000 boomers now reaching their 65th birthday each day, policymakers are starting to consider more immediate financing solutions such as home equity.

Much of this interest is being driven by awareness that the personal residence is a more cost-effective environment for delivering services and supports than the nursing home. In addition, nearly 80 percent of Americans indicate they want to stay in their own homes even as their health declines.[2] For those who consider moving, finding alternative housing can also be difficult. According to a MacArthur Foundation survey, two-thirds of Americans believe that older people will face challenges finding housing that is affordable and meets their physical needs as they age.[3]

The house is not just a place to live; it is also the most widely held asset in the United States. According to the 2011 American Housing Survey (AHS), there are 20.2 million older homeowner households, represented 81 percent of all households headed by someone age 65 or older. Median home value among these households is $150,000.

[2] Keenan, T.A. (2010). *Home and Community Preferences of the 45+ Population*. Washington, D.C.: AARP.
[3] Hart Research Associates (2014). *How Housing Matters: The Housing Crisis Continues to Loom Large in the Experiences and Attitudes of the American Public*. Chicago Illinois: MacArthur Foundation.

In 2011, about 4.7 million (23 percent) of older homeowner households included at least one member with a physical disability, based on the AHS. Almost 6 percent of older homeowner households (1.4 million) had difficulty with self-care. Those who cannot afford LTSS may qualify for Medicaid, a public program that is funded jointly by federal and state governments and administered by the states. Since Medicaid is a means-tested program, however, eligibility standards for people who own a home are complex and have evolved over time.[4] They also vary depending on whether the beneficiary lives in the home or has moved to a care facility. Currently, those with high-value homes are ineligible for Medicaid LTSS, unless certain family members live in the home, or the homeowner takes out a mortgage to reduce the unencumbered value of the home.[5]

How many older homeowners receive assistance with LTSS from Medicaid? A review of 540 Medicaid nursing home applications found that one-quarter of applicants owned homes.[6] About 61 percent of these homeowners were single. The median home value was $52,954, and ranged from less than zero (debt on the home) to $535,500. The proportion of community-dwelling Medicaid beneficiaries who owned a home may be even lower. According to the Congressional Budget Office, only about 11 percent of people age 65 and older who live in private homes (either owned or rentals) are enrolled in Medicaid.[7] An analysis of data from the National Long Term Care Survey found that among older homeowners who were using paid care, only 11.8 percent reported that they were receiving assistance with these expenses from Medicaid.[8]

Part of the challenge for older people is that they typically live in detached dwellings, primarily single family homes (80 percent), or manufactured homes, mobile homes or trailers (8 percent). The cost of maintaining a house, along with property taxes and insurance, often exceeds the

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[4] For a detailed description of Medicaid rules for the home, see: ASPE (2005). *Medicaid Treatment of the Home: Determining Eligibility and Repayment for Long-Term Care*. Washington, D.C.: Office of Assistant Secretary for Policy & Evaluation. Medicaid Eligibility for Long-Term Care Benefits Policy Brief #2

[5] In 2014, individuals with home equity over $543,000 are ineligible for Medicaid. States have the option to raise this limit to $814,000.

[6] GAO (2007). *Few Transferred Assets before Applying for Nursing Home Coverage; Impact of Deficit Reduction Act on Eligibility Is Uncertain*. Washington, D.C.: General Accounting Office.

[7] CBO (2013). *Rising Demand for Long-Term Services and Supports for Elderly People*. Washington, D.C.: Congressional Budget Office.

[8] Pam Doty, pers. comm. Based on an analysis of data from the 2004 National Long Term Care Survey. Some NLTCS respondents may have under-reported their use of Medicaid-funded home care.

income and resource limits that would qualify these homeowners for Medicaid. This is especially problematic for single homeowners, who can only keep $2,000 in assets. With median incomes of $35,000 based on the AHS, many older homeowners are unlikely to impoverish themselves paying for community services, which would allow them to qualify for Medicaid under spend-down rules.

Role of Home Equity as a Source of Funding for LTSS

Although Medicaid has evolved into the primary public payer for LTSS, the available evidence suggests that this program may provide only a limited safety net for older homeowners. It is therefore important to examine housing wealth as a private resource that older people can use to cope with declining health and ability. This is challenging because there is little direct information available about older homeowners and decisions they make when paying for LTSS. Even with the home equity test that is now required for Medicaid eligibility under the Deficit Reduction Act (DRA), only 37 states require Medicaid applicants to provide documentation of a primary residence.[9] Among these states, only three require documentation on the value of the home or an applicant's equity interest in the home.

This study will help to fill the gap by examining a wide array of evidence on the liquidation of home equity for LTSS. The analysis starts by examining national expenditures for LTSS. In 2011, total public and private expenditures for people age 65 and older who needed LTSS reached an estimated $124 billion ($192 billion including Medicare expenditures for nursing home and home health care).[10] Private spending on LTSS accounted for about 22 percent of this total. The magnitude of out-of-pocket spending varies by the setting of care.

Expenditures for community-based LTSS totaled $26 billion in 2011. Out-of-pocket payments by older people and their caregivers accounted for 11.5 percent of this spending ($3 billion). About 41 percent of people age 50 and older who live in the community and need assistance rely

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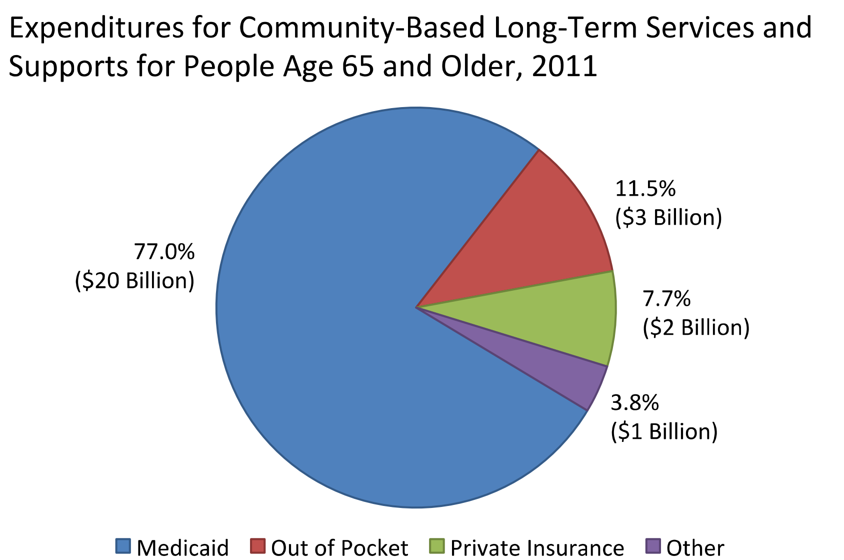
[9] GAO (2012). *Information Obtained by States about Applicants' Assets Varies and May Be Insufficient*. Washington, D.C.: General Accounting Office.

[10] CBO (2013). *Rising Demand for Long-Term Services and Supports for Elderly People*. Washington, D.C.: Congressional Budget Office. Medicare expenditures were excluded from this analysis of LTSS because this program only covers short-term stays in skilled nursing facilities and home health visits for people who need to recover from acute conditions that also require medical care.

on some paid care.[11] The small proportion of private spending, relative to Medicaid expenditures, reflects the fact that most older people who live in the community also receive some help from family and friends. There are over 42 million family caregivers in the United States who provide assistance to adults with limitations in daily activities.[12]

Figure 1



Includes the cost of assistive services provided all non-institutional settings, including private homes, adult day care facilities, and facilities that are not nursing homes. Medicaid includes federal and state expenditures. Out-of-of pocket includes beneficiaries' cost sharing for Medicaid.

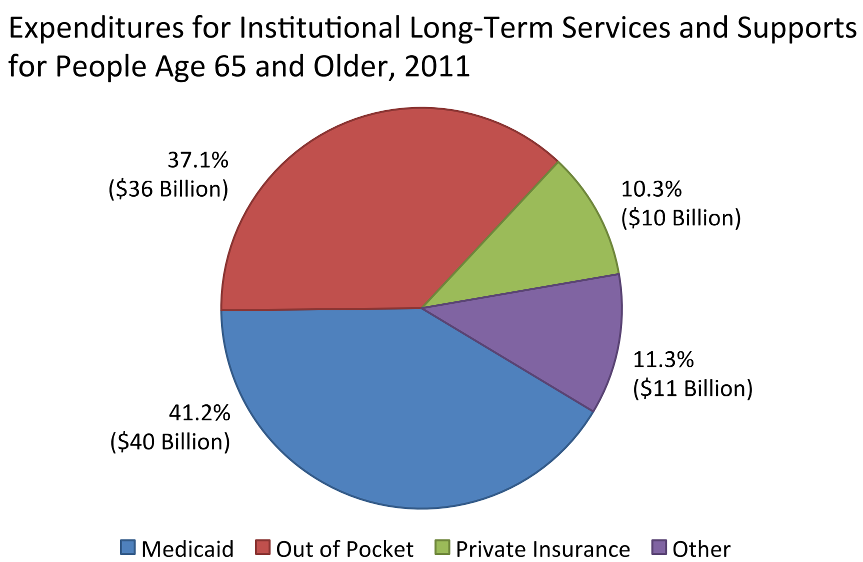
Source: Congressional Budget Office (2013). *Rising Demand for Long-Term Services and Supports for Elderly People*. Washington DC: CBO. (Exhibit 4)

Expenditures for institutional care are substantial, totaling $36 billion in 2011. Over 37 percent of these costs were borne by families who paid out of pocket for care. On an individual level, private pay residents typically spent $22,304, with 10 percent paying at least $61,320.[13] Total out-of-pocket expenditures also include copayments for residents who become eligible for Medicaid when they spend down their financial resources paying for institutional care. About 22

[11] National Alliance for Caregiving (2009). *Caregiving in the U.S. 2009*. Bethesda, Maryland: National Alliance for Caregiving.
[12] Feinberg, L., S.C. Reinhard, A. Houser and R. Choula (2011). *Valuing the Invaluable: 2011 Update—The Growing Contributions and Costs of Family Caregiving*. Washington, D.C.: AARP.
[13] Noel-Miller, C. (2013). *Medicare Beneficiaries' Out-of-Pocket Spending for Health Care*. Washington, D.C.: AARP.

percent of new residents pay privately when they enter a nursing home.[14] Due to the high cost of nursing homes ($212 median daily rate for a semi-private room), most residents rapidly qualify for Medicaid assistance.[15] Medicaid paid for about 41 percent of care provided in institutional settings.

Figure 2



Includes the cost of stays, including room and board and assistive services in skilled nursing facilities, nursing homes, and nursing facilities housed inside continuing care retirement communities. Medicaid includes federal and state expenditures. Out-of-of pocket includes beneficiaries' cost sharing for Medicaid.
Source: Congressional Budget Office (2013). *Rising Demand for Long-Term Services and Supports for Elderly People*. Washington DC: CBO. (Exhibit 4)

One of the greatest fears of older Americans is impoverishing themselves and ending up in a nursing home. This risk is often a reality for those who need a high level of assistance due to a serious disability or chronic condition. A recent national survey by AARP found that average nursing home costs would consume 246 percent of the income of the typical older family.[16] Decumulation can also be driven by out-of-pocket medical expenses. Medicare covers up to 100

[14] Kaiser Family Foundation (2013). *Overview of Nursing Facility Capacity, Financing, and Ownership in the United States in 2011*. Washington, D.C.
[15] Genworth (2014). *Genworth 2014 Cost of Care Survey*. Richmond, Virginia: Genworth Financial Inc.

[16] Reinhard, S.C., E. Kassner, A. Houser, K. Ujvari, R. Mollica and L. Hendrickson (2014). *Raising Expectations*. Washington, D.C.: AARP.

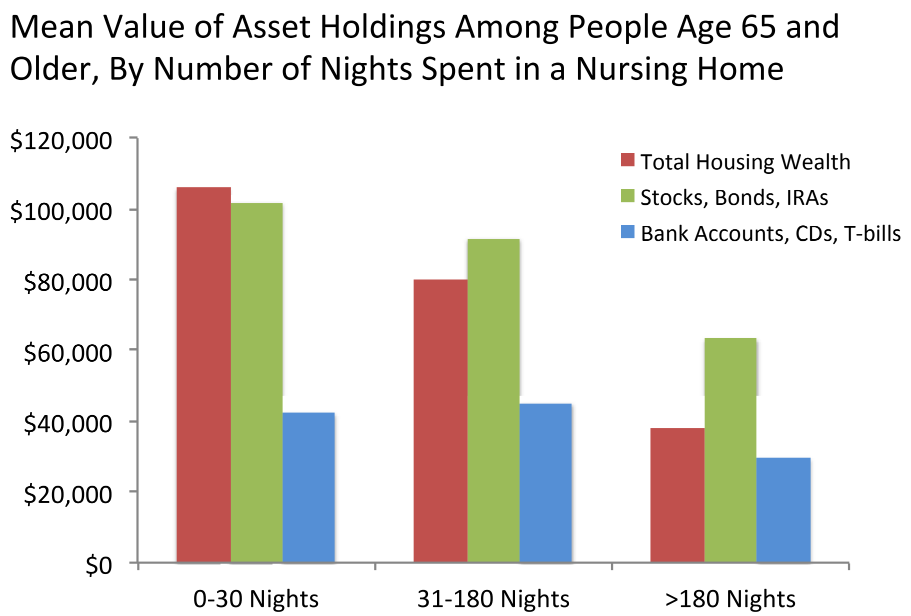
days of skilled nursing or rehabilitation care in a certified facility after a qualifying hospital stay. However, there is a sizable copay for stays longer than 20 days ($152 per day in 2014).[17]

Seniors who pay privately for nursing home care rapidly deplete their financial resources (Figure 3). Housing wealth tends to be drawn down at a faster rate than investments or other savings as the length of stay in the institution increases. These findings suggest that residents are selling the house, either by choice or because of Medicaid requirements, as their intent or ability to return back to the community diminishes. Home equity can also serve as financial buffer to mitigate the risk of impoverishment. Nursing home residents whose financial assets include a home are significantly less likely to spend down to the point where they need to turn to public assistance compared to residents with little or no housing wealth.[18]

Figure 3

[17] These limits apply to Original Medicare plans. Costs may be different or there may be additional coverage for those who have a Medigap (Medicare Supplement insurance) policy with the Original Medicare plan or are in a Medicare Advantage plan.

[18] Wiener, J.M., W. Anderson, G. Khatutsky, Y. Kaganova and J. O'Keeffe (2013). *Medicaid Spend Down: New Estimates and Implications for Long-Term Services and Supports Financing Reform*. Washington, D.C.: RTI International.



Total number of nights calculated based on nights spent by an individual in a nursing home or long–term care facility between 2008-2010 (Health and Retirement Study). Values in 2010 dollars. Housing wealth includes value of the primary residence minus mortgages and home loans.

Source: Banerjee S (2012). *Effects of Nursing Home Stays on Household Portfolios*. EBRI Issue Brief No. 372.

Direct evidence that older people use home equity to pay privately for nursing home care comes from the residential care industry. About 70 percent of residents in assisted living and independent living move to these settings from a private home or apartment.[19] Many sell their house and purchase an annuity with the proceeds to provide additional income.[20] The significance of housing wealth as a source of financing for residential care is also reflected in the downturn this industry experienced after the collapse of the housing bubble. In 2008, assisted living facilities in some regions saw vacancy rates rise by 20 percent or more. Much of this short-lived decline was attributed to seniors being unable to sell their homes in a depressed real

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[19] AAHSA, AHSA, ALFA, NCAL, and NIC (2009). *2009 Overview of Assisted Living*. American Association of Homes and Services for the Aging, American Seniors Housing Association, Assisted Living Federation of American, National Center for Assisted Living, and National Investment Center for Seniors Housing & Care Industry.

[20] Coe, N.B., and A.Y. Wu (2012). *Financial Well-Being of Residents in Seniors Housing and Care Communities: Evidence from the Residents Financial Survey*. Working Paper 2012-7. Chestnut Hill, Massachusetts: Center for Retirement Research at Boston College.

estate market.[21] The cost of room and board, and in many states also LTSS services, are not typically covered by Medicaid.

Research has found little evidence that older people liquidate home equity to pay for community-based services. Rates of homeownership remain high in later life, from 82 percent among those age 65 to 74, to 79 percent among owners age 75 and older, based on the AHS. To access their housing wealth without selling the home, older people may need to take out some type of home loan. This is not a common choice. In 2011, only about 5 percent of households headed by someone age 65 and older had an outstanding home equity line of credit loan (HELOC), based on the AHS. However, it is interesting to note that older homeowners represented about 19 percent of all 4.76 million households with an outstanding HELOC. These loans are most commonly used for major purchases such as home renovations or repairs, as well as to support consumption and lower debt. Only 4 percent of borrowers use these loans to pay for education or medical expenses.[22]

Reverse mortgages offer another way for people age 62 and older to access home equity so they can stay at home.[23] Since the inception of the HUD Home Equity Conversion Mortgage (HECM) program that began in 1989, more than 660,000 reverse mortgage loans have been made.[24] A survey by AARP found that, in 2006, about 28 percent were motivated by concerns about out-of-pocket expenses for health care and LTSS.[25] However, only 5 percent of these borrowers used their loan funds for immediate health-related needs. Some research shows that Medicaid could realize savings if older homeowners liquidated home equity with a reverse mortgage for LTSS in the community.[26]

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[21] Healy, J. (2008). Unable to Sell Homes, Elderly Forgo Move to Assisted Living. *New York Times*, published Nov. 21, 2008. Retrieved from: http://www.nytimes.com/2008/11/22/us/22home.html?pagewanted=all&_r=0.
[22] Cavanaugh, L. (2007). *Home Equity Lines of Credit—Who Uses This Source of Credit?* Census 2000 Brief C2KBR-37.
[23] For a detailed review of these loans, see: Consumer Financial Protection Bureau (2012). *Reverse Mortgages*. Washington, D.C.: Author.
[24] Redfoot, D. (2011). *How Recent Changes in Reverse Mortgages Impact Older Homeowners*. Washington, D.C.: AARP.
[25] Redfoot, D.L., K. Sholen and S.K. Brown (2007). *Reverse Mortgages: Niche Product or Mainstream Solution?* Washington, D.C.: AARP.
[26] Stucki, B. (2005). *Use Your Home to Stay at Home*. Washington, D.C.: National Council on Aging.

Short-Term Planning for LTSS

Much of the recent debate surrounding home equity has focused on whether older people will use this asset for LTSS. Given the high level of out-of-pocket expenditures for nursing home care, it is equally important to examine when and how older people draw down housing wealth. Economic research indicates that liquidation of the house is often triggered by significant life changes such as widowhood or declining health.[27] Using longitudinal data from the Health and Retirement Survey, economists have tracked homeownership and modeled the decumulation of this asset among different cohorts over 20 years. They find that home equity is treated differently than other, more liquid, assets, which are accumulated during a person's working years and then consumed in retirement to sustain lifestyle. Several studies indicate that older people keep personal wealth tied up in their homes as precautionary savings against catastrophic costs in later life.[28]

Policymakers may be able to leverage this desire to preserve home equity as a way to help the many Americans who have not planned ahead for LTSS. In promoting the use of this asset, it will be important to consider the trade-offs of maintaining the status quo, where older people save housing wealth for nursing home care, or encouraging a more gradual drawdown of home equity to sustain older people in the community.

Even small amounts of additional cash could increase the purchasing power of older people, which could help them avoid unhealthy lifestyle choices such as turning off lights, lowering the heat, limiting their intake of fresh fruits and vegetables, and delaying home repairs. Such

[27] See, among others, Fisher, J.D., D.S. Johnson, J.T. Marchand, T.M. Smeeding and B.B. Torrey (2007). No Place Like Home: Older Adults and Their Housing. *Journal of Gerontology: Social Sciences* 62B(2): S120-S128; Coile, C., and K. Milligan (2006). *How Household Portfolios Evolve After Retirement: The Effect of Aging and Health Shocks*; Lee, J., and H. Kim (2003). An Examination of the Impact of Health on Wealth Depletion in Elderly Individuals. *Journal of Gerontology: Social Sciences* 58(2): S120-S126.

[28] Poterba, J.M., S.F. Venti and D.A. Wise (2011). *The Composition and Draw-Down of Wealth in Retirement.* Cambridge, Massachusetts: National Bureau of Economic Research. Working Paper 17536; Venti, S.F. and D.A. Wise (2004). Aging and Housing Equity: Another Look. In Wise, D.A. (ed.), *Perspectives on the Economics of Aging*, pp. 127-175. Chicago, Illinois: University of Chicago Press.

economizing can significantly increase the chances of a serious accident or illness. Social isolation, along with loneliness and depression, are also strong predictors of nursing home placement.[29] There are gaps in private insurance coverage and public programs, especially for transportation, assistive technology and non-medical supplies. Caregivers typically pay between $5,500 and $12,000 annually to cover these expenses out-of-pocket, which can be a substantial financial burden.[30]

Engaging homeowners also offers an opportunity to better align the use of private resources with state and federal efforts to expand community-based LTSS options. The Affordable Care Act also supports many initiatives to increase prevention, promote disease self-management, and better coordinate care for people with chronic health conditions. Under this new system, the family home is an important site for the delivery of assistance and medical care for older people. However, older people often do not keep their homes in good repair, and may even decide to liquefy some of their housing wealth by saving on the costs of maintenance.[31] Concern about safety is an important reason why families decide to move a senior into the nursing home. While selling the home may the right choice in some cases, using a portion of home equity for home repairs and "smart home" technology can provide a safer and more appropriate environment for aging in place.[32]

To achieve these goals, policymakers may need to evaluate the behavior of middle-income homeowners, to assess whether their concerns about Medicaid estate recovery discourages them from using housing wealth to support aging in place. For example, a beneficiary's family might be less inclined to keep up the home if they are concerned that they will not inherit the house or all of its value.

Homeowners may also decide to transfer title to the home to family members to protect this asset from estate recovery. There is some research that suggests that less than 5 percent of older

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[29] Harris, Y., and J.K. Cooper (2006). Depressive Symptoms in Older People Predict Nursing Home Admission. *Journal of the American Geriatrics Society* 54 (4): 593–597.
[30] Evercare in Collaboration with the National Alliance of Caregivers (2007). *Family Caregivers: What They Spend, What They Sacrifice*. Minnetonka, Minnesota: Author.
[31] Davidoff, T. (2006). Maintenance and the Home Equity of the Elderly. Berkeley, California: Haas School of Business, University of California at Berkeley.
[32] Golant, S.M. (2004). Aging in Place: Are We Romancing the Home? *CSA Journal* 23: 11-15.

nursing home residents make such transfers.[33] There is also anecdotal evidence that more affluent homeowners take steps to protect this asset long before they need assistance. These precautionary estate-planning strategies usually allow an older person to continue living in the home. Locking up their most valuable asset may also increase the financial vulnerability of homeowners who can no longer draw on home equity to pay for help at home or the out-of-pocket expenses of family caregivers. Researchers have found that functionally impaired seniors who rely solely on family caregivers and Medicare home care services are at significantly higher risk of entering a nursing home than those who can get additional services and supports.[34]

Growing Pressure on Housing Wealth

As public expenditures for LTSS continue to rise, organizations across the political spectrum are looking more closely at housing wealth as a potential resource for aging in place.[35] Some members of the Commission on Long-Term Care also proposed the use of reverse mortgages as a way to strengthen LTSS financing through private options.[36] The pace of change in attitudes toward home equity has been slow, and most of the discussion revolves around the limitations of reverse mortgages. In addition, few policymakers are considering what could happen in the future if boomers tap this asset for everyday consumption rather than saving it to pay for LTSS expenses later in life.

The likelihood that older people might need to tap housing wealth increases with growing economic insecurity. Even before the Great Recession, many Americans were financially unprepared for retirement. Only 18 percent of workers and 28 percent of retirees are very confident that they will have enough money for a comfortable retirement.[37] With the recent downturn in the U.S. economy, family finances are taking an even harder hit (Figure 4).

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[33] GAO (2007). *Few Transferred Assets before Applying for Nursing Home Coverage; Impact of Deficit Reduction Act on Eligibility Is Uncertain*. Washington, D.C.: General Accounting Office.

[34] Long, S.K., K. Liu, K. Black, J. O'Keeffe and S. Molony (2005). Getting By in the Community: Lessons from Frail Elders. *Journal of Aging and Social Policy* 17(1): 19-44.

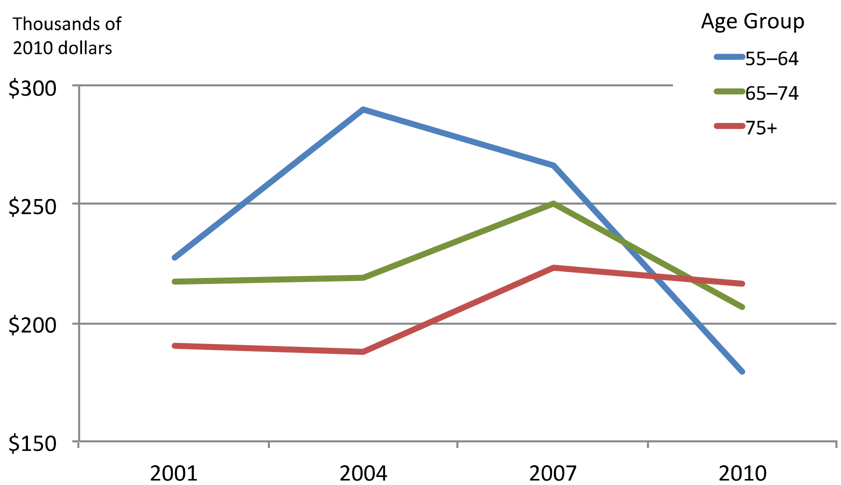
[35] See, for example: BPC Housing Commission (2013). *Housing America's Future: New Directions for National Policy*. Washington, D.C.: Bipartisan Policy Center; Calmus DR (2013). *The Long-Term Care Financing Crisis*. Washington, D.C.: Heritage Foundation Discussion Paper No. 7.

[36] Commission on Long-Term Care (2013). *Report to Congress*. Washington, D.C.: U.S. Senate Commission on Long-Term Care.

[37] Helman, R., A. Nevins, C. Copeland and J. VanDerhei (2014). *The 2014 Retirement Confidence Survey: Confidence Rebounds—for Those with Retirement Plans.* Washington, D.C.: EBRI Issue Brief 397. March 2014.

Households headed by people ages 55 to 64 (which includes most boomers), have seen their net worth fall by almost half (49.2 percent).[38] Those who are in the early stages of retirement (ages 65 to 75) also experienced a decline in wealth of 13.8 percent. Loss of housing wealth is an important factor in the economic outcomes of these age groups, though younger homeowners will benefit from the rebounding housing market.[39] Families headed by a person age 75 and older lost very little of their net worth, in part because relatively few have a mortgage on their home.

Figure 4. Change in Median Net Worth Among Older Families From 2001 to 2010



Source: Bricker J et al. (2012). *Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances*. Federal Reserve Bulletin Volume 98 Number 2.

It is still too early to determine whether deficits in family budgets will change the timing and use of housing wealth. Nonetheless, consumer surveys conducted by the financial services industry show that there is receptivity to using the house to support consumption in retirement:

- Financial Freedom—Among homeowners age 62 to 75, 14 percent are at least somewhat likely to use a home equity loan or a reverse mortgage to access the wealth tied up in their home. About one-quarter are undecided (neither likely nor unlikely response).

[38] Bricker, J, A.B. Kennickell, K.B. Moore and J. Sabelhaus (2012). *Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances*. Federal Reserve Bulletin 98(2). June 2012.

[39] Emmons, W.R., and B.J. Noeth (2013). Why Did Young Families Lose So Much Wealth During the Crisis? The Role of Homeownership. *Federal Reserve Bank of St. Louis Review*, January/February 2013, 95(1), pp. 1-26.

Fourteen percent are willing to move into a smaller home to supplement their retirement income. [40]

- Fidelity Research Institute—Thirteen percent of retirees have used the equity in their home to supplement their retirement income, and an additional 7 percent plan to do so. Twenty-one percent of pre-retirees also plan to use their home equity for retirement income, with another 20 percent still undecided. Top reasons for accessing home equity include covering day-to-day expenses, housing expenses and medical bills. [41]

- Insured Retirement Institute—When asked about expected sources of income in retirement, 9 percent of pre-retirees age 50-65 indicated that the sale or refinancing of their home would be a major source, while 19 percent said it would be a minor source.[42]

These findings suggest that a segment of older homeowners, especially boomers, already see their home as a retirement resource. A sizable group is unsure about the role that this asset will play in their finances as they grow older.

Recent borrowing behavior also supports the notion that under certain circumstances, homeowners are willing to access housing wealth. Between 2000 and 2006, when U.S. house prices rose dramatically, homeowners of all ages used their house to fund additional consumption at a high rate.[43] Households typically tapped the equity in their homes through cash-out refinancing or HELOCs. There was also an upsurge in reverse mortgage borrowing during this period. Most of these borrowers were interested in enhancing the quality of their life (73 percent), rather than paying for health expenses (28 percent).[44] Boomers represent a

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[40]Harris Interactive (2007). *Senior Sentiment Survey 2007*. Irvine, California: Financial Freedom Senior Funding Corporation.

[41] Fidelity Research Institute (2007). *The Role of Real Estate in Funding Retirement*. Boston, Massachusetts: Fidelity Research Institute.

[42] Insured Retirement Institute (2011). *Boomer Expectations for Retirement*. Washington, D.C.: Insured Retirement Institute.

[43] Remarks by Chairman Alan Greenspan at the annual convention of the Independent Community Bankers of America, Orlando, Florida. March 4, 2003

[44] Redfoot, D.L., K. Sholen and S.K. Brown (2007). *Reverse Mortgages: Niche Product or Mainstream Solution?* Washington, D.C.: AARP.

significant proportion of these new borrowers. Among those who attended reverse mortgage counseling in 2010, almost half (46 percent) were under the age of 70.[45]

Consumer receptivity to drawing down home equity is being reinforced by financial planners and economists who see this asset as a resource that can fill gaps in retirement income. Some are encouraging homeowners to draw down this asset gradually to increase financial security.[46] Some financial advisers are developing new portfolio management strategies to help older homeowners use home equity to increase annuitized income by deferring Social Security payments, and to manage retirement income withdrawals.[47] If these planning approaches become widespread, we could see an acceleration in the use of limited housing wealth before the need for LTSS arises.

Implications

The house is a unique and complex asset that serves as both a place to live and as a store of wealth. It is also becoming the primary setting for the delivery of health care and LTSS in later life. Until recently, however, there has been little discussion about using home equity to pay for LTSS beyond reverse mortgages. This situation partially reflects the limited amount of research that examines the drawdown of this asset in retirement. Equally significant is the level of polarization on the extent to which individuals and families should be responsible for the cost of these services and supports. For those seeking comprehensive solutions, home equity is also not going to be the magic bullet, since not everyone owns a home nor has a large amount of housing wealth.[48]

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[45] MetLife Mature Market Institute (2012). *Changing Attitudes, Changing Motives: The MetLife Study of How Aging Homeowners Use Reverse Mortgages*. Westport, Connecticut: Metropolitan Life Insurance Company.

[46] MetLife Mature Market Institute (2010). *Tapping Home Equity in Retirement*. Westport, Connecticut: MetLife; Munnell, A.H., N.S. Orlova and A. Webb (2012). *How Important is Asset Allocation to Financial Security in Retirement?* Working Paper 2012-13. Chestnut Hill, Massachusetts: Center for Retirement Research at Boston College.

[47] Sacks, B.H., and S.R. Sacks (2012, February). Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income. *Journal of Financial Planning*; Salter, J., S. Pfeiffer and H. Evensky (2012). Standby Reverse Mortgages: A Risk Management Tool for Retirement Distributions. *Journal of Financial Planning*.

[48] Jacobson, G., J. Huang, T. Neuman and K.E. Smith (2014). *Income and Assets of Medicare Beneficiaries, 2013 – 2030*. Henry J. Kaiser Family Foundation Issue Brief, January 2014.

Even with limited data, it appears the house is already an important part of the LTSS financing mix. Many older homeowners today save this asset to self-insure against the high cost of nursing home care. As more Americans view their house as a source of cash, rather than just as a place to live, there is also an opportunity to encourage the use of home equity as part of shorter-term planning strategies that will allow them to stay in their homes longer. Timely use of housing wealth could offer more choice and control than insurance-based mechanisms that provide protection only against catastrophic expenses. Older homeowners will also need additional consumer education to ensure that they understand the consequences of tapping this asset at different stages of life.

There is some evidence that boomers are receptive to the idea of using home equity for everyday expenses and health-related costs. To promote this new behavior, it would help to re-examine Medicaid requirements from the perspective of beneficiaries who own a home. Currently, homeowners may find it easier to obtain Medicaid-funded care in an institution, rather than in the community, because asset limits for public assistance are too low to maintain their residence. There may also be more effective ways to protect family members from hardship, and support seniors, by providing beneficiaries more options than just transferring this asset. Given the growing financial and emotional strain of family caregiving, rewarding caregivers with the beneficiary's home may be too little too late.

Looking ahead, increasing economic insecurity and the aging of the boomer generation could cause rapid shifts in the use of housing wealth. Many have been hard hit by the Great Recession, and are struggling to pay for everyday expenses, as well as assisting adult children and supporting elderly parents. The decisions that these aging homeowners make today will have long-term consequences. Although there may be disagreement about the role of home equity, it will be important to pay attention to this rapidly evolving economic behavior, to avoid being blindsided by unexpected shifts in resources for LTSS financing.