How are Asset Holdings Different between Non-homeowners and Homeowners among Near-retirees?

Tiffany A. Smith, Utah State University[1]
Yoon G. Lee, Utah State University[2]

Introduction

For many years, purchasing a home has been considered a good way to increase families' assets and use the accumulated wealth towards retirement. Along with a recent escalation in the cost of homes and mortgage interest rates, the current trend of more people renting rather than buying houses and its incumbent impacts on the retirement standard of living need to be considered by financial educators and professionals. If the current generation is not going to be investing in homes for the long term, what portion of their income do they need to put into other long-term investments in order to keep self-sufficient in retirement?

The purpose of this study is to understand the pattern of asset holdings between non-homeowners and homeowners among near retirees, ages 51-64, to examine whether there are differences in asset portfolios between non-homeowners and homeowners, and to investigate the influence of these socio-demographic and housing tenure variables on the net worth of the near-retirees ages 51-64. Understanding differences in asset portfolios of near-retirees between non-homeowners and homeowners would provide insights regarding the question: At this stage of the life cycle, is renting a preference or necessity?

Related Literature

Berkovec and Fullerton (1989) explored whether homeownership is a good investment and they found that people in the higher tax brackets received the biggest benefit. This study indicated that owner occupied housing received the most tax benefits and appreciation and concluded that owning a home is more beneficial than not owning a home. Jones (1996) investigated what factors lead to liquidate housing wealth and move toward renting and found that the decision to move toward renting was to provide themselves with a comfortable retirement. Sinai and Souleles (2005) investigated why people are more likely to be homeowners than renters. They found that renters have fewer assets than homeowners. However, little is known about how asset holdings are different between homeowners and non-homeowners among households in near retirement life-cycle stage.

Data and Sample

Data for the study were drawn from the 2000 Health and Retirement Study (HRS). The HRS is a nationally representative, longitudinal survey of individuals over 50 years of age, designed to investigate the dynamic experience of older individuals as they advance from work to retirement. Using the 2000 HRS data file, the total sample (N=8,139) included near retirees ages 51-64 and the sub-sample of this study consisted of 1,313 non-homeowners and 6,826 homeowners.

Analyses

The t-tests were conducted to compare means in the value of net worth, financial assets, non-financial assets between non-homeowners and homeowners among near-retirees. Financial assets included the dollar value of checking/savings accounts, CD/treasure bills, stocks/mutual funds, bonds, individual retirement accounts. Non-financial assets included the dollar value of business assets, equity in real estate (excluding primary housing), and transportation assets. The dependent variable in multivariable analysis was net worth which measures net value of all assets, excluding all mortgages, second mortgages, and credit card/ other debts. Ordinary Least Squares (OLS) regression analysis was performed to identify the effects of housing tenure status and socio-demographic factors on the level of net worth among near-retirees. To identify the effect of housing tenure status on the net worth among

near-retirees, a dummy categorical variable for housing tenure status (those who own homes, those who do not own homes) was included in the OLS regression model. Independent variables reflecting socio-demographic characteristics of the respondents were household income, family size, life expectancy, education, age, gender, race, marital status, employment status, and self-reported health status.

Results

The results of the t-test show that among near-retirees, non-homeowners held significantly lower levels of all asset types (e.g., checking/saving accounts, stocks/mutual funds, bonds, individual retirement account, business assets, equity in real estate, and transportation assets) than did homeowners. The OLS regression results indicated that holding other factors constant, non-homeowners held significantly lower levels of net worth than did homeowners among near-retirees. For example, non-homeowners held $133,144 of net worth less than homeowners and had $42,032 in financial assets less than homeowners. It was also found that higher income, longer life expectancy, higher education, and age were positively associated with the levels of net worth among near-retirees, whereas being divorced, working full-time, and having poor health were negatively associated with the levels of net worth among near-retirees. In particular, the findings of this study suggested that among near-retirees, the baby boomer near-retirees (ages 51-54) held $80,864 of net worth less than near-retirees ages 55-59 and held $99,722 of net worth less than near-retirees ages 60-64, holding all else constant.

Conclusions and Implications

As expected, the findings of this study indicated that non-homeowners who were in near retirement life cycle stage accumulated significantly less amount in net worth as well as all assets than did the homeowners who were in the same life cycle stage. From the findings of this study, the housing tenure choice of non-homeowners at near retirement stage of the life cycle might not be a choice, but mandatory for those non-homeowners. It might be essential for financial educators to provide renters with an idea of how much they need to make up to become as financially secure as their homeowner counterparts. With the results from this study, it is hoped that programs can be developed for educational purposes to help renters gain the ability to save more for retirement so that they do not outlive their savings during middle-aged or their higher earning years.

References

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Endnotes

[1] Consumer Science Graduate Student, Department of Family, Consumer, & Human Development, Utah State University, 2905 Old Main Hill, Logan, UT 84322-2905, Phone: (435) 797-3408, Fax: (435) 797-3845, Email: tasmith@cc.usu.edu

[2] Associate Professor, Department of Family, Consumer, & Human Development, Utah State University, 2905 Old Main Hill, Logan, UT 84322-2905, Phone: (435) 797-1555, Fax: (435) 797-3845, Email: yoonlee@cc.usu.edu