

# Restoring Household Financial Stability After the Great Recession: Why Household Balance Sheets Matter

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## HOMEOWNERSHIP

- Home as primary asset
- Mortgage as primary liability
- Over life course principal repayment / property value appreciation has historically helped many households
  - Obviously not risk free
  - Retiring debt free less true today than prior generations?

## RETIREMENT / HEALTH

- When to leave labor force
- Role of asset accumulation for retirement
- Health status related to both

# Homeownership, the Great Recession, & Wealth

Balance  
Sheets

Grinstein-  
Weiss and  
Key

Conley and  
Thompson

Conclusions

- 2007-2009 Survey of Consumer Finances panel
  - Medians, Distributions; Tabulations by levels, race, tenure
- Describe trends during this critical period
- All homeowners lost equity as real estate values declined
  - Relatively larger declines among non-white households
- Median loss of  $-\$17,000$ , or about 8% of housing assets and majority of total decline in networth of  $-\$31,000$
- Losses for Blacks 2.5 times larger; almost 25% of housing asset in 2007 'lost'
- Renter assets decline less (3%) since no home equity at risk, but small asset balances to begin with
- Minimal overall distributional effects

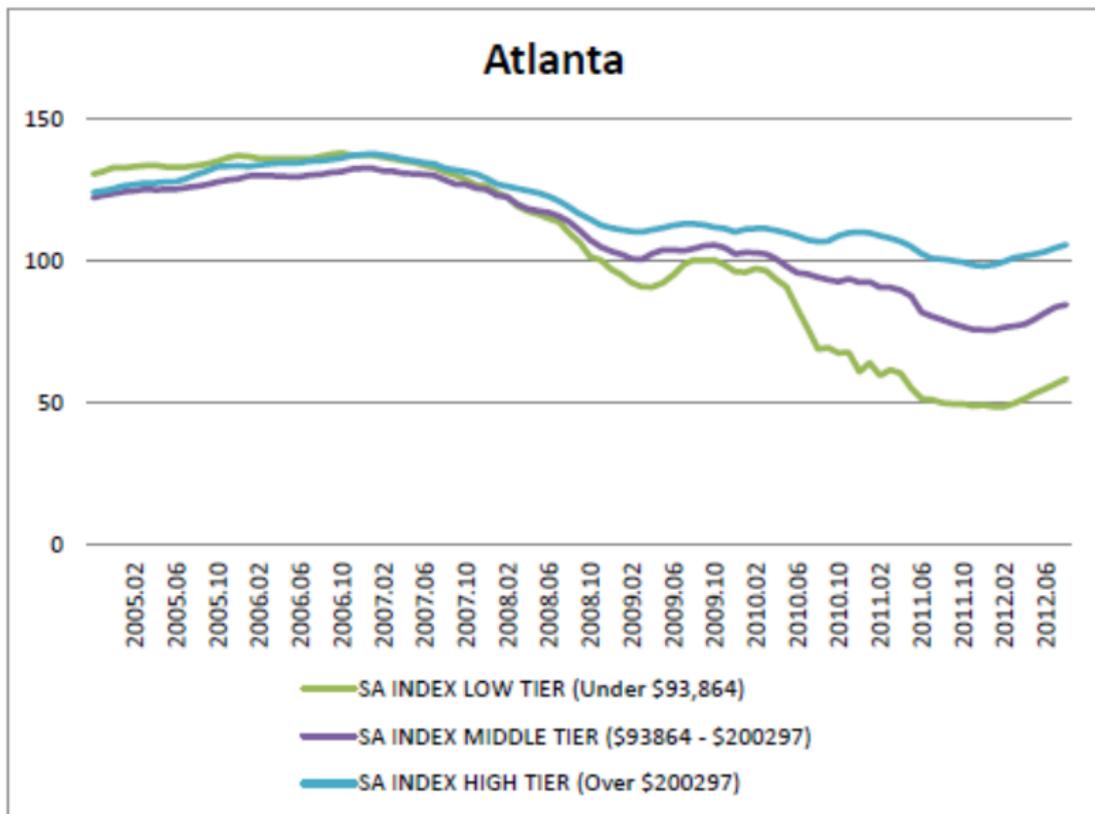
# Wealth Shocks For Homeowners: CSW Index by Price Tier

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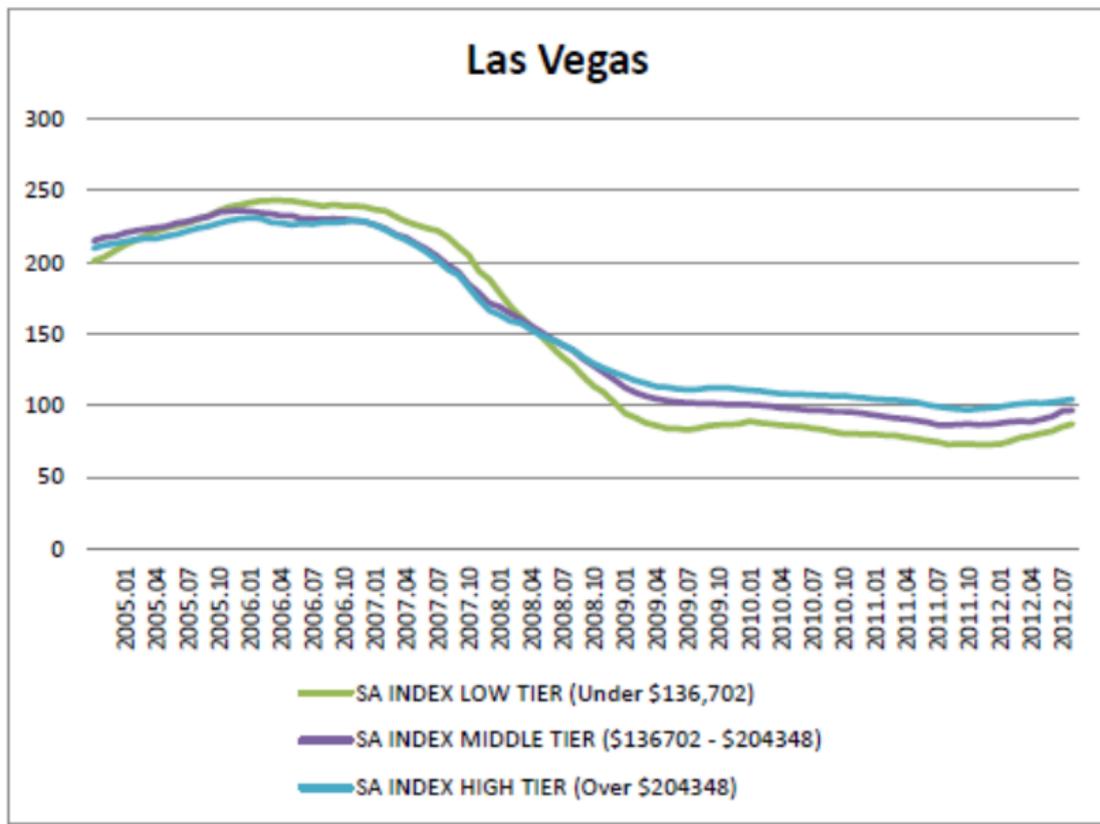
# Lower Tier Prices Harder Hit in Some Markets

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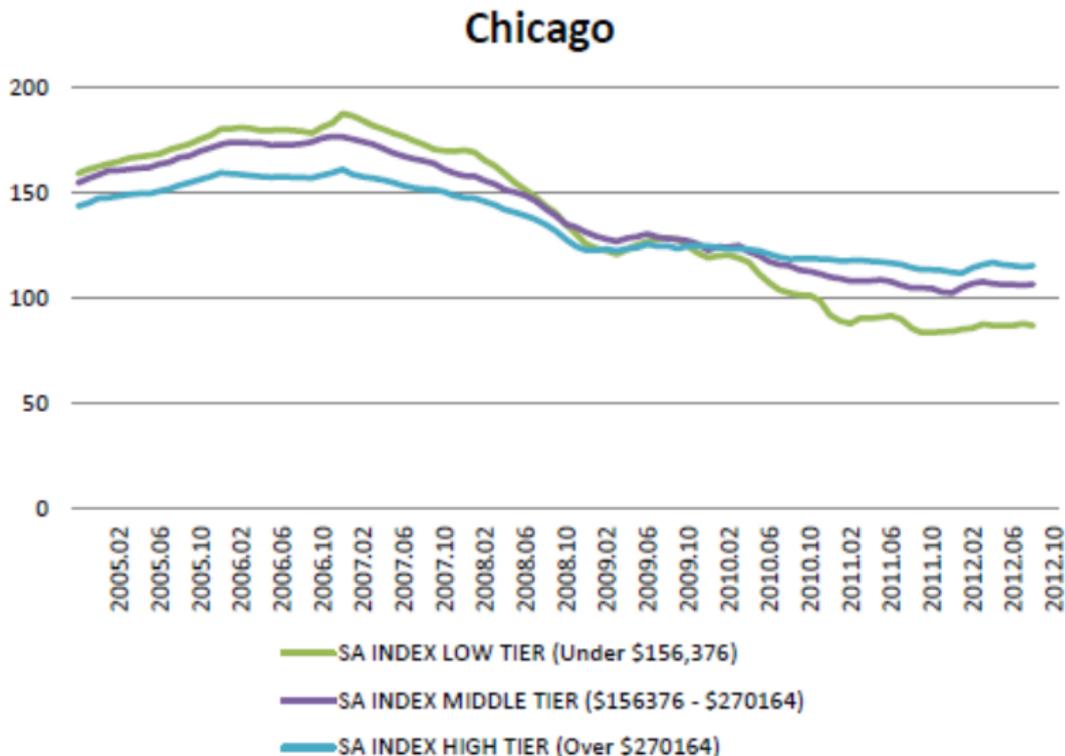
# Depends in Purchase Timing

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Conclusions



- Retirement assets at median did not decline; mean decline of 9.4%
- Co-movement in housing and retirement assets
- Key issue is use of mortgage—magnifies risks
- Housing is illiquid asset; role in retirement?

## Further Work

- Break into age groups: Retirement assets matter more for 40+
- Mortgage debt declines - impacts on net worth?
- Use of home equity in retirement:
  - Reverse mortgage, sale of home, defer maintenance
    - first 2 are rare, last is common

# The Effects of Health and Wealth Shocks on Retirement Decisions

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Conley and  
Thompson

Conclusions

- Retirement, health and wealth
  - Large body of work on retirement decision/wealth accumulation/health shocks—but rarely brought altogether
  - Chronic vs. unexpected health problem: should expect differences
  - Translating financial to wellbeing
- Panel Study of Income Dynamics (PSID) using 1999, 2001, 2003, 2005, 2007, and 2009 data for 40-70 year olds in 1999 (heads/spouses)
- Wealth *and* Health Shocks
- Negative health event = more likely retirement
- Increase in wealth = more likely retirement
  - Gender and Racial differences in these patterns

- Estimate exit from workforce as well as re-entrance
  - Using fixed effects panel - can think of as 'changers' sample
- Health Shocks:
  - Acute: stroke, heart attack, heart disease, lung disease, cancer
  - vs. Chronic health conditions
  - About 10% experience at least one in most periods
- Health shocks associated with retirement; more so for non-White households; effects mainly for men
- No protective effect of wealth
- Acute health shocks lower net worth (at least for Whites) and also for Blacks who retire subsequent to a health shock

- Clearly health issues have balance sheet implications
- Health shocks are expensive, especially pre-Medicare ages
- Retirement choice/labor market options challenging to model
- Health shock v. Wealth Shock v. Health *AND* Wealth Shock

## Further Work

- Medicare eligible age effects- shock pre-65 vs. post-65
- SSA Claiming ages - 'early' (62) vs. 66.8 years (for 40 yr olds in 1999; older ages closer to 65)
- Role of Disability / SSI as protection of balance sheet
- Size of wealth effects - threshold effects

- Owned housing is popular and encouraged
  - But not without risks
  - Can dominate balance sheet on both sides
  - Serious questions about financial aspects of ownership beyond principal paydown
- Health issues directly related to retirement
  - Negative shocks deplete balance sheet
  - Important policy questions related to health coverage, disability
  - How we define balance sheet matters—external resources including social support, family and public programs

Both critically important, especially for financial security of low-income families

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Conclusions

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