Fannie Mae

Housing Insights Series **Economic and Strategic Research Group**

Baby Boomers Accelerate Their Advance into Free-and-Clear Homeownership

Executive Summary

- The leading edge of the large Baby Boom generation has reached retirement age with a greater likelihood of carrying housing debt, raising concerns about their retirement financial security. The oldest Boomers, who were aged 65-69 in 2015, were 10 percentage points less likely to own their homes outright than were pre-Boomer homeowners of the same age in 2000.
- In our latest edition of *Housing Insights,* we examine recent changes in free-and-clear homeownership among Baby Boomers (here defined as those born between 1946 and 1965) using a dynamic “cohort” perspective, which tracks the same group of people (cohort) as they grow older, passing from one age group to the next.
- Cohort analysis reveals that Boomers achieved free-and-clear homeownership at an accelerated pace during the economic recovery. For example, among the cohort of Boomer homeowners who aged from 60-64 in 2010 to 65-69 in 2015, the proportion who owned their homes outright increased by 10.6 percentage points, a gain more than two percentage points larger than experienced by the pre-Boomer cohort that passed through the same age range between 2005 and 2010, a period encompassing the housing bust and recession.
- However, even with the post-recession acceleration in free-and-clear homeownership, Boomers appear unlikely to attain mortgage-free retirements at the same rate as the predecessor generation. When compared with pre-Boomer homeowners who were aged 65 to 69 in 2000, Boomers are projected to experience shortfalls in free-and-clear homeownership at the same age that range from 1.8 percentage points for the youngest Boomers to 10.4 percentage points for the oldest.

Paying off the mortgage, once a widespread rite of passage for homeowners approaching retirement, has become less common in recent years. Concerns are mounting that the increased prevalence of housing debt among older homeowners could compromise financial security in retirement by expanding housing affordability problems, crimping essential non-housing spending, increasing vulnerability to home loss through foreclosure, or limiting the accumulation of housing wealth.[1] These concerns are amplified by the fact that the large Baby Boomer generation, which includes about 33 million owner occupants, has begun to reach retirement age.[2]

Although multiple studies have documented the rise of housing debt among older homeowners, prior research has not focused on how Boomers’ mortgage status has changed as they’ve approached retirement age. Importantly, previous research has not investigated whether Boomer homeowners have begun to extinguish their housing debts more rapidly as the economy and housing market have emerged from recession.[3]

This edition of *Housing Insights* fills this gap by examining the prevalence of free-and-clear homeownership among Baby Boomers across three distinct periods: the “housing bubble buildup” (2000-2005), the “bubble burst and recession” (2005-

[1] For discussions of recent trends in housing debt among older homeowners and the possible implications for retirement financial security, see Barbara A. Butrica and Stipica Mudrazija, *Home Equity Patterns among Older American Households*, Urban Institute Research Report, October 2016; Joint Center for Housing Studies of Harvard University, *Housing America’s Older Adults: Meeting the Needs of an Aging Population*, 2014; and Consumer Financial Protection Bureau, *Snapshot of Older Consumers and Mortgage Debt*, May 2014.
[2] According to the Census Bureau’s American Community Survey, 33.4 million households with householders born between 1946 and 1965 (the birth cohorts used here to define the Baby Boom generation) owned their homes in 2015, with 36.9 percent of these households owning their residences free and clear.
[3] A report by the Pew Charitable Trust, *The Complex Story of American Debt: Liabilities in Family Balance Sheets* (July 2015), provides some comparisons of the likelihood of holding housing debt for Baby Boomers and other generations at selected ages. However, the report does not show variations in mortgage status within the Baby Boomer generation, nor does it examine how the likelihood of holding housing debt has changed for Boomers as they have aged.

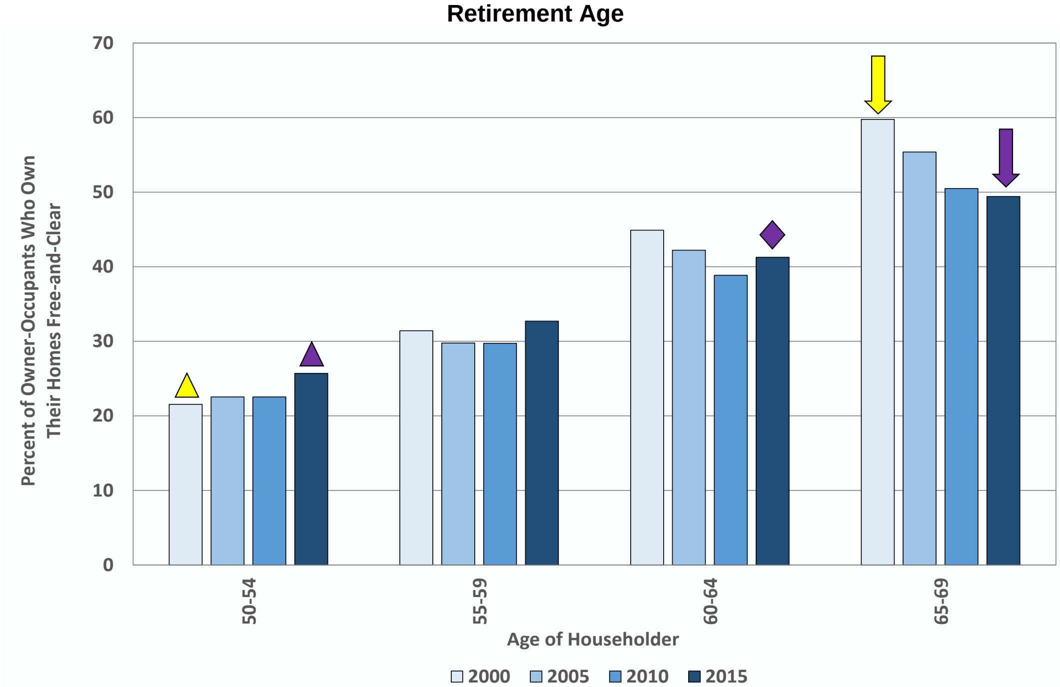
2010), and the "recovery" (2010-2015).[4] It does so using two distinct approaches for measuring change: traditional age-group analysis and cohort analysis. The former approach compares rates of free-and-clear homeownership for fixed age groups containing different individuals at different points in time, whereas the latter approach tracks changes in rates of outright homeownership for the same group of homeowners as they grow older, passing from one age group to the next.[5]

Free-and-Clear Homeownership among Baby Boomers, Viewed from a Traditional Age-Group Perspective

Analysis using the traditional age-group approach shows that the oldest Baby Boomers, who have already passed traditional retirement age, are substantially less likely to own their homes outright than the predecessor generation at the same age. Among Baby Boomer owner-occupants aged 65 to 69 in 2015, fewer than 50 percent were mortgage-free (see bar marked by purple arrow in Exhibit 1), down 10 percentage points compared with the pre-Boomer group of homeowners who were the same age in 2000, prior to the housing bubble (bar marked by yellow arrow in Exhibit 1).[6]

For younger Boomers, rates of free-and-clear homeownership in 2015 compare more favorably with their predecessors. Indeed, younger Boomers are significantly *more* likely to own their homes mortgage-free than were homeowners of the same age in 2000. For example, 26 percent of Boomers who were aged 50 to 54 in 2015 owned their homes outright (see bar marked by purple triangle in Exhibit 1), compared with 22 percent of homeowners who were the same age at the turn of the millennium (bar marked by yellow triangle in Exhibit 1).

Exhibit 1. Traditional Age-Group Analysis:
Oldest Boomers Are Less Likely Than Their Predecessors to Own Their Homes Outright at Retirement Age



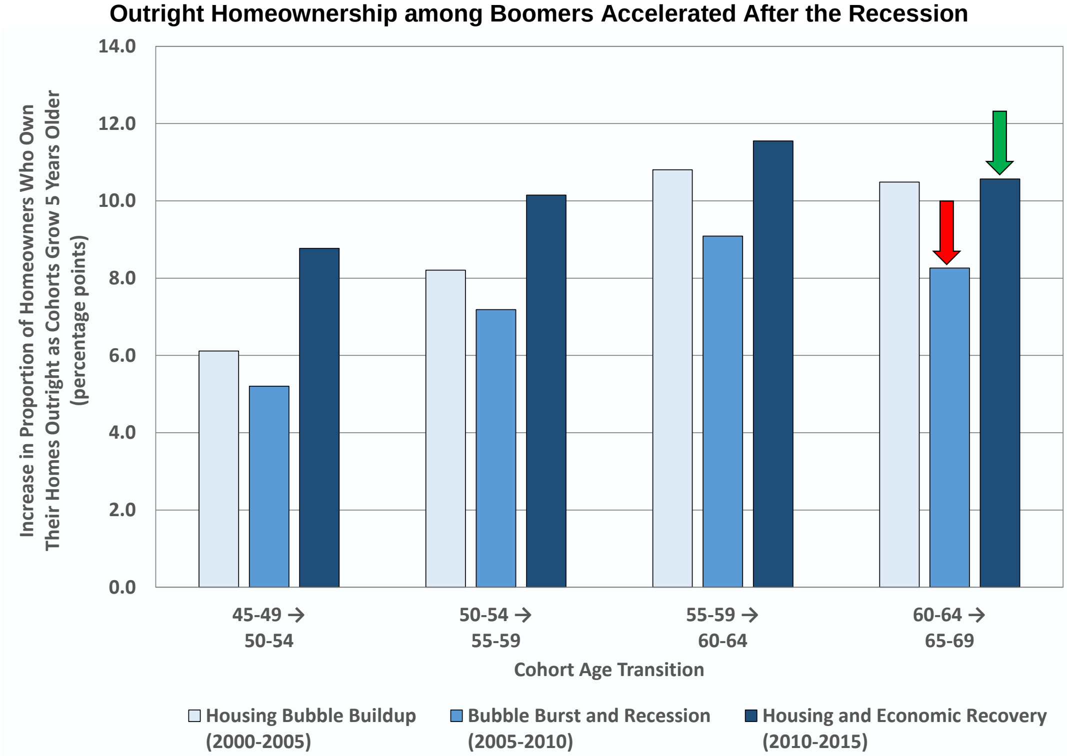
Source: U.S. Census Bureau, 2000 Census and American Community Survey.
Note: See footnote 7 for an explanation of the diamond symbol.

[4] In this *Housing Insights*, "free-and-clear homeownership", "outright homeownership", and "mortgage-free homeownership" are used interchangeably to describe owner-occupants who have no housing debt on their principal residence. The American Community Survey and the 2000 Census, which are the data sources used for this article, ask owner-occupants about the presence of a mortgage on their home, but collect no data on the outstanding mortgage amount. Therefore, the analysis presented here is confined to mortgage status and does not cover housing debt levels.
[5] For additional discussion on the differences between the static age-group approach and more dynamic cohort analysis, see Patrick Simmons, "Starting to Launch: Millennials Are Leaving Mom and Dad's Basement," *Fannie Mae Housing Insights Series*, April 27, 2017.
[6] Unless otherwise noted, all historical differences or changes in Census 2000 and American Community Survey data noted in the text are statistically significant at the 90 percent confidence level.

Cohort Perspective Shows that Boomers Extinguished Mortgage Debt More Quickly During the Recovery

Cohort analysis reveals that Boomers achieved free-and-clear homeownership at an accelerated pace during the economic recovery (Exhibit 2). When compared with the pace of change during the recession period (2005-2010), Boomers became outright homeowners more quickly during the recovery (2010-2015) for all of the cohort age transitions shown in Exhibit 2. As an example, for the cohort of Boomer homeowners that aged from 60-64 in 2010 to 65-69 in 2015, the proportion who owned their homes free and clear increased by 10.6 percentage points (see bar marked by green arrow in Exhibit 2). This increase was more than 2 percentage points larger than the gain experienced by the pre-Boomer cohort that passed through the same age range between 2005 and 2010 (bar marked by red arrow in Exhibit 2).

Exhibit 2. Cohort Analysis:
Outright Homeownership among Boomers Accelerated After the Recession

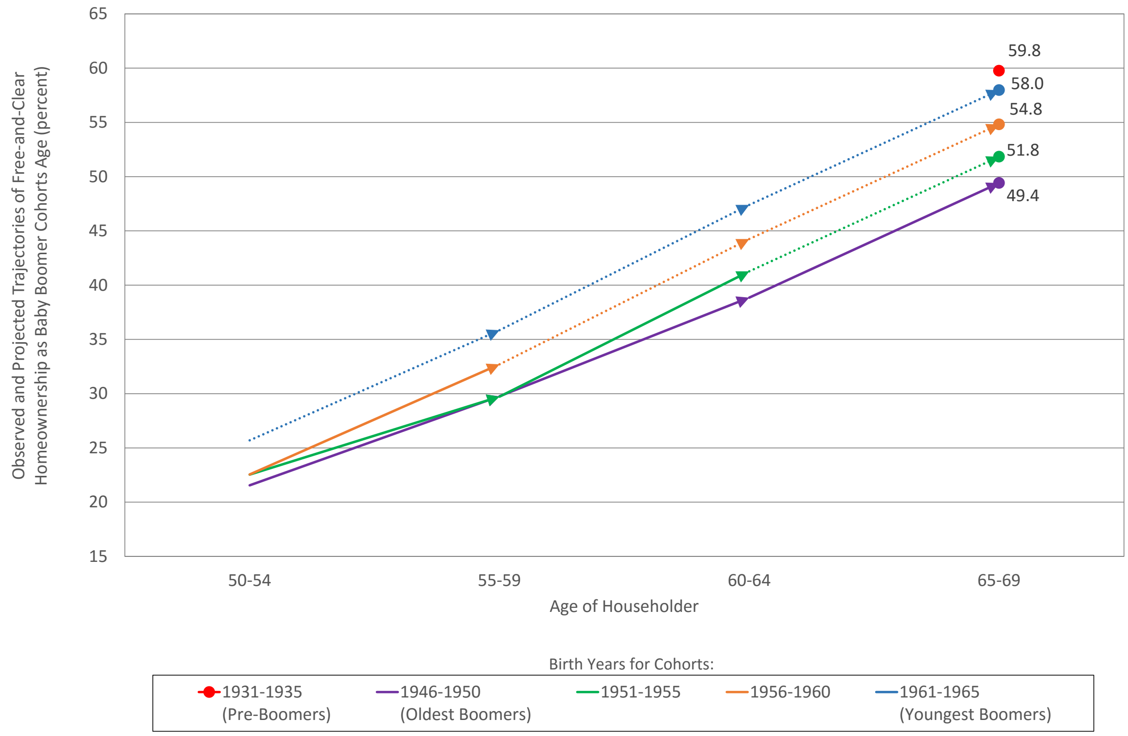


Source: U.S. Census Bureau, 2000 Census and American Community Survey

To What Extent Will Younger Boomers Be Mortgage-Free When They Reach Retirement?

At present, only the oldest Baby Boomers have reached traditional retirement age. The future pace at which younger Boomers will extinguish their housing debts as they approach retirement is difficult to foresee, but the cohort analysis described above offers one approach for projecting future trajectories of free-and-clear homeownership for the Boomer generation. For each five-year birth cohort of Baby Boomers that has not already reached retirement age, the proportion of homeowners who are expected to own their homes outright at age 65 to 69 is projected by adding the 2010-2015 cohort increments depicted in Exhibit 2 to the observed 2015 baseline rates shown in Exhibit 1. For example, we project that 51.8 percent of Boomer homeowners in the cohort born between 1951 and 1955 will be mortgage-free when this cohort reaches age 65 to 69 in 2020 (see green data series in Exhibit 3).[7] The projections suggest that rates of free-and-clear homeownership at age 65 to 69 for all five-year cohorts that compose the Boomer generation will fall short of the rate achieved by the pre-Boomer cohort that was born between 1931 and 1935 and was aged 65 to 69 in 2000 (59.8 percent, as shown by the red data point in Exhibit 3). The deficit at age 65 to 69 ranges from a projected shortfall of 1.8 percentage points for the youngest Boomer cohort to an observed deficit of 10.4 percentage points for the oldest.

Exhibit 3. Even at Recent Accelerated Pace of Advancement, Boomers' Rates of Outright Homeownership Not Expected to Catch Up with Preceding Generation



Source: U.S. Census Bureau, 2000 Census and American Community Survey; author's projections. Solid arrows show actual observed proportions of homeowners who own outright and dashed arrows show projected proportions who own outright.

Thus, even assuming that the accelerated pace of cohort advancement observed between 2010 and 2015 persists in the future, Boomer homeowners would still attain lower rates of free-and-clear homeownership at retirement age than the predecessor generation. In order to equal or surpass the rate at which the preceding generation owned their homes outright at retirement age, younger Boomers will need to step up efforts to pay off housing debts.

Discussion

Several economic and housing market factors might have contributed to the post-recession acceleration in free-and-clear homeownership among Baby Boomers. Some Boomers might have adopted a more conservative stance toward housing debt in the wake of the financial crisis and, simultaneously, tighter credit markets likely constrained the ability to borrow against the home. In addition, as home prices recovered following the housing bust, gains in home equity likely enabled more Boomers to move and downsize to lower-value homes without using mortgage financing. Another possibility is that

[7] The projected value is obtained by starting with this cohort's observed rate of free-and-clear homeownership at age 60-64 in 2015 (41.2 percent, as shown by the bar marked with the purple diamond in Exhibit 1), and adding to this amount the increment experienced by the predecessor cohort that aged from 60-64 years old in 2010 to 65-69 years old in 2015 (10.6 percentage points, as shown by the bar marked with the green arrow in Exhibit 2). A similar approach is used to project rates of free-and-clear homeownership for the Boomer cohorts born between 1956-1960 and 1961-1965.

improvements in employment and income during the recovery provided more Boomer homeowners with the financial means to pay off their mortgages, while also reducing the need to take out additional housing debt to meet household expenses. Finally, heightened foreclosure activity persisted well into the economic recovery, and thus the exit of some older mortgagors from owner-occupancy probably helped to nudge Boomers' rate of free-and-clear homeownership higher.[8]

Even with recently accelerated gains in free-and-clear homeownership, the oldest Baby Boomers have reached retirement age with a greater likelihood of carrying a mortgage, and younger Boomer cohorts are also expected to achieve relatively low rates of outright homeownership at retirement unless they accelerate even further the pace of extinguishing housing debt. The relatively high incidence of housing debt among Boomer homeowners has the potential to strain their retirement finances. Given that income typically declines in retirement, monthly mortgage payments could stretch the household budgets of Boomers who exit the labor force without first extinguishing their housing debts.[9] Indeed, among Boomer homeowners aged 65 to 69 in 2015, those with mortgages were over three times more likely to experience a housing cost burden than were those who owned their homes outright.[10]

The greater propensity of Boomers to carry housing debt might signal the need to expand consumer outreach and education that helps older mortgagors manage their monthly housing expenses, including ensuring that they have fully exploited opportunities to reduce monthly mortgage payments through refinancing. Educating younger Boomers about options for shorter-duration mortgages that accelerate principal pay-down might increase the likelihood that they enter retirement with little or no housing debt. For older Boomer mortgagors who wish to eliminate housing debt, an option worth considering is trading down to less expensive homes.

The rise of the older mortgagor also has implications for loan origination and servicing volumes. The greater propensity of today's older homeowners to carry housing debt should lead to more mortgage origination and servicing business than was the case with prior generations. However, the profitability of this business depends, at least in part, on the ability of Boomer mortgagors to successfully manage their monthly housing costs as their financial situation changes in retirement.

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[8] One study found that the foreclosure rate for 50-64 year olds increased from 0.31 percent in 2007 to 2.98 percent in 2011 and was still rising as of the latter year. (Lori A. Trawinski, *Nightmare on Main Street: Older Americans and the Mortgage Market Crisis*, AARP Public Policy Institute, August 2012.) Exits from homeownership caused by mortgage foreclosure would decrease the denominator of the proportion of homeowners who own free-and-clear while not affecting the numerator, thus increasing the rate of outright homeownership.

[9] Using administrative data that eliminates some of the underreporting of retirement income typically associated with household surveys, one recent study found that median real personal income declined 12 percent in the five years following a first claim of Social Security benefits. The study also found a 10 percent decline in real personal income in the five years prior to a first claim of benefits. See Adam Bee and Joshua Mitchell, "Do Older Americans Have More Income Than We Think?" U.S. Census Bureau *SESHD Working Paper* #2017-39, July 2017.

[10] Author's calculations based on data from the 2015 American Community Survey. A housing cost burden is defined as housing costs that exceed 30 percent of household income.