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Social security and elderly homeownership

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Abstract

Over the last twenty-five years, the homeownership rate of households 65 years and older has risen steadily, while the homeownership rate for 35–64 year old households has remained relatively unchanged. At the same time, the real value of Social Security benefits has risen substantially. Using data from the March 1978 to 2001 Current Population Surveys, this paper documents the evolution and assesses the causal role of the Social Security program in increasing elderly homeownership. To isolate the causal effect, the analysis develops an instrumental-variable approach that relies on the large variation in benefits for birth cohorts from 1900 to 1930 due to double indexation of the system and the so-called Social Security "notch." For all elderly, the estimated elasticity of homeownership to Social Security benefits ranges from 0.26 to 0.49. Across marital groups, the widowed have the greatest responsiveness to benefits. Increases in benefits also increase household formation among the elderly. Overall, the estimates indicate that between half and as much as all of the time-series rise in elderly homeownership over the last twenty-five years can be attributable to the rise in Social Security benefits and suggest that reductions in benefits would alter homeownership among the elderly significantly.

JEL classification: H3; H55; R21

Keywords: Social security; Homeownership; Household formation; Aging; Elderly

1. Introduction

An important trend in US housing markets has been the sustained increase in the homeownership rate of those 65 years and older. Based on data from the US Census Bureau's Housing

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Vacancy Survey, the official government source on homeownership rates, the elderly homeownership rate was 74.4 percent in 1982 and rose to 80.5 percent by 2003. This 6.1 percentage-point increase in the older households' homeownership rate represented an 8.2 *percent* total growth in homeownership between 1982 and 2003. In contrast, homeownership rates for 35–64 year old households essentially have been flat for the last two decades.

A potential explanation for the rise in elderly homeownership is the concurrent rise in Social Security benefits. From 1982 to 2003, average Social Security benefits grew 23 percent in real terms. Because there is a strong desire among the elderly to age in place (Venti and Wise [27,28], Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century [2]), these higher benefits may have allowed the elderly to stay in their homes longer, thus raising the elderly home ownership rate. Furthermore, as the level of benefits is a major source of retirement income not related to mortgage interest rates, federal tax policy, changes in the wage distribution, the business cycle or other macroeconomic factors that may explain the time-series patterns in homeownership for the non-elderly (Green [11]), Social Security may have shielded the elderly from whatever forces affected younger age groups. Importantly, if there is a strong link between Social Security benefits and homeownership in retirement, any benefit reductions through future Social Security reforms could decrease long-run homeownership and housing demand by the elderly. The primary aim of this paper is to assess the role of Social Security in driving the increase in elderly homeownership.

The existing literature has had relatively little to say about the role of Social Security on elderly homeownership. For example, Hurd [13,14] showed in a life-cycle model with mortality risk and bequest motives that the impact of Social Security on when the elderly exhaust their bequeathable wealth (housing included) is theoretically ambiguous and depends on the form of the utility function. In particular, for some preferences in this model, exogenous increases in Social Security benefits push further into the future the period in which the elderly sell their homes, so that homeownership rates would grow over time as more elderly live in their homes to later ages. On the empirical side, there has been comparatively little recent housing research on the elderly in general, and, to the best of my knowledge, no existing studies of the impact of Social Security on elderly homeownership in particular.[1] The small existing empirical literature on the elderly (e.g., Merrill [20], Feinstein and McFadden [9], Reschovsky [23], Megbolugbe et al. [18,19], among others) consistently has found a positive correlation between homeownership and total income, but with a wide range of implied effects.

There are two fundamental problems with the empirical analysis of the impact of Social Security on elderly homeownership. First, there may be measurement error in reported income in micro-data. For example, classical measurement error would impart the standard downward attenuation bias to estimates of the impact of Social Security on homeownership. Bound et al. [1] give a comprehensive survey of estimates of measurement error in survey data for various components of household income, including earnings, asset income, public assistance, unemployment insurance benefits, and Social Security benefits. For the Current Population Survey (CPS)—the data source for the empirical analysis below—Vaughan and Vuskavage [26] found that only 7 percent of Social Security beneficiaries correctly reported benefits in the CPS, when compared

[1] For example, in a recent comprehensive survey of the literature on homeownership by Dietz and Haurin [4], only one-and-a-half out of fifty pages and 11 out of 251 articles surveyed were devoted to the housing behavior of older households, and there were no studies reviewed of the impact of Social Security on elderly homeownership. In addition, in the extensive review of the literature on the economic impact of Social Security by Feldstein and Liebman [10], there were no studies reviewed on the impact of Social Security on elderly homeownership.