



Security Matters

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Debt Stress and Mortgage Borrowing in Old Age *Implications for Economic Security in Retirement*

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Practitioner applications provided by the Center for Financial Security, UW-Madison

Summary

The amount of debt held by seniors has grown substantially over the past decade. Higher levels of debt are linked to increased psychological stress and decreased physical health. For seniors especially, these negative effects can be made worse by fixed incomes and limited ability to pay higher monthly debt payments.

This study explores the relationships between financial debt, financial stress, and early Social Security claiming among older adults in the U.S. In addition to identifying the relationship between debt stress and retirement decisions, the role of reverse mortgages—a type of debt available only to seniors—for alleviating debt stress among older adults was examined.

Findings

- Increases in consumer debt, such as credit cards, are associated with an increase in self-reported financial stress. Dollar for dollar, credit card debt is associated with more stress than mortgage debt or other types of consumer debt.
- Reverse mortgage debt creates less stress than forward mortgage debt (the typical mortgage), and much less stress than consumer debt.
- Stress is lowered even more if a senior also pays down consumer debt with their reverse mortgage funds. However, if the reverse mortgage funds are spent or invested instead of being used to pay down their consumer debt, results show that debt-related stress rises.
- Financial stress is associated with delayed claiming of Social Security benefits, particularly for those who were in the labor force in the prior period. Seniors with financial stress may be staying in the work force longer than in the past in order to pay down consumer debt before claiming retirement benefits.

Practitioner Considerations

If you are working with a senior interested in exploring a reverse mortgage, first help them understand if they meet the requirements, review the process, and help clients in considering their unique financial realities and living situation.

A reverse mortgage is a loan for homeowners age 62 or older who currently live in their home and have paid off all or a large portion of the home. Borrowers can receive their loan as a lump sum, a fixed monthly payment, or as a line of credit.



The entire loan balance is due when the borrower passes away, sells the home, moves away permanently (such as into a nursing home), or does not keep up with property taxes or homeowner's insurance.

There are several different types of reverse mortgage loans. There are also a number of reverse mortgage scams that target seniors. The only reverse mortgage insured by the U.S. Federal Government is called a Home Equity Conversion Mortgage or HECM. Seniors who want a HECM take part in counseling from an approved HECM counselor and meet all program requirements before being eligible for a reverse mortgage. Federal regulations determine the amount a senior can borrow and the fees for the loan.

Reverse mortgage loans are not an option for everyone. They may be a good fit for some seniors, but not for others. Consider the following:

- *Identify financial stress.* A senior looking for a HECM loan can review their cash flow to figure out which bills are causing them the most stress. If credit card debt is a concern, for example, the senior can explore options for lowering their interest rates or paying off existing credit card debt.
- *Manage consumer debt.* Resources like <https://powerpay.org/> may help people to create a debt repayment plan. Having a plan in place may help some people feel like their debt won't last forever.
- *Explore other housing options.* People struggling with housing-related expenses, such as trying to pay property taxes, insurance, association fees or maintenance, may want to explore more affordable housing options. This might involve downsizing, or even shared housing.
- *Boosting Earnings.* Some people may have options to bring in more money without a reverse mortgage, for example by taking on part-time employment. However, working more could add to stress levels.
- *Understand the impacts.* Seniors considering a HECM loan should think ahead about how others, such as an unmarried partner, live-in friend, or children, will be affected by the decision to take out a reverse mortgage.

Taking out a reverse mortgage will not necessarily protect seniors from future financial stress. After taking out a HECM loan, seniors need to maintain a spending plan and make sure they use the loan for paying down any expenses or debt that trigger financial stress. Decreasing debt could have great benefits for decreasing stress and maybe even increasing overall health.

Resources

Reverse Mortgage Loans, Consumer Financial Protection Bureau
<https://www.consumerfinance.gov/consumer-tools/reverse-mortgages/>

Home Equity Conversion Mortgages for Seniors, U.S. Department of Housing and Urban Development
https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome

Social Security Benefits, Social Security Administration
<https://www.ssa.gov>

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