Cash Flow Challenges and Homeownership in Later Life

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Executive Summary

Older homeowners who have accumulated housing wealth are often seen as being more financially secure in retirement. Uncertainties in later years, however, can make it hard for many to continue to manage their household finances over time. The COVID-19 pandemic has shown how quickly unexpected events can upset many aspects of daily life. It has also made Americans more conscious of their home as a safe haven, and the need to strengthen the ability to age-in-place.

In today's uncertain world, it is important to understand the sources of financial stress that could jeopardize homeownership for older Americans. This study looks at these risks through the lens of cash flow – the difference between what a household needs to live (expenses) and the resources they have (income). The analysis uses the Elder Index to assess whether homeowner households ages 62 and older have adequate income to cover the bills. It also considers housing debt levels. Households who are burdened by a mortgage or other housing debt may find that their financial flexibility is especially limited.

Looking at income sufficiency offers insights into a household's ability to meet predictable expenses. Even without disruptions from COVID-19, however, retirement spending is also unpredictable due to the challenges of aging-in-place. Using data from the 2014 wave of the Health and Retirement Study, the analysis examines the prevalence of 18 internal household stressors that could be sources of financial volatility among older homeowners. Increased expenses or loss of income could arise due to declining health and ability, major life transitions, or the need for additional help. The study assesses other financial risks that can derail homeownership in later life, such as substantial homeowner expenses, problems with home livability, and financial protections for a surviving spouse/partner. Since aging-in-place and homeownership can become more challenging at older ages, these risks are grouped into three planning horizons. The aim of this effort is to evaluate the prevalence of immediate and transitional financial risks, along with longer-term vulnerabilities whose impact on the household budget can be harder to predict.

Another objective is to gain insights into the ways that cash flow shortfalls could heighten mortgage default or the risk of foreclosure due to a prolonged or permanent state of financial difficulty. Older people with limited incomes often find that the need to deal with numerous problems, even small ones, can overwhelm the family budget. To assess their susceptibility to potential disruptions, the total number of immediate, transition, and longer-term vulnerabilities were tallied for each household. The study outlines various ways that multiple household financial vulnerabilities could snowball into a "cascade of troubles."

In addition to assessing household vulnerability, the study considers the strengths that older homeowners could draw on to mitigate constrained finances and other destabilizing problems. A measure of resilience was calculated for each household, based on a tally of five sources of strength: economic security, little or no housing debt, a house without stairs, access to unpaid help, and good to excellent health. These can help homeowners to bounce back should they experience a financial setback or problems with aging-in-place.

Summary of Key Findings

Over one-third of older homeowners face a gap between their fixed expenses (basic necessities and any housing debt) and their sources of income. In 2014, 38.8 percent of homeowner households ages 62 and older were economically insecure, as measured by the Elder Index. This group was more than twice as large as older households who were poor or near-poor (16.7 percent), with incomes 150 percent or less of the Federal Poverty Level (FPL).

Many financial vulnerabilities—beyond income shortfalls—could disrupt a homeowner's ability to age-in-place. In 2014, older homeowner households faced many internal household stressors, ranging from immediate risks to longer-term issues:

- Some older households were coping with imminent sources of financial stress: 6.3 percent were in self-reported poor health, while 35.4 percent could have faced other demands on their resources due to limitations with daily tasks, including hearing and seeing. In addition, 1.5 percent may have faced new financial pressures due to recent widowhood or divorce, or a nursing home stay in the past two years (5.6 percent).
- About one-third were living alone (31.7 percent). Among married/partner households, 39.5 percent had no life insurance to sustain a surviving spouse or partner.
- Many homeowners faced longer-term vulnerabilities that could destabilize their finances over time: Home livability was a major issue, since 88.8 percent lived in an aging house, or one that had stairs (35.4 percent). Over half (53.1 percent) lacked access to family or friends who could offer unpaid help in times of need.

Half of older homeowners faced three to five sources of vulnerability. The potential for financial trouble is rarely an isolated event. When tallied, 54.3 percent of older homeowner households in 2014 had three to five sources of vulnerability. Only 8.5 percent might have a low susceptibility to a cash flow shortfall in later life, with two or fewer vulnerability factors which could adversely impact their retirement income or expenses.

One in four older households could be facing seven or more sources of financial vulnerability. 24.3 percent of homeowner households ages 62 and older in 2014 had seven or more potential sources of financial vulnerability. Those who were at higher risk for a destabilizing financial shock could be especially susceptible to bundle of problems, either immediately or over time:

- 45.3 percent of households living at or near poverty (150% FPL or lower) had seven or more internal household stressors that could derail their ability to age-in-place. About one in three (31.3 percent) older homeowners who were not poor but likely to be financially insecure (incomes greater than 150% FPL to 300% FPL) also had a total of seven or more sources of these potential financial vulnerability.
- 84.1 percent of older households who were in poor health had seven or more sources of financial vulnerability, as did 43.2 percent of households in fair health.

Financial vulnerabilities were prevalent among households with higher incomes. Households with incomes above 300 percent of FPL also faced many sources of potential financial stress associated with aging-in-place. 87.5 percent had issues with home livability, and 65.1 percent might need to pay out-of-pocket for assistance because they were either living alone or lacked access to help from family or friends. More than one in ten (12.6 percent) had a total of seven or more sources of potential financial vulnerability.

Cash flow challenges varied by housing debt status. These risks could escalate as homeowners with housing debt grow older. Among older households who had not yet paid off their housing debt in 2014, 47.6 percent were under age 70, compared to 22.0 percent of households with no housing debt. These age differences were reflected in other sources of financial vulnerability by housing debt status:

- Fewer older households with housing debt were living alone (23.5 percent), compared to 35.1 percent of those with no housing debt.
- Fewer households with housing debt had seven or more financial vulnerabilities (20.4 percent) versus 26.0 percent of those with no housing debt.

- More households with housing debt (30.7 percent) had limited (two or fewer) sources of resilience compared to those with no housing debt (11.8 percent).

Looking to the future, household financial vulnerability could rise as increasing numbers of retirees continue to hold a mortgage or other housing debt. As they grow older and their retirement resources dwindle, they could struggle to keep up with these payments and other fixed expenses.

Most homeowner households age 62 and older had multiple sources of resilience to support aging-in-place. In 2014, 71.0 percent of these households had three to four resilience factors considered in the analysis. These findings suggest that many older homeowners had supports that could offer ready responses to cash flow disruption. However, about one in five (17.3 percent) had only two or fewer sources of resilience. Homeowners in poor health might find it especially hard to bounce back from trouble. One-third of these households in 2014 had none, or only one, source of resilience.

Implications for Sustaining Homeownership in Later Life

Financial planners and consumer advocates often encourage older Americans to determine whether they can continue to afford all of the costs associated with homeownership over time. However, it can be difficult to consider the challenges they might face two, ten, or 20 years into retirement. A cash flow perspective helps to reveal a bigger picture of financial vulnerability in later life. It highlights immediate and latent risks that could derail homeownership should income and expenses no longer add up. The results also suggest new strategies to strengthen the ability to age-in-place.

Older homeowners need help to focus on what they can control. Although the retirement landscape may be increasingly uncertain, many internal household stressors can be anticipated, and mitigated with timely interventions. Older homeowners could benefit from holistic decision support and other tools which address the specific risks found across the lifecourse of homeownership. They are also likely to face multiple vulnerabilities, yet lack the resources they need to mitigate all these risks. Timely decision support could help them make conscious choices and set priorities to avoid a cascade of troubles. A customized blueprint for aging-in-place that reflects the unique risks of homeowners could also help.

Homeowners who are economically insecure are especially in need of support. In 2014, more than one in three older homeowner households were economically insecure. But because they are not living in poverty, the challenges of these lower- to moderate-income households are often overlooked. Left on their own, they could face difficult trade-offs that can bring new and potentially serious troubles. Older homeowners who pinch pennies, or forego essential needs, increase their risk for other problems. With little financial cushion, the short-term budgetary fixes they use may provide only an illusion of financial security.

Shorter-term planning could help older homeowners respond effectively. Proactive planning strategies help bolster the capacity to respond to uncertainty. Financial planning designed specifically to address imminent issues can support older homeowners while they are still able to manage on their own. Targeting these households before they face serious problems also offers additional opportunities to leverage limited resources. Shorter-term planning could include an assessment of immediate, transitional, and longer-term internal household stressors. Understanding their specific risks could encourage financially vulnerable older homeowners to take timely action.

Promoting resilience can offer new ways to enhance the ability age-in-place. Older homeowners have sources of strength as well as areas of vulnerability. Reinforcing household resilience could offer a cost-effective way to increase their flexibility to respond or adapt to changing circumstances. This approach will also require asking different kinds of questions, to assess a homeowner's tolerance for the unexpected, their capacity to buffer against financial shock, and how quickly they can respond to change. Developing new prevention and mitigation strategies will especially benefit households with constrained finances and other potentially destabilizing problems.

Enhancing financial resiliency can increase a homeowner's sense of personal efficacy. Promoting this type of shorter-term planning may also offer new ways to engage Americans who typically do not want to think about becoming impaired or impoverished in later life. This approach will be especially critical during periods of instability, when it is even more difficult to predict all the risks that may lie ahead.

Adequate cash flow is critical when the "rainy day" arrives. In today's uncertain environment, even the best laid retirement plans can go awry. Economically insecure older households, and those with many household stressors, may be especially vulnerable to losing their home in times of trouble. Homeowners at greatest risk of mortgage default or foreclosure are those who experience changes in their life circumstances which result in a prolonged or permanent state of financial difficulty.

For older people who are house-rich and cash-poor, tapping home equity can help to address immediate cash shortfalls and longer-term retirement goals. Deciding how and when to tap home equity is a serious issue that is best done within the context of aging-in-place. Older homeowners need to consider how this asset can help them prepare for the unexpected, as well as managing their day-to-day financial lives. For some, the solution may involve difficult decisions about when to sell the house and where to move. Those who have housing wealth could buffer against a destabilizing financial shock with a home equity loan. A reverse mortgage can also help, since these loans further improve cash flow by eliminating the need to make monthly mortgage payments. Older homeowners across the economic spectrum could benefit from other, more innovative solutions that include home equity as an integral part of retirement planning.

Introduction

Older homeowners who have accumulated housing wealth are often seen as being more financially secure in retirement. Uncertainties in later years, however, can make it hard to for them to manage their household finances. The COVID-19 pandemic has heightened awareness of the unknowability of the future. The economy is now a source of stress for 70 percent of Americans, according to the Stress in America™ 2020 survey.[1] In addition, older workers have experienced an unprecedented surge in unemployment.[2] This virus has also hit long-term care facilities especially hard. Consequently, many people are seeing the value of their home as a safe haven, and the need to strengthen the ability to age-in-place.[3]

In addition to unexpected economic disruptions, there are underlying issues that can be a ongoing source of financial risk to homeownership in later life. Income volatility has been growing for decades as Americans rely more on personal savings and investments to fund their retirement. Older people who continue to work, especially in the gig economy, may also be more economically insecure due to substantial month-to-month income fluctuations.[4]

Later life is also a time of growing expense volatility. Over the years, even the best laid plans can be disrupted by an aging dwelling, declining health and ability, or other life events such as widowhood that can diminish income and increase expenses. Equally troublesome are the many households who have no emergency fund to cushion the impact of unanticipated expenses. According to the Federal Reserve Board, 41 percent of Americans in 2017 would not be able to come up with $400 dollars to pay for an emergency without borrowing or selling something.[5] When cash flow becomes a problem, it can affect the

1 American Psychological Association (2020). *Stress in the Time of Covid-19. Volume 1.* Washington, DC: APA.

2 Johnson, R (2020). *As Unemployment Surges, Older Workers Need More Help.* Urban Wire May 14, 2020. **https://www.urban.org/urban-wire/unemployment-surges-older-workers-need-more-help**

3 Wolfson, H (2020). *How Does a Pandemic Change Everything?* **https://www.homecaremag.com/august-2020/homecare-after-covid-19**.

4 JPMorgan Chase Institute (2016). *Paychecks, Paydays, and the Online Platform Economy*. New York, NY: JPMorgan Chase & Co.

5 Federal Reserve Board (2018). *Report on the Economic Well=Being of U.S. Households in 2017.* Washington, DC: Board of Governors of the Federal Reserve System.

ability to sustain homeownership. Due to economic disruptions, by August 2020 there were nearly 2 million more seriously delinquent homeowners than at pre-pandemic levels.[6]

Purpose of the Study

In today's uncertain world, it is important to consider underlying sources of financial stress that could jeopardize homeownership for older Americans. This study looks at these risks through the lens of cash flow – the difference between what a household needs to live (expenses) and the resources they have (income). The report looks at potential cash flow challenges among older homeowner households by examining the source and prevalence of internal household stressors which could make older households more susceptible to a budget shortfall over time.

The analysis evaluates how financial vulnerabilities and other attributes of older homeowners vary by housing debt status. Households with little or no debt may have some flexibility to adjust their spending in the face of diminished cash flow. In contrast, keeping up with fixed expenses such as a mortgage can make it difficult to cope when new problems arise.

The research uses data from the 2014 Health and Retirement Study to assess potential sources of financial stress among homeowner households ages 62 and older. The study uses the Elder Economic Security Standard™ Index (Elder Index) to identify households who may be facing ongoing cash flow shortfalls due to inadequate income. The analysis examines whether these financially vulnerable homeowners might be eligible for public assistance that could help them stabilize their household finances, and possibly avoid foreclosure. This inquiry also examines 18 underlying challenges for aging-in-place that could potentially disrupt cash flow by diminishing income or increasing expenses. These risk factors are tallied to assess overall household financial vulnerability, and the potential for a cascade of troubles which could make it hard to keep up with borrower obligations. The analysis also evaluates sources resilience that could help older homeowners to bounce back from trouble.

Methodology

The analysis of older homeowners in the general population was based on a nationally representative sample from the 2014 wave of the Health and Retirement Study core dataset. The HRS is a biennial, longitudinal survey of community-dwelling adults (51+ years old) in the United States. The 2014 HRS Core was the most recent, publicly available HRS data at the time of the analysis. The value of the HRS for this integrated inquiry is that it includes a wide breadth of topics, including: demographics, income and wealth, family structure, physical health, health care, employment, social characteristics, and other areas. It also includes information on spouses and households. The sample included a total of 5,896 U.S. homeowners aged 62 and older. The sample was further segmented into those who had housing debt (N=1,733) and those who did not have housing debt (N=4,163). For sample selection

[6] Black Knight's First Look at August 2020 Mortgage Data. Press release September 23, 2020. **https://www.blackknightinc.com/black-knights-first-look-at-august-2020-mortgage-data/**

criteria, variables for self-reported home ownership and amount of housing debt were utilized from the 2014 HRS core dataset. In order to adjust for any selection bias and missing data across waves, a cross-wave centered sample weight was used in this analysis.

For this analysis, the Elder Economic Security Standard™ Index (Elder Index) was used to compare household income of older homeowners to benchmarks of economic insecurity, based on a household's living arrangement, health status, and whether they still had a mortgage or other housing debt. The Elder Index is a county-by-county measure of the income needed by older adults to maintain independence and meet their daily living costs while staying in their own homes. The Elder Index reflects variations in the annual cost of living in different regions of the country, based on the cost of housing, transportation, health care, food, and other essentials such as clothing, household items, and personal needs. For more information about this Index, see: **https://www.ncoa.org/economic-security/money-management/elder-index/**. The Gerontology Institute at University of Massachusetts Boston developed and maintains the Elder Index.

Key Findings

Profile of Older Homeowner Households

Most Americans want live in their own home as they grow older, which is described as aging-in-place.[7] Some older people prefer to reside in the familiar environment of their current residence. Others stay in the same house for many years out of necessity. In 2012, 26 percent of Americans ages 60 and older expected to age-in-place because they could not afford to move.[8] This means that for many people, homeownership a lifelong financial commitment.

Homeownership can be a blessing if it provides a safe and comfortable place to live. A house can also provide a substantial buffer to deal with financial problems. In 2014, 17.1 percent of homeowners households ages 62 and older had substantial amounts of home equity, valued at $300,000 or more (Table 1). The majority of older households (55.3 percent) were not "house rich," with more modest amounts of home equity valued at less than $150,000.

Homeownership can be a burden in later in life, especially for those who need to make ongoing housing debt payments. In 2014, 29.4 percent of homeowners households ages 62 and older had a mortgage or other housing debt.

The amount of home equity that could potentially help to sustain a household in retirement varied by housing debt status. Over two thirds (68.9 percent) of homeowners with housing debt had less than $150,000 in home equity, after subtracting existing housing debt from the value of their home. In contrast, 49.7 percent of those who owned their homes free and clear had such low levels of housing wealth.

TABLE 1 ● Housing Wealth and Debt Status Among Homeowners Ages 62 and Older, 2014

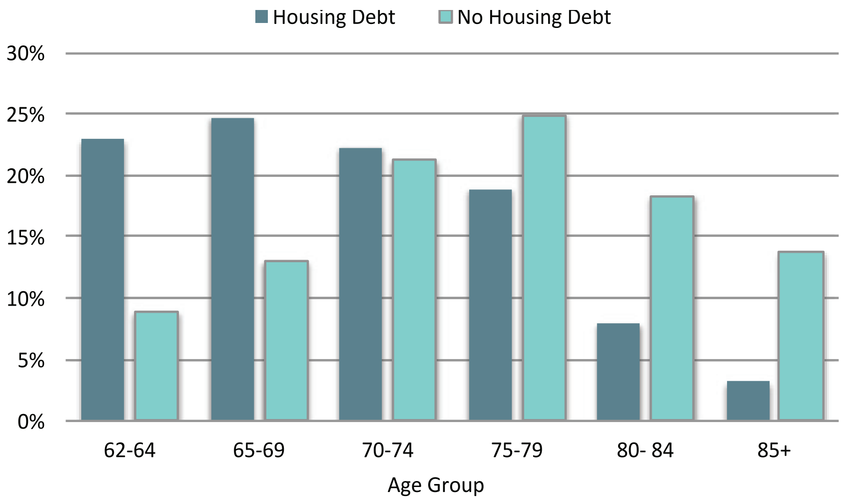
Home Equity	Housing Debt	No Housing Debt	Total
<$150K	68.9%	49.7%	55.3%
$150k to <$300K	18.9%	31.2%	27.6%
$300K+	12.2%	19.1%	17.1%
Total	29.4%	70.6%	100.0%

Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

7 AARP (2018). *2018 Home and Community Preferences Survey: A National Survey of Adults Age 18-Plus.* Washington DC: AARP.
8 NCOA (2012). *The United States of Aging Survey.* Washington, DC. National Council on Aging.

Cash flow challenges often occur within the context of stressful life circumstances that can increase with age. For this analysis, household age was based on the age of the oldest homeowner. Among households who had not yet paid off their housing debt, about half (47.6 percent) were under age 70, versus 22.0 percent of those who owned their home free and clear (Figure 1). In contrast, 31.9 percent of households without housing debt were ages 80 and older, compared to 11.2 percent of those who were still making mortgage and other housing debt payments.

FIGURE 1 • Age of Oldest Homeowner, by Housing Debt Status, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Other demographic attributes of these homeowner households, based on their housing debt status, also reflected the age distribution of these two groups:

- About one in four (23.5 percent) households with housing debt were living alone, compared to 35.1 percent of households without housing debt.
- About 22.7 percent of households with housing debt were in fair to poor health, versus 29.4 percent of households without housing debt.

Distinctions between these two groups also have implications for their vulnerability to a variety of sources of financial stress that could potentially disrupt the family budget and derail homeownership.

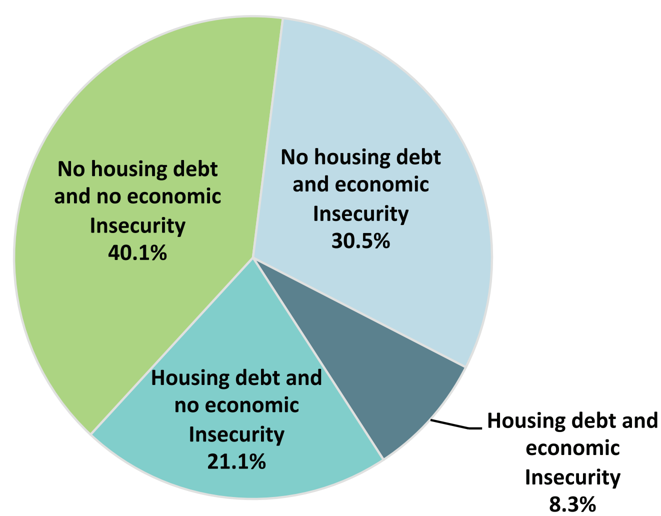
Economic Insecurity Among Older Homeowner Households

Given the uncertainties of later life, it can be difficult to maintain an adequate income to age- in-place. This analysis used the Elder Economic Security Standard™ Index (Elder Index) to measure the amount of income that retired adults need to meet basic monthly expenses without assistance and to age in their own homes.

The Elder Index helps to assess how well older adults can make ends meet. It reflects variations in the cost of living in different regions of the country, based on the cost of housing, transportation, health care, food, and other essentials such as clothing, household items, and personal needs. The Elder Index uses different benchmarks of economic insecurity, based on a household's living arrangement, health status, and whether they still have a mortgage.

In 2014, 38.8 percent of homeowner households ages 62 and older could be classified as economically insecure, with incomes less than the Elder Index benchmarks (Figure 2). Many homeowners in this group may just have been "getting by," and could have been facing ongoing, low-level financial strain.

FIGURE 2 • Economic Insecurity by Housing Debt Status Among Homeowner Households Ages 62+, 2014



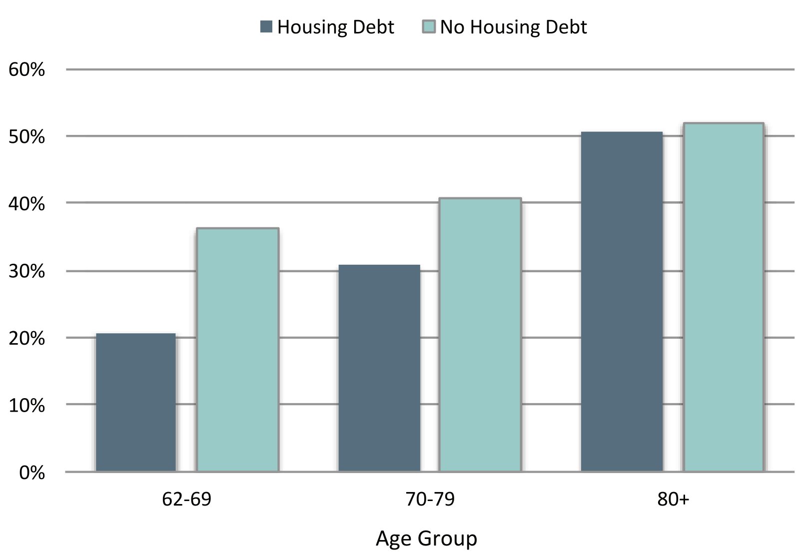
Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

With limited cash reserves, households who are economically insecure may also struggle to keep up with fixed expenses each month. Those with a mortgage or other housing debt are especially at risk of defaulting on their loan, and possibly facing foreclosure, should they face a cash flow crunch. In 2014, only 8.3 percent households ages 62 and older faced this level of financial vulnerability, by being economically insecure and also have housing debt. The majority of older homeowner households who were economically insecure did not have housing debt. They represented 30.5 percent of all older homeowner households.

The prevalence of financial insecurity varied by age (Figure 3):

- Among households ages 62 to 69, those who were paying a mortgage or other housing debt were less likely to be economically insecure (20.8 percent) compared to those without housing debt (36.1 percent).
- About half (51.8 percent) of homeowners ages 80 and older who owned their home free and clear were economically insecure. This compares to 50.7 percent of homeowners with housing debt in this age group. It appears that in 2014 economic insecurity was more prevalent at older ages, regardless of housing debt status.

FIGURE 3 • Economic Insecurity by Age and Housing Debt Status, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

The social safety net can be an important source of support older households who are economically insecure. To determine financial eligibility for benefits, many public programs use a percentage multiple of the Federal Poverty Level (FPL). The FPL is a measure of the minimum amount of income that individuals need for food, clothing, transportation, shelter, and other basic necessities. The Department of Health and Human Services sets FPL guidelines annually for the 48 contiguous states and separately for Alaska and Hawaii.

In 2014, 16.7 percent of older homeowner households were poor or near-poor, with incomes 150 percent of FPL or less (Table 2). This financially vulnerable group represented a much lower proportion of homeowner households ages 62 and older than those who were deemed to be economically insecure based on the Elder Index (38.8 percent). In addition, 27.8 percent of homeowners had incomes between 150 percent and 300 percent of FPL. While not living in poverty, households with such modest budgets often have limited financial flexibility. This can make it hard to manage the rising cost of living, or cope with spikes in expenses including property taxes and insurance.

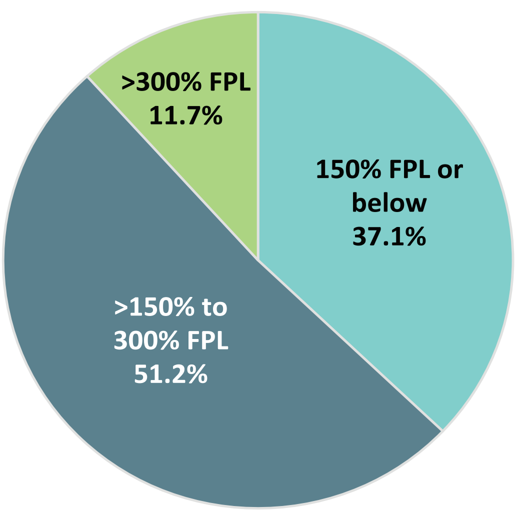
Over half (55.5 percent) of older households in 2014 had incomes above 300 percent of FPL. For these households, cash flow may become a challenge due to trigger events such as widowhood or a serious illness. These situations may result in a financial shock which can overwhelm the budget due to unexpected additional expenses or a sudden decline in income.

Housing debt can exacerbate cash flow challenges in later life. In 2014, 10.7 percent of homeowner households with housing debt had incomes 150 percent of FPL or below, and 22.1 percent had modest incomes (above 150 percent of FPL to 300 percent of FPL). With such limited incomes, older households who fall behind on their mortgage payments may also struggle to qualify for a traditional loan modification. Lenders are concerned that homeowners in default have sufficient cash flow to keep up with their loan payments along with everyday expenses.[9] Households who do not meet these financial requirements have a higher chance of redefault, and may have few options except a foreclosure process.

Access to benefits can help to sustain homeownership. In 2014, 18.6 percent of all homeowner households ages 62 and older with housing debt received payments from Supplementary Security Income (SSI), or assistance from Medicaid, Veterans Affairs, or other public programs. These programs can provide emergency cash and other support which help households to divert more of their income to their mortgage.

However, many public programs are means tested, so not all older homeowners may qualify for assistance. This could result in serious difficulties for households who are already economically insecure (Figure 4). In 2014, 37.1 percent of households with housing debt, who were economically insecure, may have qualified to receive government assistance based on their low incomes (150 percent of the FPL or less). However, over half (51.2 percent) of these homeowners were in the "gap," with incomes between 150 percent to 300 percent of the FPL. Their household budget may just cover basic needs, yet may be too high to qualify

FIGURE 4 • Income Level of Economically Insecure Households Ages 62+ with Housing Debt, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

easily for public programs that could help to reduce their risk of mortgage delinquency. As such, they could be at risk for losing their home should they face a cash flow shortfall.

Financial Uncertainties of Aging-in-Place

Looking at income sufficiency offers insights into a household's ability to meet predictable expenses. But retirement spending is often more volatile, due to internal household stressors. As they live longer, older people are also more likely than other age groups to experience major changes in their lives that could disrupt cash flow, such as an accident or illness. Homeowners at greatest risk of mortgage default or foreclosure are those who experience changes in their life circumstances which result in a prolonged or permanent state of financial difficulty.

This section considers 18 potential sources of vulnerability that often increase household expenses or result in a significant, and possibly rapid decline in income.[10] These risks to aging-in-place and homeownership can change over time. The factors included here were grouped to reflect the length of time into the future at which older households might experience such financial difficulties. These planning horizons range from immediate risks, to transitional and longer-term vulnerabilities whose impact on the household budget can be harder to predict.

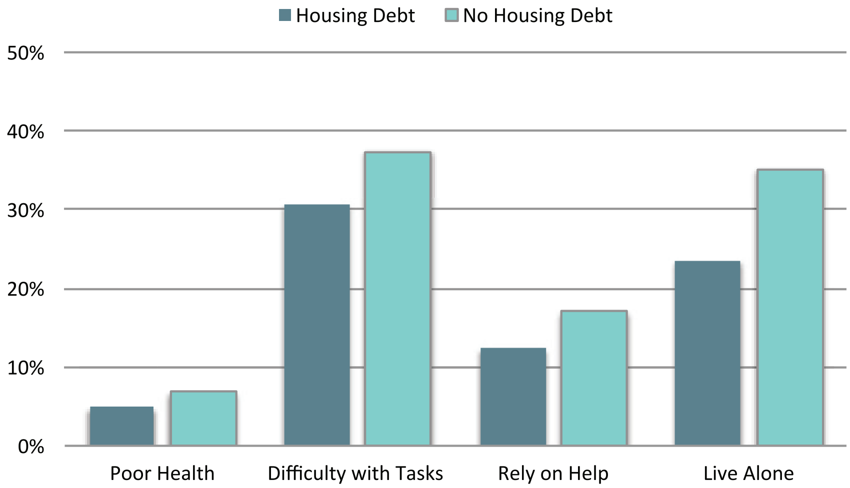
In 2014, homeowner households ages 62 and older were facing a variety of immediate challenges that could already have upset their budgets. In total, 31.7 percent of these older homeowners were living alone. Those with housing debt were less likely to be living alone (23.5 percent) than homeowners without housing debt (35.1 percent; Figure 5). Living alone can be more expensive than sharing the cost of food, transportation, and housing with a spouse or others. Older people who are socially isolated often face additional out-of-pocket health expenses. When those who lack social support become ill, they may stay longer in the hospital, and spend more time afterwards in a skilled nursing facility for rehabilitation.[11]

9 McCoy P (2014). *The Home Mortgage Foreclosure Crisis: Lessons Learned.* Digital Commons @ Boston College Law School.

10 See Appendix for a description of the financial vulnerability variables from the 2014 wave of the Health and Retirement Study that were used in this analysis.

11 Flowers L, Houser A, Noel-Miller C, Shaw J, Bhattacharya J, Schoemaker L, Farid M (2017). *Medicare Spends More on Socially Isolated Older Adults.* Washington DC: AARP Public Policy Institute.

FIGURE 5 ● Prevalence of Immediate Vulnerability Factors Among Homeowner Households Ages 62+, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Few homeowners in 2014 indicated that they were in poor health (6.3 percent). However, a substantial proportion were dealing with limitations that could make it hard to age-in-place:

- Among 37.4 percent of households with no housing debt, one or more homeowners had difficulty with daily tasks such as bathing or dressing, cooking, shopping for groceries, or with hearing or reading newsprint. In addition, 17.0 percent of these households were getting help with personal care or everyday tasks.
- Households with housing debt were less likely to be dealing with these potential financial risks. Among 30.6 percent of these households, one or more homeowners had difficulty with these daily tasks, and 12.4 percent relied on help to stay at home.

These households could face a serious cash flow crunch due to out-of-pocket medical and long-term care expenses, if their health and ability continues to deteriorate over time. According to the Kaiser Family Foundation, average out-of-pocket spending on health-related expenses across Medicare beneficiaries in fair to poor self-reported health consumed 47 percent of their average per capita Social Security income in 2013.[12] By 2030, these expenses are projected to consume 57 percent of their typical Social Security check.

Another important responsibility for homeowners is paying property taxes and homeowners insurance. In 2014, 3.1 percent of homeowners, whose mortgage payments included property taxes or insurance, had fallen more than 2 months behind on their mortgage payments at some point in the previous two years. Households who do not pay property taxes face penalties and fines, and could end up losing their home through a foreclosure process.

Older homeowners can also see their cash flow disrupted by a major life transition or other instability in their lives. Declining health is often a signal of impending changes in income or expenses. Overall, one in five (21.2 percent) households reported one or more homeowners being in fair health (Figure 6). Those with housing debt were somewhat less likely to be in fair self-reported health (17.8 percent) than homeowners without housing debt (22.6 percent).

The risk of falling is another common concern for older people. In 25.0 percent of households with housing debt, one or more homeowners had fallen within the previous two years. The likelihood of a recent fall was higher among homeowners who owned their home free and clear (32.6 percent). Falls can be serious and costly. They are a major cause of fractures and head injuries that can make it hard to live independently without extra support.[13] These accidents also alert vulnerable homeowners that they may need to spend more on wellness activities, and make repairs or other modifications to improve home safety.

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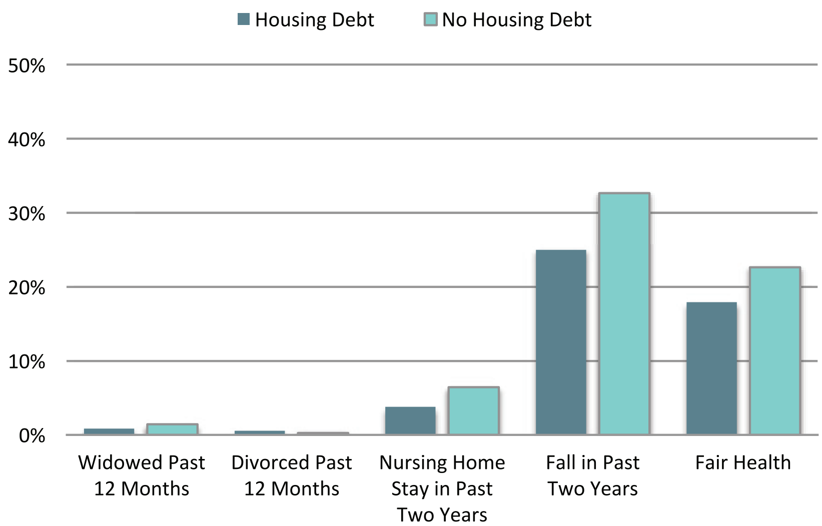
[12] Health expenses included premiums, deductibles, and cost sharing for Medicare-covered services, along with spending on services such as long-term services and supports and dental care not covered by Medicare. See: Cubanski J, Neuman T, and Smith KE (2018). *Medicare Beneficiaries' Out-of-Pocket Health Care Spending as a Share of Income Now and Projections for the Future.* Menlo Park, CA: Kaiser Family Foundation.

[13] Florence CS, Bergen G, Atherly A, Burns E, Stevens J and Drake C (2018). "Medical Costs of Fatal and Non-Fatal Falls in Older Adults." *Journal of the American Geriatrics Society* 66:693–698.

Relatively few households ages 62 and older reported that one or more homeowners had stayed in a nursing home within the past two years. Homeowners with housing debt were less likely to have needed such institutional care (3.7 percent) than those who own their home free and clear (6.4 percent).

FIGURE 6 ● Prevalence of Transition Vulnerability Factors Among Homeowner Households Ages 62+, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

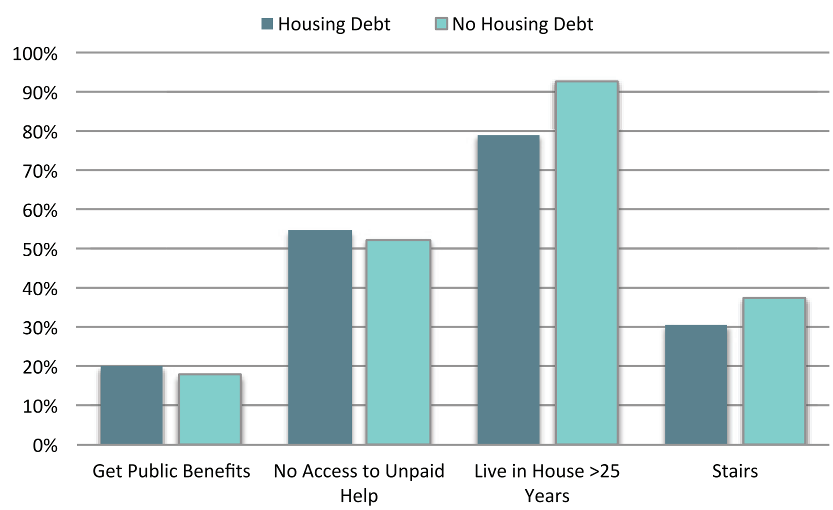
One of the biggest transitions in later life is the loss of a spouse or partner. Households in this situation could experience a period of financial instability and possibly permanent financial hardship. In 2014, 1.1 percent of married/partnered households were widowed in the previous 12 months. Less than 1 percent were separated or went through a divorce in this period. In addition to losing a companion, these homeowners could quickly face a cash flow shortfall because of losing Social Security and other sources of retirement income. They may also be burdened by the cost of end-of-life care and funeral arrangements.

When making their retirement plans, many people overlook the need to include financial protections for the surviving spouse. In 2014, 34.8 percent of married/partnered households with housing debt had no life insurance which could help the surviving spouse/partner continue to pay the mortgage or other expenses. In addition, 68.4 percent of these debt-burdened households had no pension to support the surviving spouse/partner financially.

Looking to the future, older homeowner households in 2014 often had long-term financial vulnerabilities that could lead to costly problems over time. A big challenge was that most of these households were not just dealing with their own aging process, but also with aging houses. According to the National Association of Home Builders, Americans ages 65 and older own only 14 percent of owner-occupied homes built in 2010 or later.[14]

About 89 percent of homeowner households ages 62 and older in 2014 had lived in the same house for more than 25 years (Figure 7). Older homes are more likely to need repair, along with regular upkeep to ensure that the house maintains its livability. A high proportion of those with existing housing debt (79.1 percent) could face these sizable expenses in the coming years, as well as 92.9 percent of older households without housing debt.

FIGURE 7 ● Prevalence of Long Term Vulnerability Factors Among Homeowner Households Ages 62+, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

[14] National Association of Home Builders (2018). *Half of US Homes Built before 1980.* **http://eyeonhousing.org/2018/08/half-of-us-homes-built-before-1980/**

In addition, most of the existing housing stock in the United States was not built to accommodate older people with declining health and ability. Houses with stairs can be especially difficult in later life, and often cannot easily be modified to create single-floor living. Among household with existing housing debt, 30.6 percent lived in a multi-story home. This was also a potential issue for 37.4 percent of households who owned their home free and clear. The expense of making even small modifications could disrupt monthly cash flow.

Given the high cost of paid care, older people often turn to family and friends for extra help. However, this may not be an option for a many homeowners. In 2014, 53.1 percent of older homeowner households did not have children living within 10 miles, and/or believed that they could not get help from relatives or friends in the future. As it becomes harder to stay at home, these homeowners may need to pay for home care. This could be a substantial additional financial burden. According to the 2019 Genworth Cost of Care Survey, the nationwide median cost for homemaker services was $22.50 per hour. This added up to $16,200 per year for those receiving 60 hours of services per month.[15]

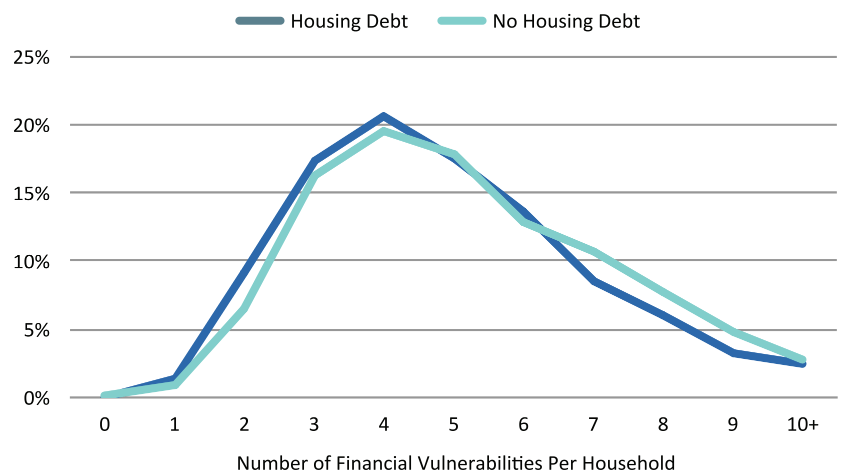
About one in five (20.1 percent) of homeowner households ages 62 and older with housing debt were receiving public assistance in 2014, as were 17.9 percent of those without housing debt. Relying on these programs could be risky. State funding for some social services and supports have been reduced or eliminated in times of economic downturn.[16]

Magnitude of Cash Flow Vulnerability

In addition to evaluating the prevalence of specific sources of potential financial stress, it is important to assess the total bundle of risks that households were facing in 2014. The number of immediate, transition, and longer-term vulnerabilities described above were tallied for each household to assess the magnitude of their susceptibility to cash flow disruptions.

The results of this tally show that most homeowners in 2014 were likely to be facing numerous potential challenges that could impact their retirement income or expenses. Overall, 54.3 percent of these households had between three to five of these sources of vulnerability (Figure 8). There was a small difference by housing debt status in the level of household financial vulnerability. About half (48.6 percent) of those with housing debt had a total of four or fewer of these aging-in-place risk factors, versus 43.3 percent of older households who owned their home free and clear.

FIGURE 8 • Total Sources of Financial Vulnerability Per Homeowner Household Age 62+, by Housing Debt Status, 2014

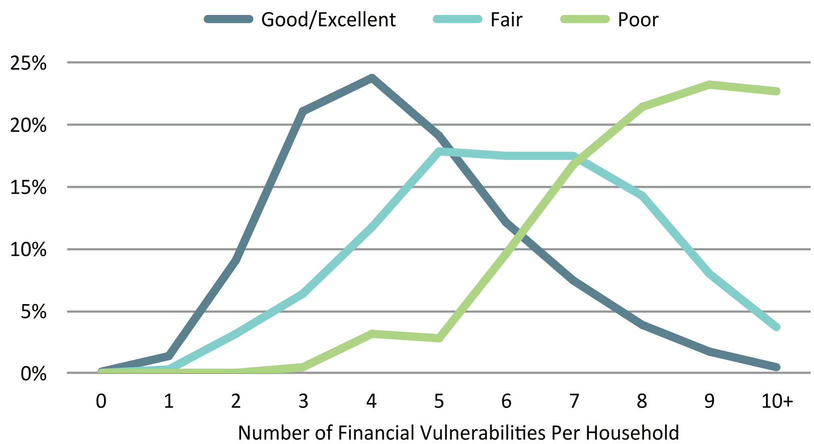


Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Only 8.5 percent of all homeowner households ages 62 and older had two or fewer sources of financial vulnerability. In contrast, a substantial proportion might need to cope with numerous destabilizing risks. One in four (24.3 percent) households in 2104 were facing seven or more potential sources of financial stress that could disrupt their budget. Households with housing debt were somewhat less likely to have seven or more these of vulnerabilities (20.4 percent) than households without housing debt (26.0 percent). This difference may reflect the younger ages of households with housing debt (see Figure 1).

[15] Genworth (2019). *Genworth Cost of Care Survey 2019.* Richmond VA: Genworth Financial, Inc.
[16] Gordon T (2012). *State and Local Budgets and the Great Recession.* Brookings Institution: Washington, DC.

FIGURE 9 • Total Vulnerabilities Per Homeowner Household Age 62+, by Health Status, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Health status had a sizable effect on the total number of financial vulnerabilities per household. About 84.1 percent of those who were in poor health were facing seven or more vulnerabilities that could disrupt their cash flow (Figure 9). In contrast, only 13.5 percent of households in good to excellent health appeared to have so many sources of risk.

These results illustrate the numerous financial challenges that older homeowners with health problems could be dealing with, either immediately or over time. The findings also highlight the potential for cash flow shortfalls to cascade into a housing crisis, if those in fair to poor health decide to divert funds from paying the mortgage or needed home repairs, to out-of-pocket medical expenses or for help at home.

Income sufficiency, as measured by the FPL, also appears to have an effect on the level of financial vulnerability among older homeowners (Figure 10). Households living at or near poverty (150% FPL or lower) could be most at risk for a destabilizing financial shock. Among this group, 82.3 percent had five or more vulnerabilities, while 45.3 percent had seven or more. Older homeowners who are not poor, but likely to be financially insecure (incomes greater than 150% FPL to 300% FPL), also had many sources of potential stress that could derail their ability to age-in-place. More than two-thirds (67.9 percent) had five or more financial vulnerabilities in 2014. About one in three (31.3 percent) of these households have seven or more sources of potential financial vulnerability.

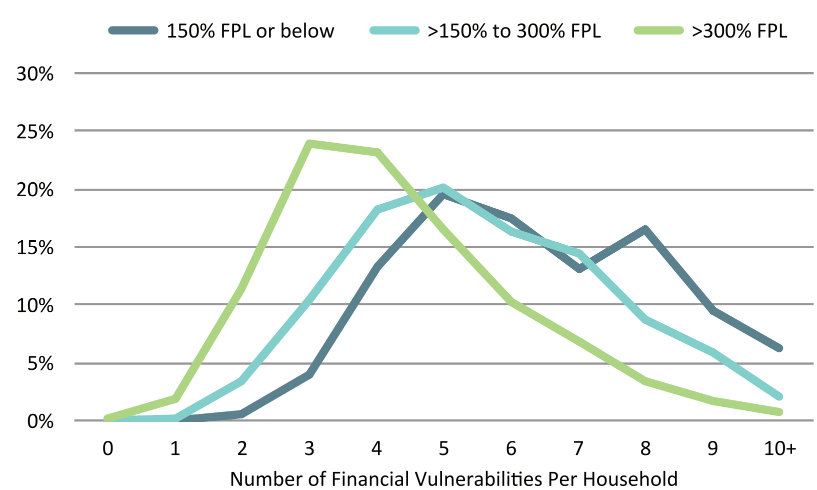
Older homeowner households with incomes of 300 percent FPL or higher typically have three to four sources of potential financial vulnerability, and 13.4 percent had two or fewer. Even among more affluent older homeowners, 12.6 percent were likely to be at higher risk, with seven or more sources of potential financial vulnerability (Figure 10).

Cascade of Troubles

Since financial trouble is rarely an isolated event, sustaining homeownership often means dealing with a bundle of problems. To assess the range of stressors that a household may face, financial vulnerabilities discussed above were grouped into five summary risk factors.

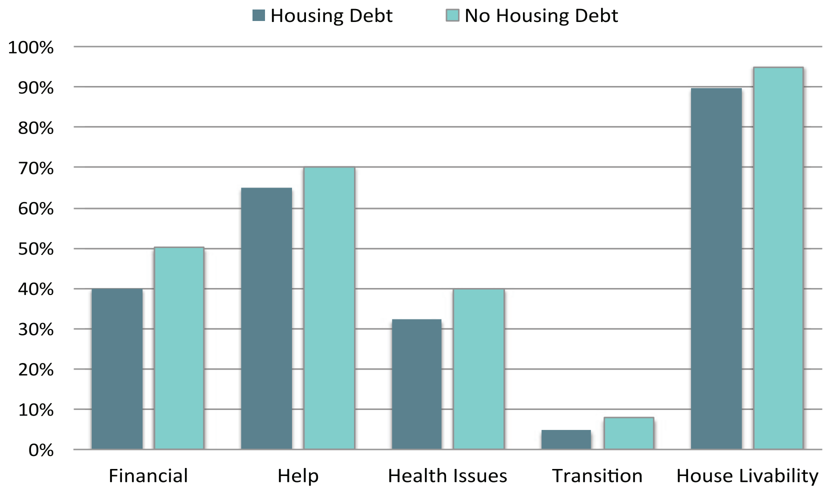
In 2014, immediate financial challenges (economic insecurity and/or relying on public assistance) were a source of risk for 47.1 percent of all homeowner households ages 62 and older (Figure 11). Half of those without housing debt (50.1 percent), along with 39.9 percent of households with debt burdens were dealing with these cash flow issues.

FIGURE 10 • Total Vulnerabilities Per Homeowner Household Age 62+, by Poverty Level, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

FIGURE 11 • Summary Vulnerability Factors by Housing Debt Status, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Many other vulnerabilities – beyond financial shortfalls – have the potential to disrupt a homeowner's monthly budget and make it harder to keep up with borrower obligations:

- House livability was the greatest potential source of financial trouble in this population. Most (93.4 percent) older homeowner households had lived in their house over 25 years, and/or lived in a house with multiple floors.
- Accessing unpaid help was a source of financial vulnerability for 68.6 percent of these households, either because they were living alone, and/or because they neither had adult children living nearby, nor family and friends who could assist with future needs.
- Health-related problems (poor health or difficulty with daily tasks) could also be a source of concern, especially for households without housing debt (39.8 percent).

In 2014, relatively few households had experienced a recent life transition (divorce, widowhood, a fall, or a stay in a nursing home) that could have disrupted their income or expenses. Only 5.0 percent of those with housing debt experienced one or more of these changes. Older homeowners who owned their home free and clear, who tended to be older, were somewhat more likely to have faced these sources of financial disruption (7.9 percent).

Researchers who examine the causes of mortgage delinquency find that it is often the need to deal with numerous difficulties, even small ones, that can overwhelm the family budget.[17] The following scenarios outline some of the ways that multiple household financial vulnerabilities can snowball into a "cascade of troubles." These situations incorporate summary vulnerability factors to highlight how older households could end up delinquent in their mortgage payments and possibly face foreclosure.[18]

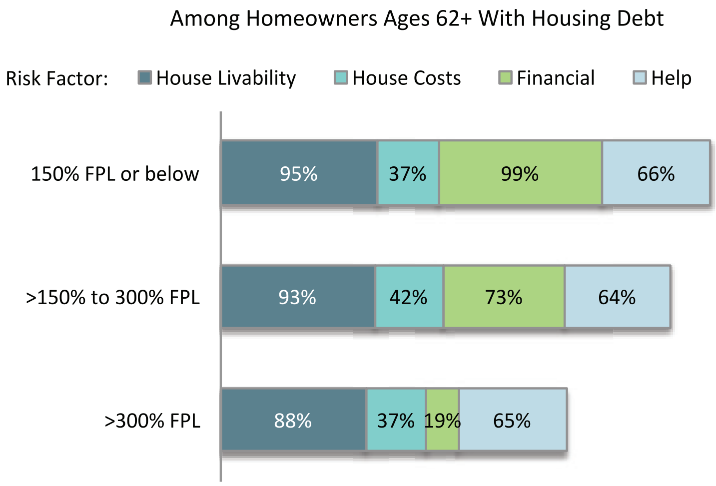
Cascade scenario #1: When the home needs repairs or renovation for aging-in-place.

Like 95 percent of homeowners with low incomes (150 percent or below of FPL), Edna Smith has lived in her house for over 25 years (Figure 12). Because of her limited financial resources she has deferred home maintenance until now, when the roof is starting to leak. Finding the cash to make needed repairs puts an extra strain on her budget. Edna is economically insecure, as with 99 percent of low income homeowner households, so replacing the roof becomes the "tipping point," and she is unable to pay the mortgage. This unexpected expense also makes it more difficult for her to keep up with other housing costs, especially homeowners insurance, like 37 percent of other poor older homeowners with a mortgage. Edna runs into further problems when she is scammed by the roofing contractor. She lives alone and does not have children living nearby, nor access to help from family or friends, who could advise her with these major financial decisions (66 percent of low-income homeowner households). As a result, Edna finds herself in a permanent state of financial difficulty, and may not qualify for a loan modification which could help her avoid foreclosure.

[17] Fields D, Libman K, Saegert S, Clark H, and Justa F (2007). *Understanding Responses to the Threat of Foreclosure Among Low-Income Homeowners.* Center for Human Environment, City University of New York.

[18] Results presented here represent independent calculations for each source of vulnerability. They are not conditional probabilities, i.e., where the percentage vulnerable to financial problems is dependent on having problems with housing livability, etc.

FIGURE 12 • Potential Cascade of Troubles Due to Home Repairs or Renovation, by Income Level, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

Homeowners with housing debt are obligated to keep the home in good repair. They may also want to update their older homes to make them more livable as they grow older. For those dealing with multiple problems, tackling an expensive project can be especially hard. Seniors are the most at-risk group when it comes to fraudulent contractors and home improvement scams for many reasons – they are polite, do not ask as many questions or complete background checks as often as younger homeowners, and may forget details of the scam.[19]

Over 90 percent of older homeowners with low to moderate incomes could experience financial pressure because they need to make home modifications over time. Two-thirds of these households could also face burdensome expenses, and troublesome budget tradeoffs, if they need extra help to continue to age-in-place.

Many households with incomes above 300 percent of FPL also faced these financial vulnerabilities in 2014 (Figure 12). In the future, about 88 percent could be dealing with issues maintaining the livability of their house over time. In addition, 65 percent could find themselves needing to pay out-of-pocket for assistance because they live alone or struggle to get help from family or friends. However, with higher incomes, these homeowners are less likely to face a cascade of trouble due to a cash shortfall.

These scenarios also highlight how a life-changing event such as widowhood, which often diminishes the surviving spouse's financial circumstances, could rapidly heighten the risk of other, latent troubles and make it difficult to sustain homeownership. These findings suggest that changes over time that diminish cash flow can upset even the best laid retirement plans.

Cascade scenario #2: When unpaid help from family or friends is unavailable.

After the death of his wife, Ed Harrison has been living alone. Like 32 percent of homeowners in his situation, he struggles with health-related issues (Figure 13). His eyesight is deteriorating, so he can no longer drive safely. With no family or friends nearby to help, he's already missed several doctor appointments, and is running low on medication for his heart condition. He decides to use Uber for numerous trips to the clinic and pharmacy. As with 42 percent of homeowners ages 62 and older who live alone, Ed is economically insecure (or poor enough to qualify for public benefits), so this extra expense adds to his financial struggles. He also has issues with the livability of his house, as do 89 percent of other homeowners living alone. It's old, poorly lit, and has stairs. Ed has a serious fall and ends up in the hospital, facing additional out-of-pocket expenses. He's able to stabilize his health situation, but at the end of the month finds that he cannot pay the mortgage.

The potential for a bundle of troubles, and the type of problems that could be a "tipping point," varied by living arrangement in 2014. Among older homeowners households who live alone, lack of immediate help could put additional pressure on their already limited household finances (an issue for 42 percent of those in this group). Single households where homeowners are not living alone may be at risk for a cash flow crunch for different reasons. In 2014, 62 percent had little financial buffer to cope with multiple problems because they were either economically insecure, or because their cash flow was so constrained that they qualified for public benefits (Figure 13). Problems with the livability of their home (a risk for 92 percent in this group) could trigger a cascade of additional financial troubles.

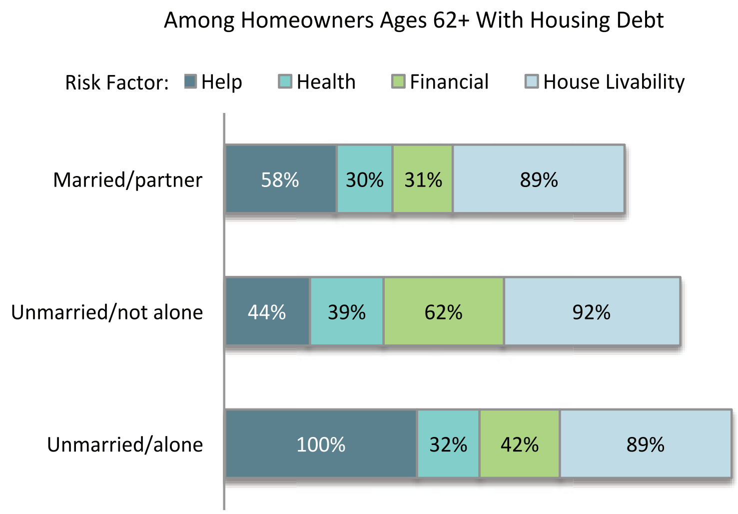
[19] HomeAdvisor: *Preventing Home Improvement Fraud.* **https://www.homeadvisor.com/r/preventing-home-improvement-fraud/**

Householders who are not living alone could also face a cascade of trouble if they have difficulty accessing unpaid help. More than half (58 percent) of those living in married/ partnered households do not having family or friends nearby to offer help or reduce the burden on caregivers.

Resiliency in the Face of Risk

In addition to assessing sources of household vulnerability, it is important to consider the strengths that can help homeowners deal with constrained finances and other potentially destabilizing problems. The capacity to respond effectively in the face of change is not solely a function of households financial resources. It also helps to have a diversity of other supports that can offer ready responses to cash flow disruption.

FIGURE 13 ● Potential Cascade of Troubles Due to the Availability of Help, by Marital Status, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

A measure of resilience was calculated for each household, based on a tally of the following five sources of strength that can make it easier for homeowners to bounce back should they experience a financial setback or problems with aging-in-place:

- **Economically secure.** Households with adequate cash flow often have more slack in their budgets to keep their financial situation manageable. Knowing that funds are available can also lower stress and improve decision-making.[20]
- **No housing debt or loan-to-value ratio of 10 percent or less.** Having fewer fixed expenses such as a mortgage or other housing debt increases financial flexibility.
- **House without stairs.** Living in a single story house offers homeowners greater ability to adapt to living with physical impairments.
- **Good to excellent health.** Homeowners who are not dealing with health problems often have more physical and mental capacity to respond to problems.[21]
- **Access to unpaid help (defined here as children living within 10 miles, and/or family and friends available to assist if needed in the future).** Households with a strong informal network of support have more social reserves available as backup, and may be better able to identify solutions and access timely information.[22]

In 2014, 71.0 percent of all homeowner households ages 62 and older had three to four of these resilience factors (Figure 14). However, about one in five (17.3 percent) of these households could be more vulnerable in the face of financial disruption, with only two or fewer sources of resilience.

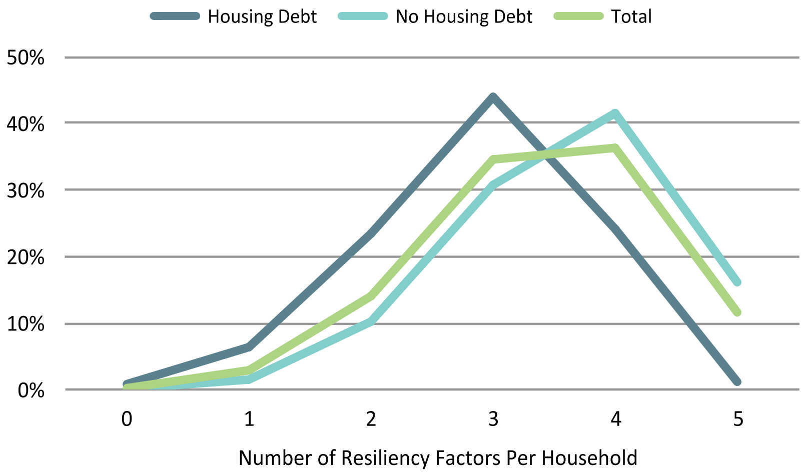
Resilience is reduced among households who still need to deal with the fixed costs of housing debt in later life. This is reflected in the fact that 30.7 percent of households with housing debt had a low level of resilience (two or fewer sources of resilience). In contrast, only 11.8 percent of homeowner households who owned their homes free and clear had such low levels of resiliency. This finding suggests that while households with housing debt may have fewer sources of potential vulnerability (see Figure 8), should

[20] CFPB (2017). *Financial well-being in America.* Washington DC: Consumer Financial Protection Bureau.

[21] Sweet E, Nandi A, Adam E, and McDade T (2013). The high price of debt: Household financial debt and its impact on mental and physical health. *Journal of Social Science & Medicine* 91: 94-100.

[22] Wettstein G and Zulkarnain A (2019). *Will Fewer Children Boost Demand for Formal Caregiving?* Chestnut Hill, MA: Center for Retirement Research at Boston College.

FIGURE 14 • Level of Resilience Among Homeowner Households Ages 62+, by Mortgage Status, 2014

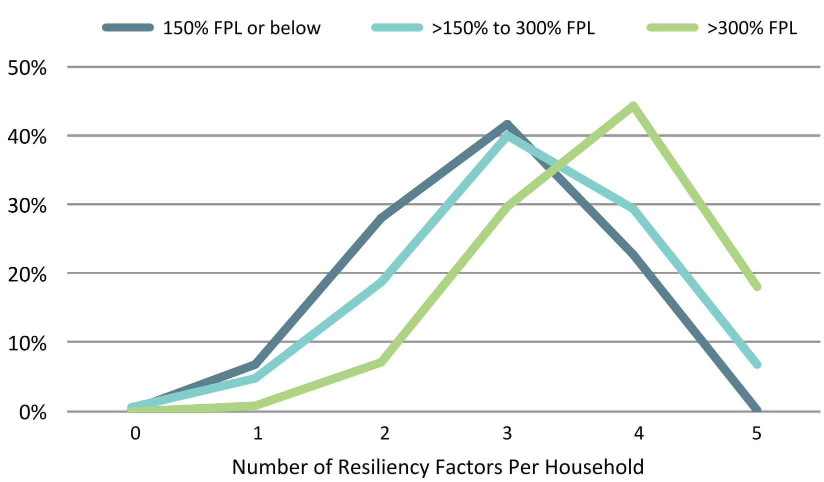


Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

FIGURE 15 • Level of Resilience Among Homeowner Households Ages 62+, by Health Status, 2014

Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

FIGURE 16 • Level of Resilience Among Homeowner Households Ages 62+, by Poverty Level, 2014



Source: Gerontology Institute at University of Massachusetts Boston analysis based on the 2014 Health and Retirement Study.

something go wrong, they may also have fewer resources that could help them cope.

The level of household resiliency varied by considerably by health status. One-third (33.0 percent) of homeowners households ages 62 and older in poor health also had none, or only one, potential source of resilience (Figure 15). These households may already have had their resources diminished by ongoing health problems. Such limited resilience could make it even more difficult for them to cope with additional financial strain in the future.

In contrast, 56.4 percent homeowners in good to excellent health had a higher capacity to cope with financial uncertainty, with four or five of the sources of resilience describe above. Those in fair health typically had three potential sources of resilience, and 33.0 percent had four or five sources of resilience.

Levels of resilience varied less by income sufficiency, as measured by the Federal Poverty Level (FPL). In 2014, close to two-thirds (62.2 percent) of those with incomes greater than 300% FPL had four or more resiliency factors (Figure 16). Only 7.9 percent had two or fewer sources of resilience.

The distribution of resiliency levels among households in the “gap’” (above 150% FPL to 300% FPL) was similar to that of households with low incomes (at or below 150% FPL). About 40 percent of households in both of these groups had three sources of resilience. Older homeowners in the “gap,” who may find their finances stretched thin, may still have considerable resiliency. Among this group, over one-third (36.0 percent) had four to five sources of resilience. In contrast, homeowners with low incomes may have an especially difficulty time bouncing back from trouble. In this group, 35.1 percent of households only had two or fewer potential sources of resilience (Figure 16).

Implications for Sustaining Homeownership

The ability to live at home is a dynamic process. This can make it difficult for older homeowners and their advisors to consider all the challenges that may lie ahead. A cash flow perspective highlights the wide array of immediate and latent sources of financial stress that can derail homeownership in later life. Examining these vulnerabilities, both individually and cumulatively, helps to assess the underlying drivers that can disrupt the household budget. The results also suggest new strategies to strengthen the ability to age-in-place.

Older homeowners need help to focus on what they can control. Although the retirement landscape may be increasingly uncertain, many risks associated with aging-in-place can be anticipated. These internal household stressors can often be mitigated with sufficient resources and timely interventions. Pressing financial needs, and the difficulties they can cause, also offer important opportunities for learning.

Homeowners face numerous decisions as financial vulnerabilities escalate in later life. The disproportionate hit on long-term care facilities by COVID-19 also has more people considering the value of the home as a safe space for aging-in-place. They could benefit from holistic decision support and other tools which address the specific risks found across the lifecourse of homeownership. This could include advice on how to deal with diverse, and often intersecting, sources of strain on cash flow. Having the ability to make wise decisions gives people the confidence to live at home as they age. For example, some research indicates that older people who see the world in a positive way are more likely avoid falls by using assistive devices and staying active in their communities.[23]

Older homeowners are likely to face multiple vulnerabilities, yet many will lack the resources they need to mitigate all these risks. Timely decision support could help them make conscious choices and set priorities to avoid a cascade of troubles. They could also benefit from crafting a customized blueprint for aging-in-place that reflects their unique risks. This could help to address more "hidden," longer-term challenges such as an aging home. These efforts could build on the new benefits, such as home modifications, available to Medicare Advantage plan participants under the CHRONIC Care Act of 2018.

Homeowners who are economically insecure are especially in need of support. In 2014, more than one in three older homeowner households were financially insecure. Many may just have been "getting by," with little room in their budgets to cope when things do not go as planned. As they struggle with the rising cost of living, or spikes in property taxes and insurance, their ability to sustain homeownership may become precarious.

Because they are not living in poverty, the financial challenges of lower- to moderate-income households are often overlooked. Many may rely on "pay-as-you-go" financing, where cash flow is critical.[24] Left on their own, they often face difficult trade-offs that can have serious consequences. A survey of aging network professionals found that 23.4 percent regularly encountered seniors in debt who skipped needed home or vehicle repairs, and 14.5 percent who missed rent or mortgage payments.[25] This suggests that older Americans try hard to solve cash flow shortfalls that can limit their ability to stay at home. But with little financial cushion, the short-term budgetary fixes they use may provide only an illusion of financial security.

Shorter-term planning could help older homeowners respond effectively. Solving everyday problems can become increasingly complex with growing income and expense volatility. The study also suggests that

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[23] Ward-Griffin C, Hobson S, Melles P, Kloseck M, Vandervoort A, and Crilly R (2004). Falls and fear of falling among community-dwelling seniors: The dynamic tension between exercising precaution and striving for independence. *Canadian Journal on Aging* 23 (4): 307–318.

[24] Morduch J and Siwicki J (2017). *In and Out of Poverty: Episodic Poverty and Income Volatility In the U.S. Financial Diaries.* **https://www.usfinancialdiaries.org/paper2**.

[25] NCOA (2018). *Older Adults and Debt: Trends, Trade-offs and Tools to Help.* Washington DC: National Council on Aging.

financial trouble is unlikely to be due to an isolated event. Even among more affluent older households, only 13.4 percent had two or fewer vulnerabilities in 2014. Among homeowners with health limitations or low incomes, the looming risks are much greater. This highlights the fragility of many living situations, where even a small change could overwhelm the capacity to sustain homeownership.

Shorter-term financial planning can help to address these challenges, by giving older homeowners more options than pinching pennies, or foregoing basic necessities. Targeting households while they are still able to manage on their own also offers a cost effective way to leverage limited resources. Many interventions that reduce risk, such as installing grab bars, are relatively inexpensive. Shorter-term planning could also make it easier to recover from a major mishap by rapidly engaging existing social and environmental supports. With more effective coping strategies, older households are better able to keep small daily challenges from turning into bigger problems that could destabilize homeownership.

Internal household stressors can be exacerbated if they are neglected due to limited resources or inadequate planning. However, for many it may feel safer to wait until their situation becomes serious, even if their ability to stay at home hangs by a thread. Shorter-term planning could help by including an assessment of immediate, transitional, and longer-term household stressors. Understanding their specific risks and potential trigger events could inspire older homeowners to take timely action. It may also help them avoid becoming "stuck" in the contemplation stage of planning due to feelings of fear or ambivalence.

Promoting resilience can offer new ways to enhance the ability age-in-place. A cash flow perspective shows that older homeowners households have sources of strength as well as areas of vulnerability. It also suggests that an important solution could lie in finding ways to enhance the resiliency of these homeowners to financial challenges. This approach may be especially critical during periods of economic uncertainty, when it becomes even more difficult to predict all the risks that may lie ahead.

Resiliency often depends on having sufficient flexibility to both maintain stability, and to adapt, in the face of change. This requires asking different kinds of questions, to assess the ability of homeowners to respond in a timely and effective way:

- **Tolerance for the unexpected** – Can older homeowners easily manage new problems as they arise? Are they able to put backup systems in place? How often do they go without because the services and supports they need are unaffordable?
- **Ability to buffer against financial shock** – Are older homeowners able to generate sufficient cash flow to deal with unexpected expenses? How effectively do they cope with cash shortfalls? Are family and community resources readily available to deal with new functional limitations, increasing social isolation, or problems with the home environment?
- **Speed of response to changes** – How quickly can older homeowners resolve problems that affect their home or wellbeing? Are they confident in knowing when to act and what to do? How frequently are needed changes deferred until there is a crisis? How much time and effort does it take to access additional resources?

Enhancing financial resiliency can increase a homeowner's sense of personal efficacy. Promoting this type of shorter-term planning may also offer new ways to engage Americans who typically do not want to think about becoming impaired or impoverished in later life. Developing new prevention and mitigation strategies will especially benefit households with constrained finances and other potentially destabilizing problems. Older homeowners across the economic spectrum could also benefit from other, more proactive solutions. For example, financial planners are starting to include home equity in retirement planning, often to preserve income-generating assets for many years.[26]

Adequate cash flow is critical when the "rainy day" arrives. In today's uncertain times, even the best laid retirement plans can go awry. Economically insecure older households, and those with many household stressors, may

[26] See for example: Sacks BH and Sacks SR (2012). "Reversing the Conventional Wisdom: Using Home Equity to Supplement Retirement Income." *Journal of Financial Planning* 25 (2): 43-52; Neuworth P, Sacks BH and Sacks SR (2017). Integrating Home Equity and Retirement Savings Through the "Rule of 30." *Journal of Financial Planning* 30 (10): 52-62.

be especially at risk of losing their home in times of trouble. Lenders are concerned that homeowners seeking relief from mortgage default have sufficient cash flow to keep up with their loan payments along with everyday expenses. Those who do not meet these financial requirements have a high chance of redefault, and may have few options except a foreclosure process. Homeowners at greatest risk of mortgage default or foreclosure are those who experience changes in their life circumstances which result in a prolonged or permanent state of financial difficulty.

Researchers have found that homeowners who are delinquent in their mortgage payments often turn to social services for short-term assistance.[27] However, in 2014 27.8 percent of older homeowner households were in the financial "gap," with incomes between 150 percent and 300 percent of FPL. These homeowners are financially vulnerable, yet often have too much income to qualify easily for public benefit programs. They need other ways to improve cash flow and increase emergency savings, such as a job or a roommate to share the bills. They could also benefit from additional support to ensure that they do not become the victims of financial exploitation. As shown in this study, more than two-thirds (68.6 percent) of older homeowners live alone or may have difficulty accessing help from family or friends.

For older people who are house-rich and cash-poor, tapping home equity can help to address immediate cash shortfalls and longer-term retirement goals. Increasing liquidity using housing wealth can also create an additional level of uncertainty. For some, the solution may involve difficult decisions about when to sell the house and where to move. Those who have housing wealth could buffer against a destabilizing financial shock with a home equity loan or line of credit. A reverse mortgage can also further improve cash flow by eliminating the need to make monthly mortgage payments. Deciding how and when to tap home equity is a serious issue that is best done within the context of aging-in-place. Older homeowners need to consider how this asset can help them prepare for the unexpected, as well as managing their day-to-day financial lives.

[27] Fields D, Libman K, Saegert S, Clark H, and Justa F (2007). *Understanding Responses to the Threat of Foreclosure Among Low-Income Homeowners.* New York: Center for Human Environment, Graduate Center of the City University of New York.

Appendix: Sources of Financial Vulnerability

The charts below list the 18 variables that were used to assess household financial vulnerability, based on the 2014 wave of the Health and Retirement Study (HRS). Table 1a describes variables for potential sources of vulnerability relating to household finances and homeownership. Table 1b lists variables reflecting aging-in-place vulnerabilities that could also reduce household income or increase expenses.

TABLE 1a ● Financial Vulnerability Factors from the 2014 Wave of the Health and Retirement Study: Financial Challenges

Source of Vulnerability	2014 Health and Retirement Study Question
Financial*	Is participant's household income less than the Elder Index regional average [YES]
Financial	RAND Variables for SSI, Medicaid, Veterans benefits, and other public assistance programs. RwGOVMD. RwDSTAT. RwIGXFR [YES TO ANY FORM OF ASSISTANCE]
Spouse Funds	CONTINUE (Q261 {NOT 8 and NOT 9}. OTHERWISE: If [he/she] were to die before then, would the payment stop, continue unchanged, or continue at a reduced level? STOP
Spouse Funds	Marital status; Q215: Not including Social Security, are you [or your] [husband/wife/partner] currently receiving any other income from retirement pensions? [NO PENSION PAYMENTS]
Spouse Funds	Marital status; T011 – R have any life insurance [NO]
House costs	H031 Do your mortgage payments include property taxes or insurance? [NO]
House costs	HW353 Have you fallen more than 2 months behind on mortgage payments in the past 2 years? H031 Do the payments include property taxes or insurance? [YES TO BOTH]
House Livability*	H070: In what year did you acquire your home? Acquired home more than 25 years ago [Earlier than 1989]
House Livability	H135: How many stories in your home? [YES] selected for more than one story.

TABLE 1b ● **Financial Vulnerability Factors from the 2014 Wave of the Health and Retirement Study: Challenges for Aging in Place**

Source of Vulnerability	2014 Health and Retirement Study Question
Health	C001 – Rate Health [POOR]
Health	POSITIVE RESPONSE TO ANY OF THESE QUESTIONS G014 – Difficulty – Dressing [YES] G021 – Difficulty – Bathing [YES] G041 – IADL Meal Preparation Difficulty [YES] G044 – IADL Grocery Shopping Difficulty [YES] C106 – Does the pain make it difficult for you to do your usual activities such as household chores or work? [YES] C097 – How good is your eyesight for seeing things up close, like reading ordinary newspaper print, using glasses or corrective lenses as usual? (Is it excellent, very good, good, fair, or poor?) [FAIR/POOR] C103 – Is your hearing excellent, very good, good, fair, or poor (using a hearing aid as usual)? [FAIR/POOR]
Health	G015 – Help w/dress G020 – ADL Walk Help
Help	MARST – Marital Status LIVARR – YYYY Living Arrangement Status LIVE ALONE [YES]
Help	E012 – Children live within 10 miles G097 – Relatives/friends help w/future needs NO TO BOTH
Transition	B058 – Divorce since previous wave [CALCULATED FOR PAST 12 MONTHS] B059 – Between wave divorce-month B060 – Between wave divorce-year MARST – YYYY Marital Status (Tracker File)
Transition	B058 – Widow since previous wave [CALCULATED FOR PAST 12 MONTHS] B059 – Between wave widow-month B060 – Between wave widow-year MARST – YYYY Marital Status (Tracker File)
Transition	Stayed overnight In nursing home in the past 2 years? [YES] N114 – Ever Patient Overnight in Nursing Home (in the last two years)
Transition	C079 – Fallen in past two years [YES]

About NCOA
The National Council on Aging (NCOA) is the national voice for every person's right to age well. NCOA empowers individuals with trusted solutions to improve their own health and economic security—and protects and strengthens federal programs that people depend on as they age. Working with a nationwide network of partners, NCOA's goal is to improve the lives of 40 million older adults by 2030. Learn more at **ncoa.org** and @NCOAging.

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