

# AGING AND DEBT IN JAPAN

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# I. INTRODUCTION

# LUSARDI ET AL.'S ALARMING FINDING

Lusardi et al. have recently made the alarming discovery that people in the US are more likely to enter retirement in debt today than in past decades, mostly as a result of having purchased more expensive homes with smaller down payments, and that this may threaten their retirement security.

# THE OBJECTIVE OF THIS PAPER

To analyze the borrowing behavior of Japanese households in order to shed light on whether or not this phenomenon (the increased indebtedness of pre-retirement households) is observed in Japan also.

# II. DATA SOURCES

# DATA SOURCES

## 1. International Comparison

*OECD Economic Outlook*

## 2. Trends over Time in Japan

Family Income and Expenditure Survey (formerly the Family Savings Survey), conducted by the Statistics Bureau, Ministry of Internal Affairs and Communications, Government of Japan

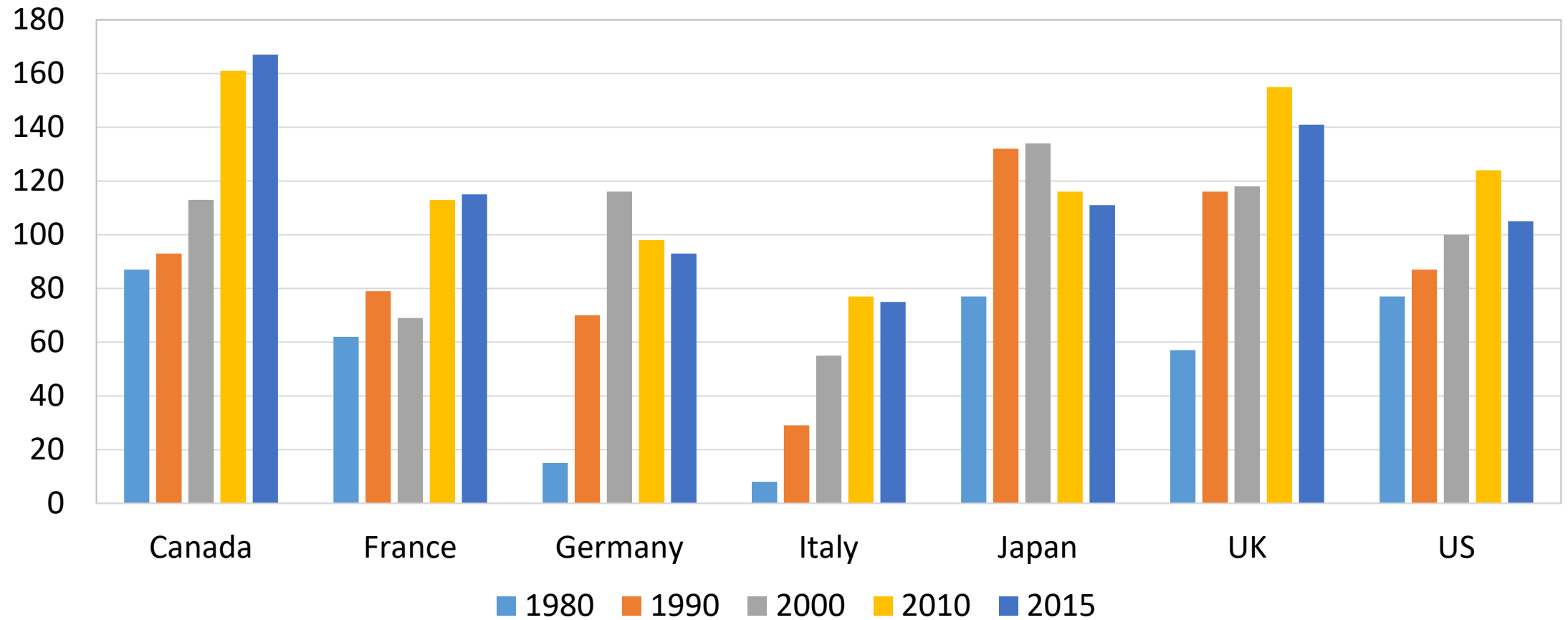
# III. INTERNATIONAL COMPARISON OF HOUSEHOLD BORROWING BEHAVIOR

# INTERNATIONAL COMPARISON OF DEBT LEVELS (1)

- Household debt-to-income ratios in Japan were low until 1980, were the highest among the G7 countries in the 1980s and 1990s, and have been declining thereafter but have remained higher than in the US.
- Household debt-to-asset ratios in Japan have always been below the G7 average and also below US levels, and moreover, they have been declining since 2000.

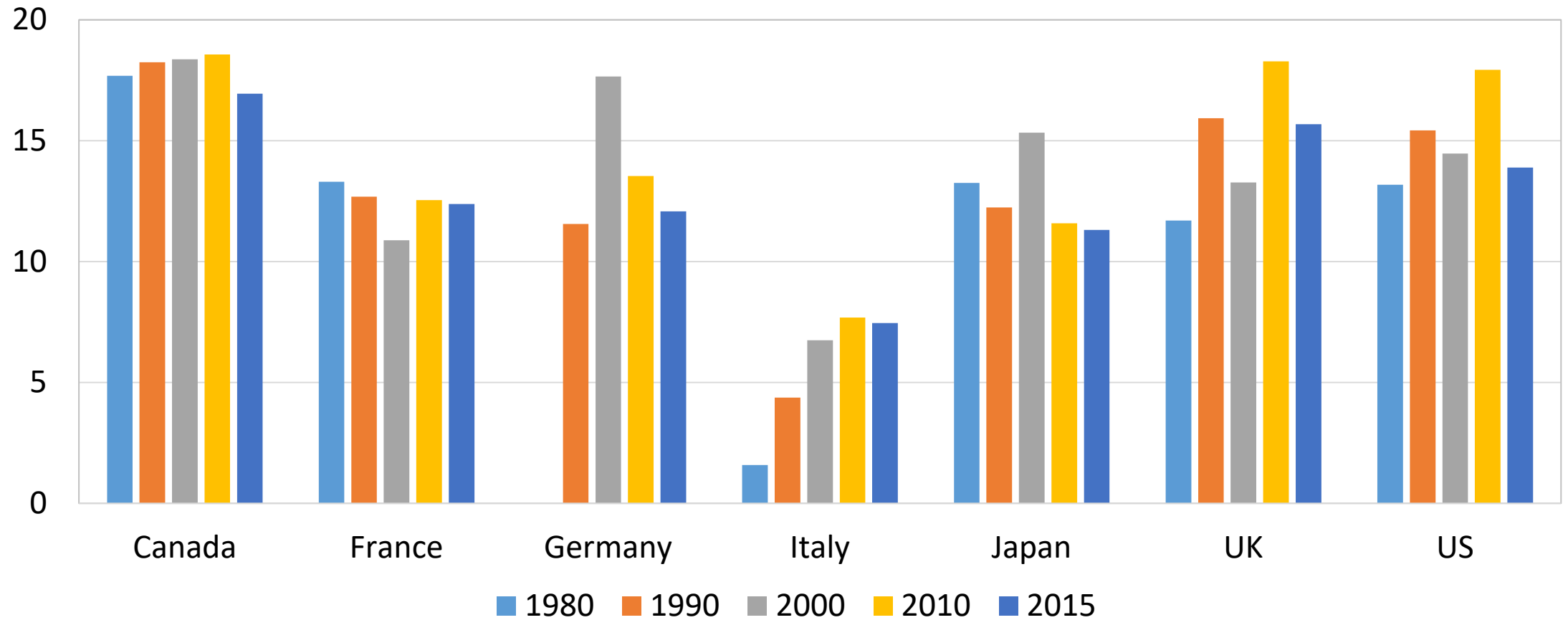


# Debt-to-Income Ratio (%)



Source: OECD, various years, *OECD Economic Outlook*.

# Debt-to-Asset Ratio (%)



Source: OECD, various years, *OECD Economic Outlook*.

# INTERNATIONAL COMPARISON OF DEBT LEVELS (2)

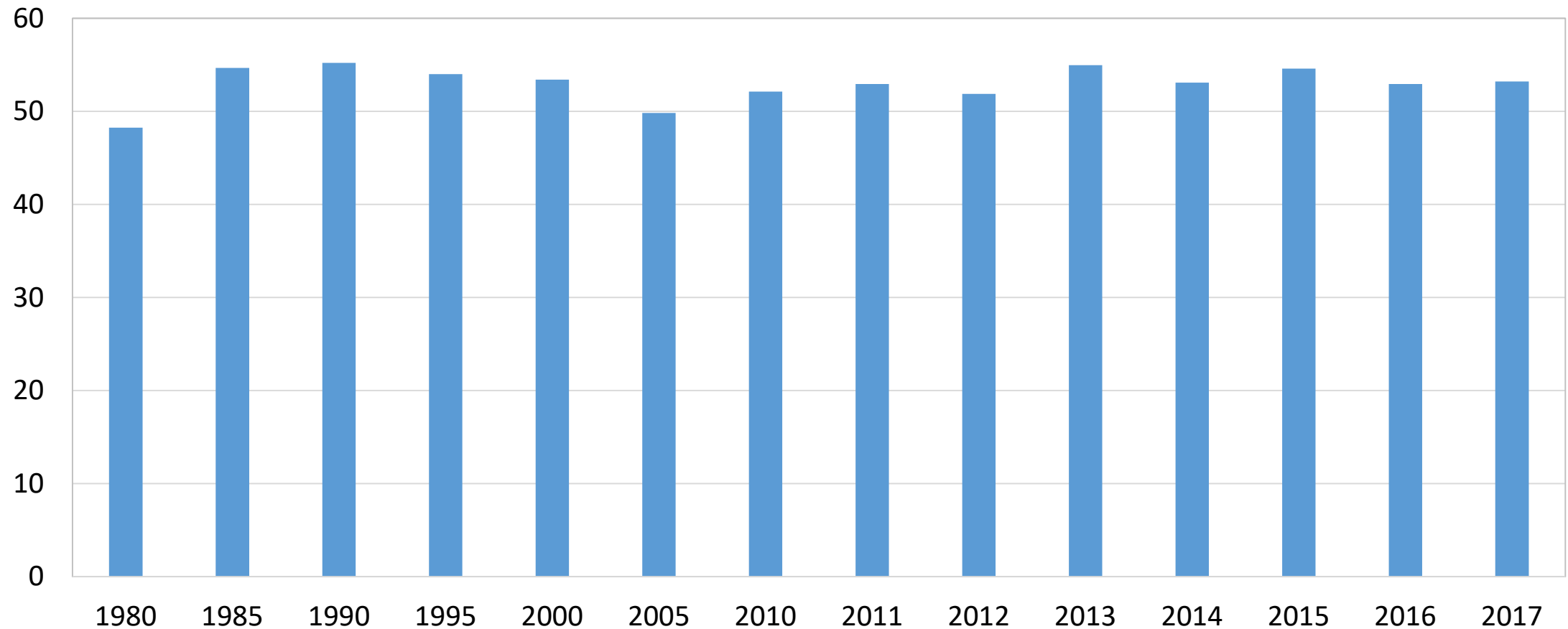
The fact that debt levels have been declining relative to income and asset levels in Japan since 2000 seems to suggest that the recent phenomenon of increased indebtedness among near retirees in the US is not observed in the case of Japan.

# IV. TRENDS IN HOUSEHOLD BORROWING BEHAVIOR IN JAPAN

# 50-59 AGE GROUP (1)

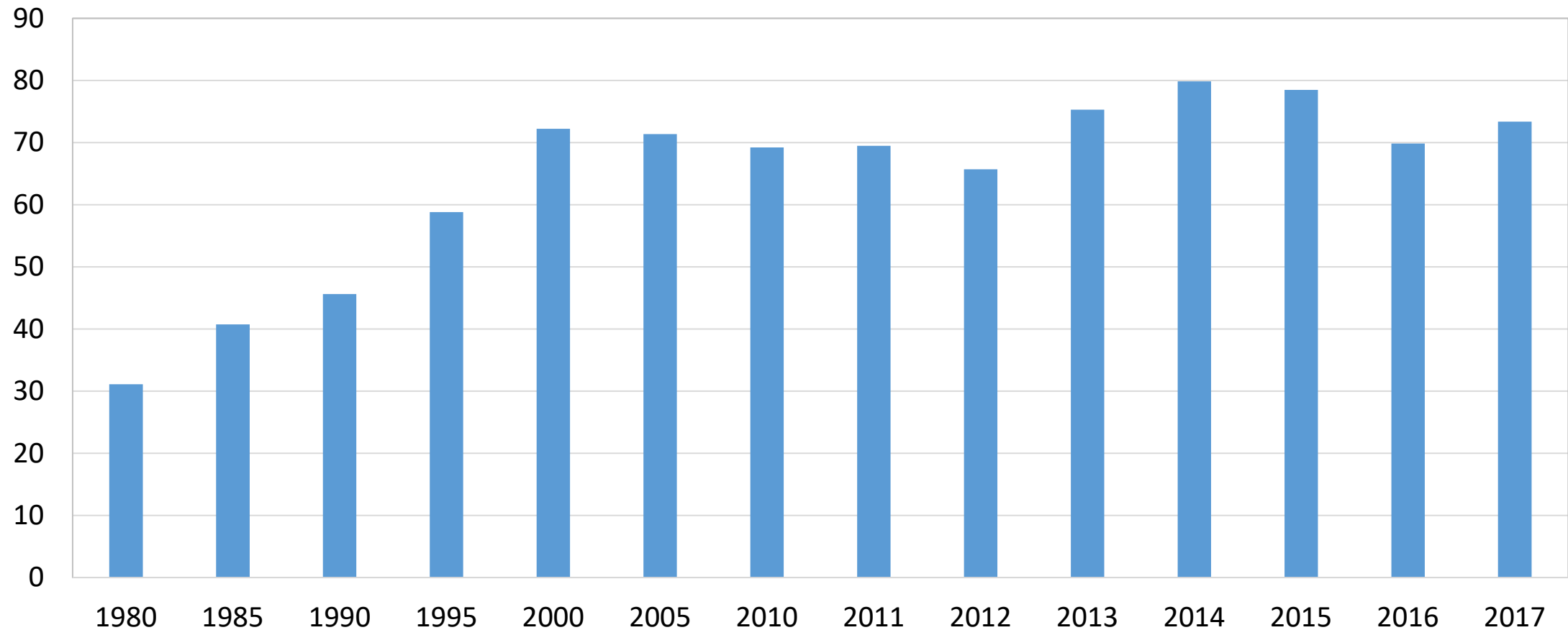
- The proportion of households in the 50-59 age group holding debt increased between 1980-85 but it was rather stable after 1985, fluctuating in the relatively narrow 50-55% range.
- The debt-to-income ratio of households in the 50-59 age group increased significantly between 1980 and 2000, but since then, it has been relatively stable (although it increased slightly between 2010 and 2015).

# Proportion of Debt Holders (50-59, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

# Debt-to-Income Ratio (50-59, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

## 50-59 AGE GROUP (2)

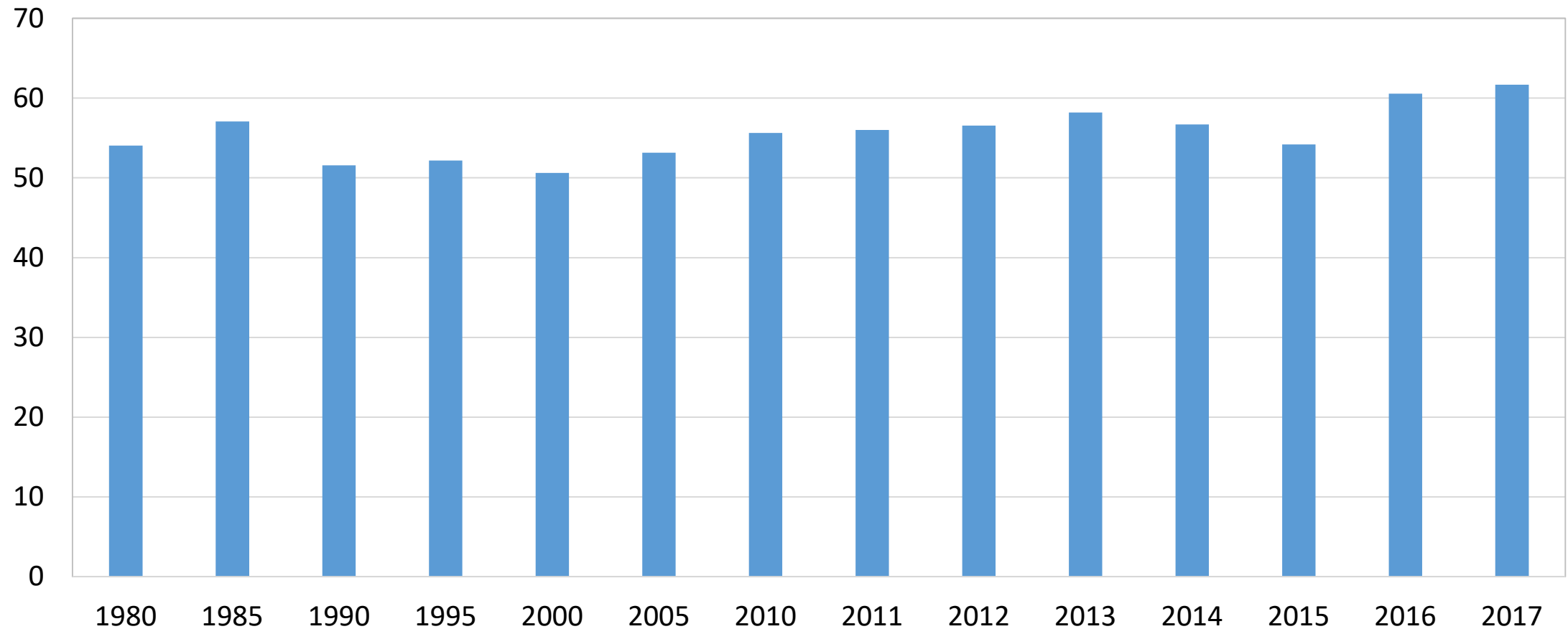
Thus, pre-retirement households in Japan do not hold inordinate amounts of debt and there has not been a discernible increase in their debt holdings in recent years, suggesting that the phenomenon of increased indebtedness among near retirees observed in the US is not observed in Japan.



## 30-39 AGE GROUP (1)

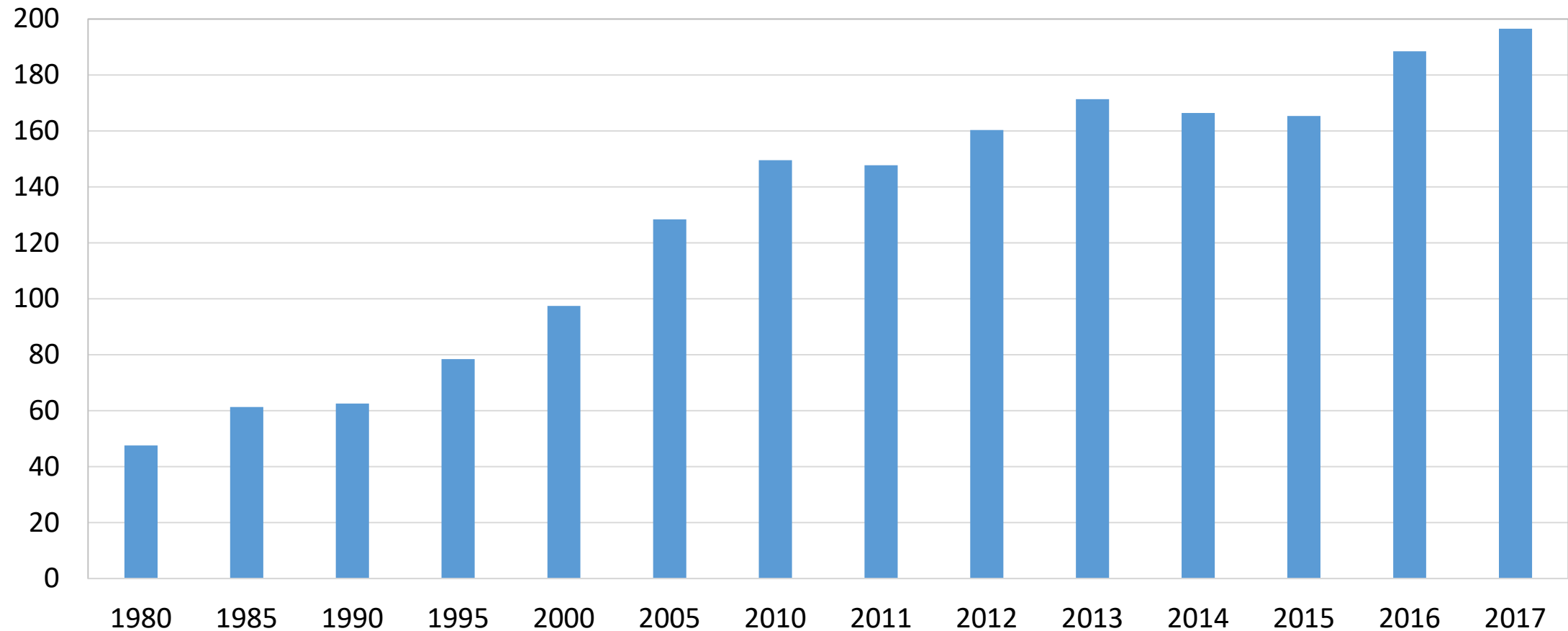
- The proportion of households holding debt in the 30-39 age group increased during the 2000-17 period from 51% to 62%.
- The debt-to-income ratio of households in the 30-39 age group increased sharply during the 2000-17 period from 97% to 197%.

# Proportion of Debt Holders (30-39, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

# Debt-to-Income Ratio (30-39, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

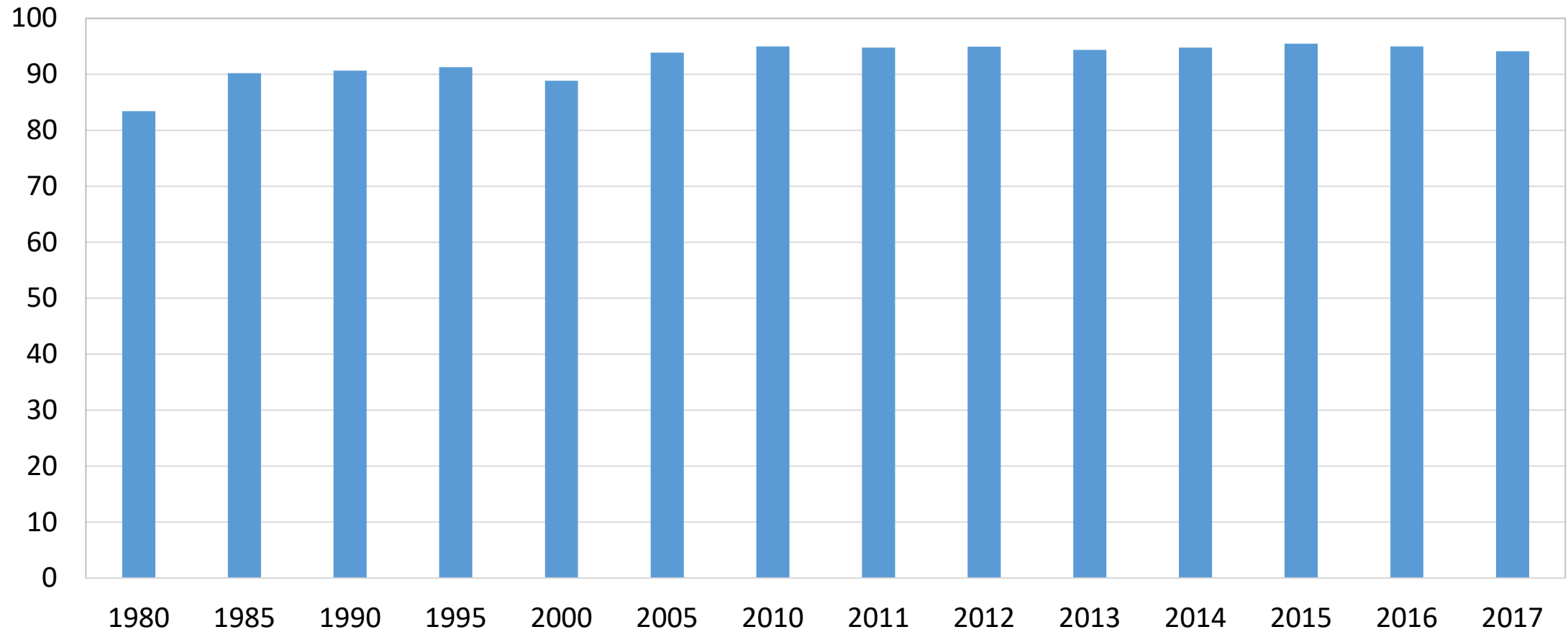
## 30-39 AGE GROUP (2)

Thus, households in the 30-39 age group not only became more likely to take out loans but also became more likely to take out larger loans relative to their incomes.

## 30-39 AGE GROUP (3)

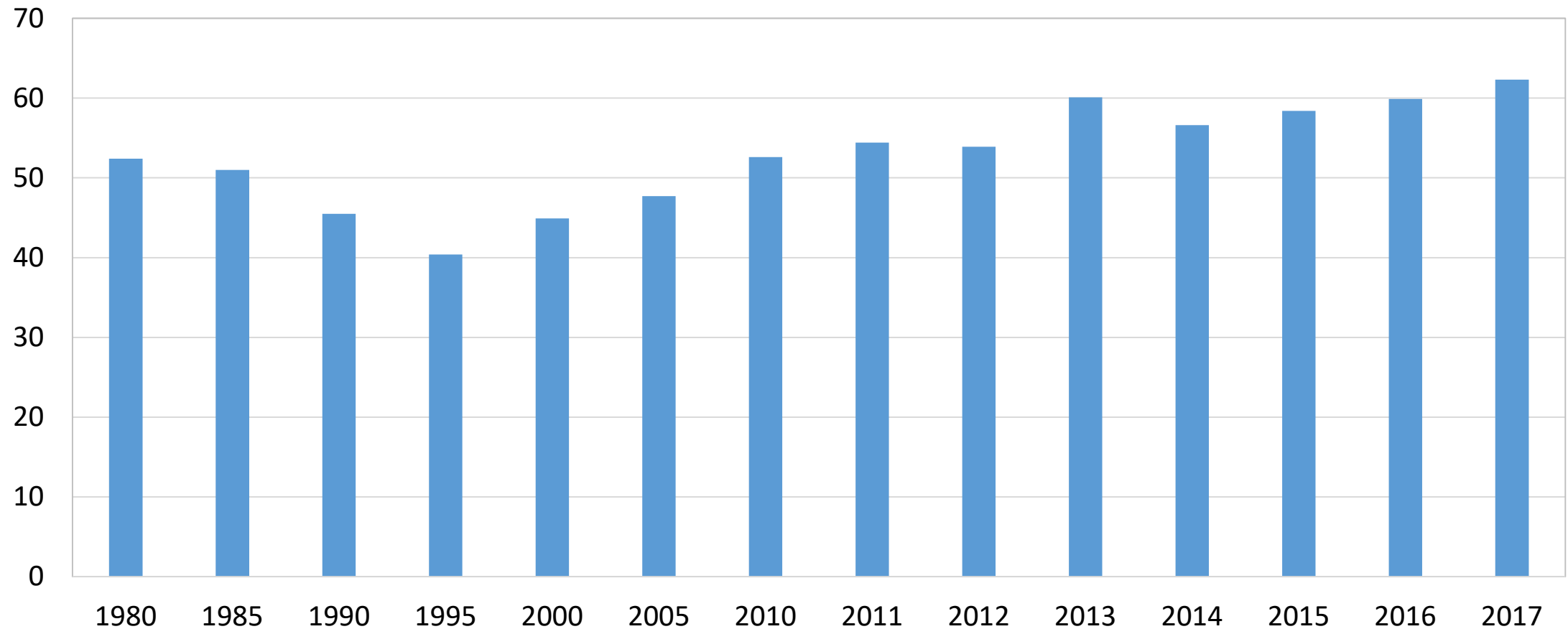
- Is the recent sharp increase in the debt holdings of the 30-39 age group due to housing loans or to other types of loans?
- 90-95% of the loans of the 30-39 age group are housing loans.
- The homeownership rate of the 30-39 age group increased significantly during the 2000-17 period from 45% to 62%.
- Both of these findings suggest that the increase in the debt holdings of the 30-39 age group is due primarily to housing loans.

# Housing Loan Share (30-39, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

# Homeownership Rate (30-39, %)



Source: Authors' computations based on data on two-or-more-person households from the Family Savings Survey for the 1980-2000 period and from the Family and Income Expenditure Survey for the 2005-2017 period.

## 30-39 AGE GROUP (4)

- In other words, a structural change occurred around 2000, meaning that cohorts who were 39 or younger in 2000 (i.e., cohorts who were born in 1961 or later) behave very differently from cohorts who were born earlier.
- Cohorts born after 1961 rely much more on housing loans than cohorts born earlier, and this has enabled them to purchase housing at a younger age than cohorts born earlier.



# V. THE CAUSES OF THE INCREASE IN THE HOUSING DEBT OF THE 30-39 AGE GROUP

# 1. TAX BREAKS FOR HOUSING PURCHASE

Tax breaks for housing purchase (typically taking the form of tax breaks for housing loans) were first introduced in 1978 and have been repeatedly expanded over time.

## 2. EXPANSIONARY MONETARY POLICY

The Bank of Japan has been pursuing expansionary monetary policies since 1995, including the so-called zero-interest policy since 1999, quantitative easing policies since 2001, and quantitative and qualitative easing policies since 2013, and this has led to a decline in all interest rates including interest rates on housing loans.

### 3. REFORM OF THE HOUSING LOAN MARKET

- The government used to be the primary source of housing loans, but the role of private financial institutions has expanded rapidly and the housing loan market has been liberalized, which has expanded the choices available to homebuyers and made it easier and more affordable for them to take out housing loans.
- This has led to a sharp increase in the share of variable-rate mortgages.

# SUMMARY

Since 2000, these three factors have played an important role in enabling households to purchase housing and to finance their housing purchases using housing loans to a greater extent than they could previously and in enabling them to do so at an earlier age than previously.

# VI. DO WE NEED TO BE CONCERNED?

# 1. EXCESS BORROWING?

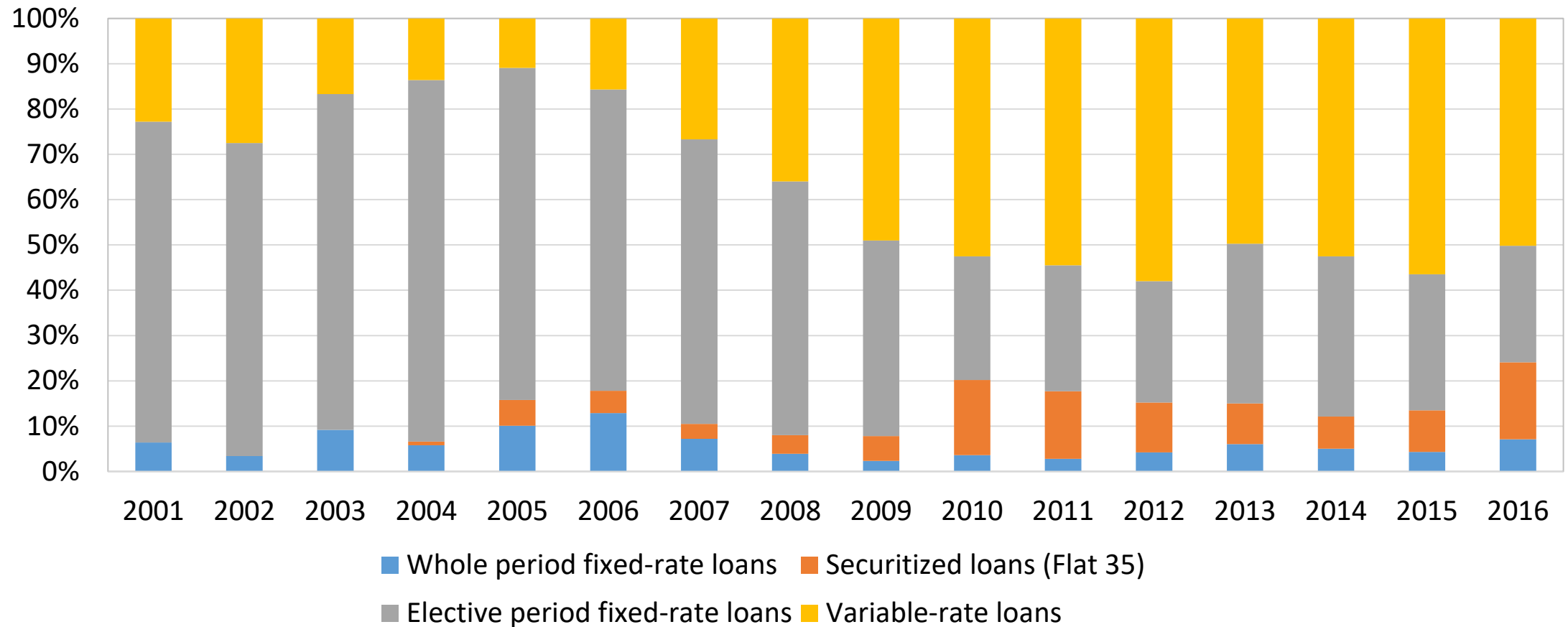
Japanese households born after 1961 have relied much more on housing loans than cohorts born earlier, and there is a danger that these households will enter retirement with excessive debt. Thus, Japan may experience the same phenomenon that Lusardi et al. have currently observed for the US but it will occur later than in the US.

## 2. INCREASED INTEREST RATE VULNERABILITY

There has been a sharp increase in the share of variable-rate housing loans.



# The Share of Various Types of Housing Loans in New Lending

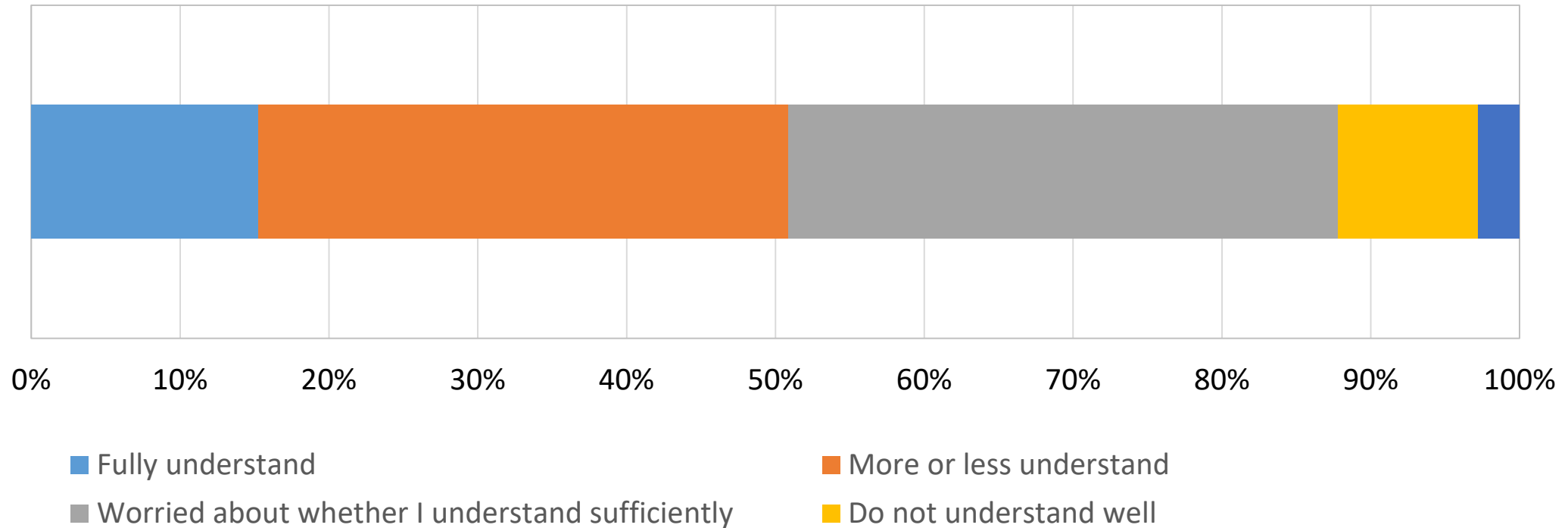


Source: Housing Bureau, Ministry of Land, Infrastructure, Transport and Tourism, various years, *Results Report on the Survey on the Status of Private Housing Loans*.

### 3. INADEQUATE FINANCIAL LITERACY

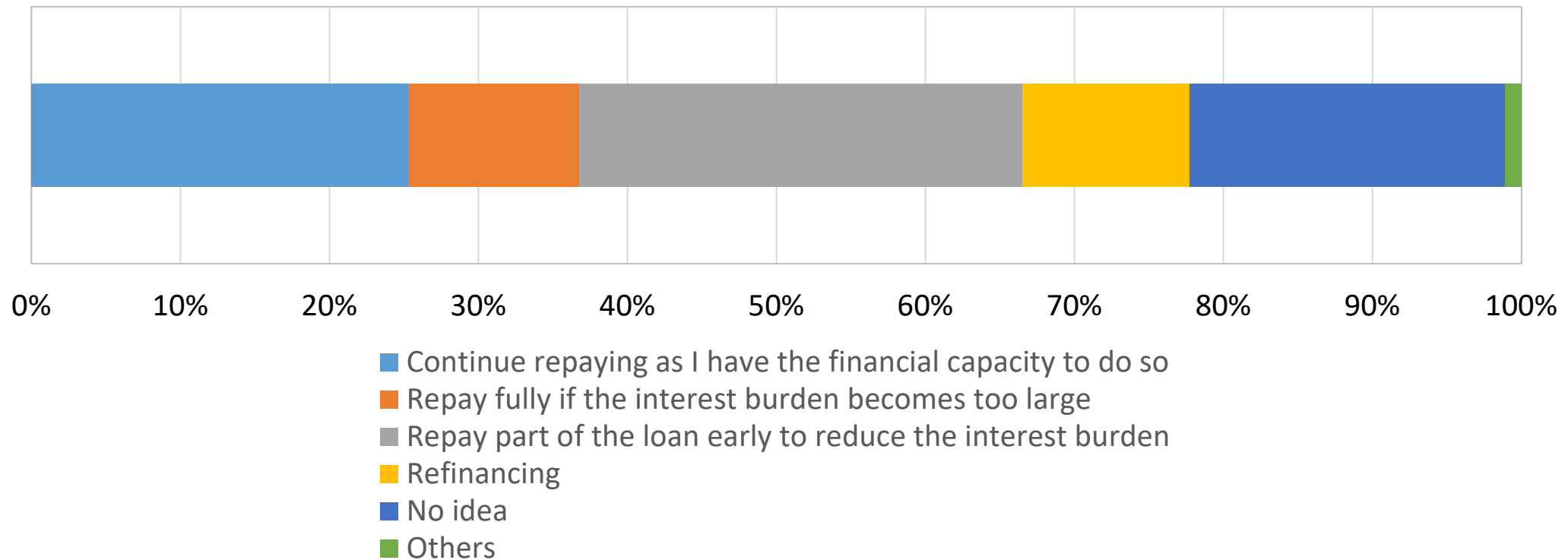
There is evidence that homebuyers do not fully appreciate the risks associated with variable-rate housing loans, especially since interest rates have been kept low for so long.

# The Level of Understanding About the Impact of Possible Interest Rate Increases on the Loan Repayment Amount



Source: Japan Housing Finance, *2018 Survey on the Status of Private Housing Loan Users*.

# Planned Response to the Increase in the Loan Repayment Amount in the Event of Interest Rate Increases



Source: Japan Housing Finance, *2018 Survey on the Status of Private Housing Loan Users*.

# VII. SUMMARY AND POLICY IMPLICATIONS

# 1. SUMMARY (1)

Pre-retirement households (households with a head in the 50-59 age group) in Japan do not have inordinate amounts of debt and their financial health is satisfactory, suggesting that the Lusardi et al. phenomenon is not currently observed in the case of Japan.

# 1. SUMMARY (2)

However, households with a head in the 30-39 age group have shown a sharp increase in debt holdings in recent years, due largely to the fact that tax breaks for housing purchase, reforms in the housing loan market since the early 2000s, and expansionary monetary policy have enabled households to purchase housing at a younger age than they could previously and to rely more on housing loans than they could previously.

## 2. POLICY IMPLICATIONS (1)

- Japanese households born after 1961 have relied much more on housing loans than cohorts born earlier, and there is a danger that these households will enter retirement with excessive debt.
- Households born in 1961-70 do not show unusually heavy debt burdens even though they are already in their 50s but we need to monitor the borrowing behavior of this cohort as well as younger cohorts over time in order to prevent the emergence of the Lusardi et al. phenomenon in Japan.



## 2. POLICY IMPLICATIONS (2)

- One cause for concern is that the Bank of Japan will normalize its monetary policy sooner or later and that Japanese households have become more vulnerable to rising interest rates as the share of households who have chosen variable-rate housing loans has increased in recent years, and this concern is compounded by the low levels of financial literacy of Japanese households.

Thank you very much for your kind attention.

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