

Comments for:

The Risk of Financial Hardship in Retirement: A Cohort Analysis

by Jason Brown, Karen Dynan, and Theodore Figinski

Aging and Debt in Japan

by Charles Yuji Horioka & Yoko Niimi

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Federal Reserve Board

These comments were prepared for the Pension Research Council and Boettner Center conference, *Remaking Retirement? Debt in an Aging Economy*, May, 2019, Philadelphia, PA. The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors of the Federal Reserve System.

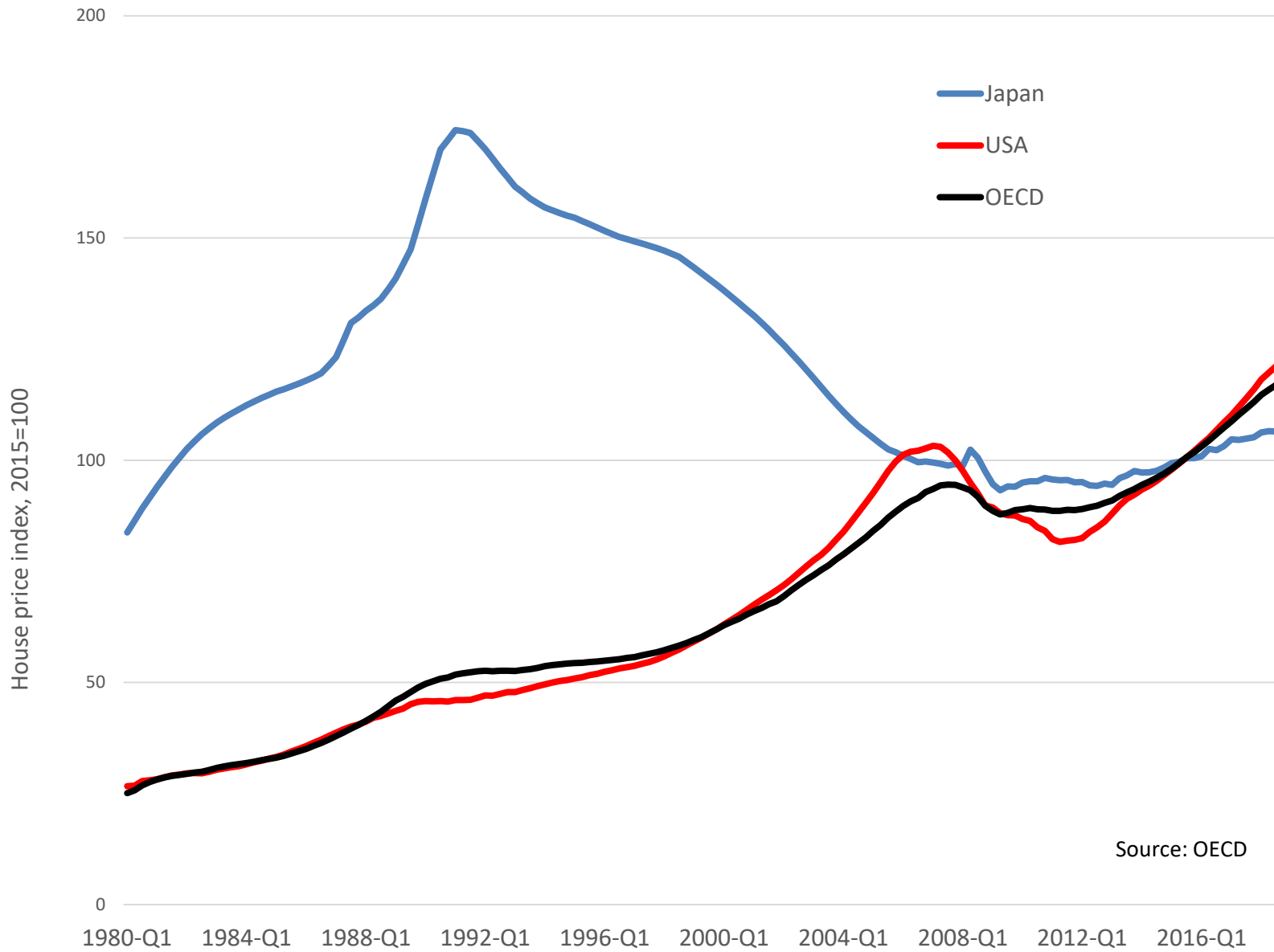
Two Great Papers!

- Horioka and Niimi
 - Cohort analysis of Japanese household debt
 - Elderly now more indebted? Future elderly?
 - Japan a bellwether for U.S. population aging?
- Brown, Dynan, Figinski
 - Cohort analysis of broad hardship measures
 - Empirically, how do age 77 to 82 outcomes depend on financial situation at age 57 to 62?
 - What policy changes for future elderly?

Horioka and Niimi

- Proportion of families with debt up since 1980
 - 60-69 year olds mostly stable
 - Increase for 30-39 year olds (though bounces around)
 - Due to home ownership policy change?
- Debt to income ratios clearly higher
 - Most noticeable for young (Table 4)
 - But holds across cohorts generally (Table 6)
- Debt service to income depends on interest rates, and that's now more uncertain because of VRMs
- Draws attention to role of house prices...

Japan's house price boom/bust was more pronounced/earlier

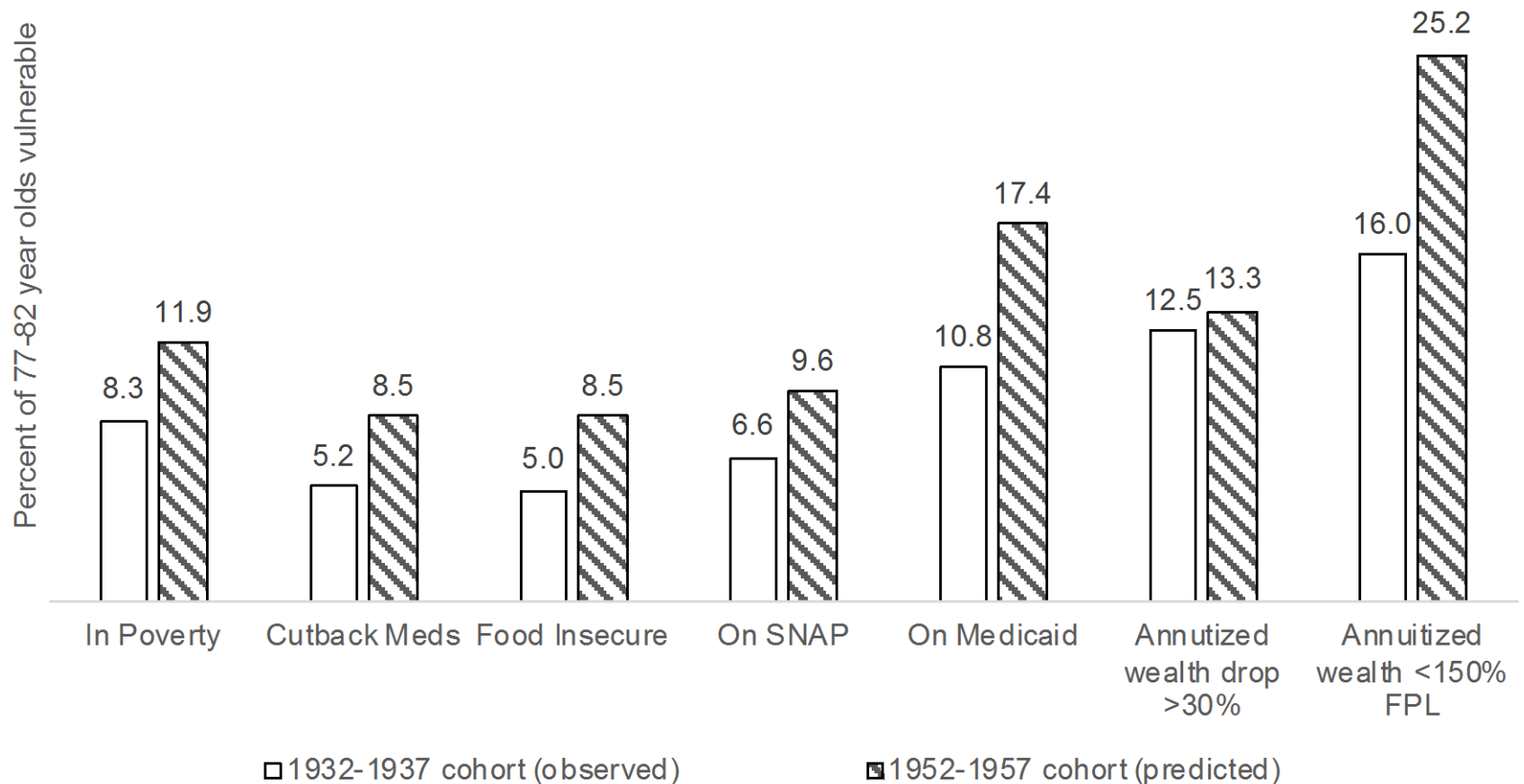


Source: OECD

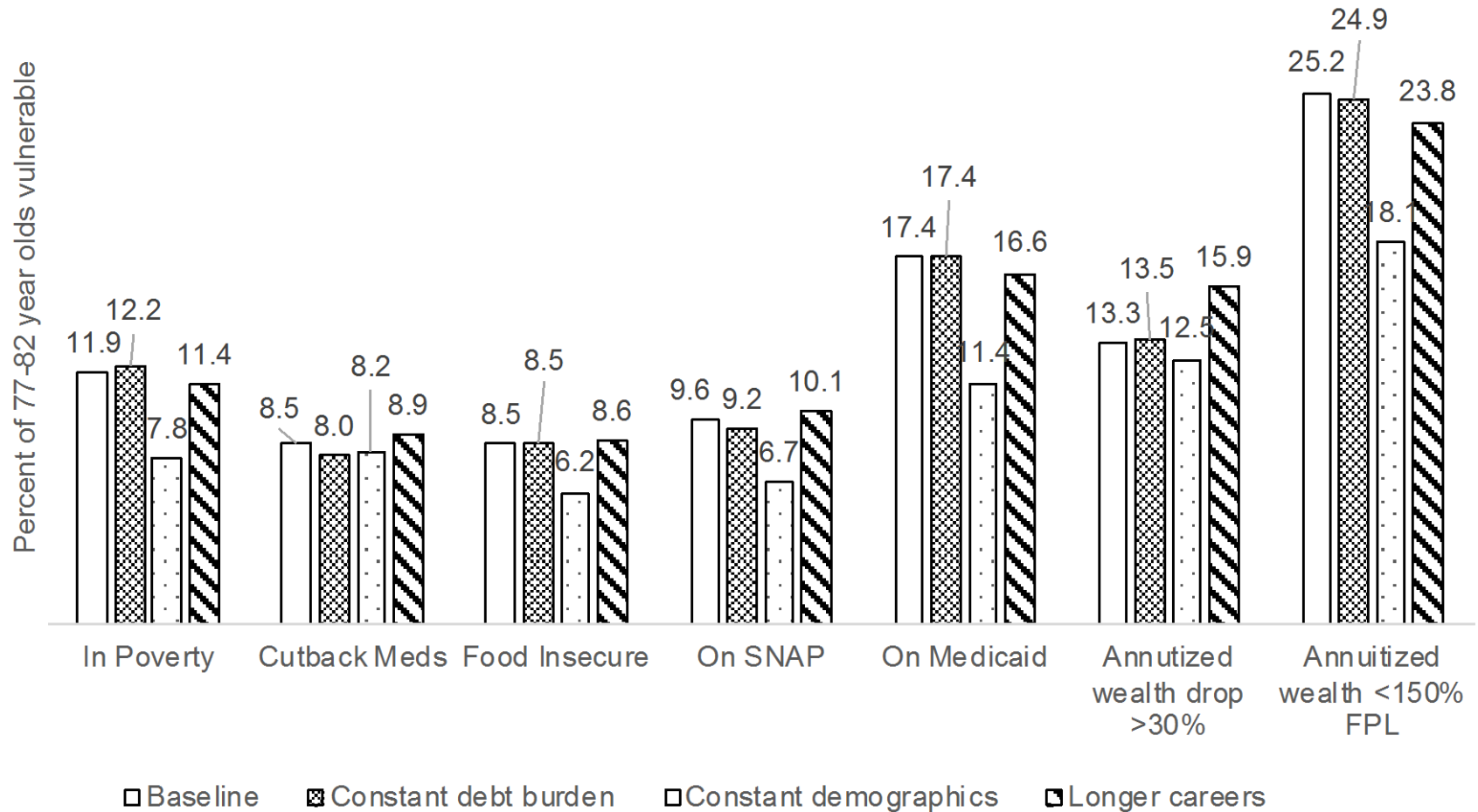
Brown, Dynan, Figinski

- Broad set of hardship measures
 - In poverty
 - Cutback meds
 - Food insecure
 - On SNAP
 - On Medicaid
 - Annuitized wealth drop $> 30\%$
 - Annuitized wealth $< 150\%$ FPL
- All measures static except wealth drop

Economic insecurity projected to rise...



...because of demographics, not economics!



A Few Outstanding Questions

- Why do race and ethnicity matter?
 - Is it just that reweighting to older cohort => higher lifetime incomes because of composition shift?
 - Or do race and ethnicity *predict more* hardship with key economics held constant (but if so, why?)
- What are differences in expected mortality for the two cohorts? Is mortality differential?
- Why does working longer not matter?
- Some fraction experiencing wealth drop expected given stochastic environment; but what fraction?

Step Back: Why and How Does Debt Matter?

- Textbook lifecycle models have W and Y
 - Debt is just the negative part of W
 - Debt service is just a negative offset to Y
- Suggests we could just focus on net worth and “after-interest” income to study well being
- Two complications
 - Housing is very different from other wealth
 - Various types of risks complicate W , Y fungibility

Housing as Consumption Insurance

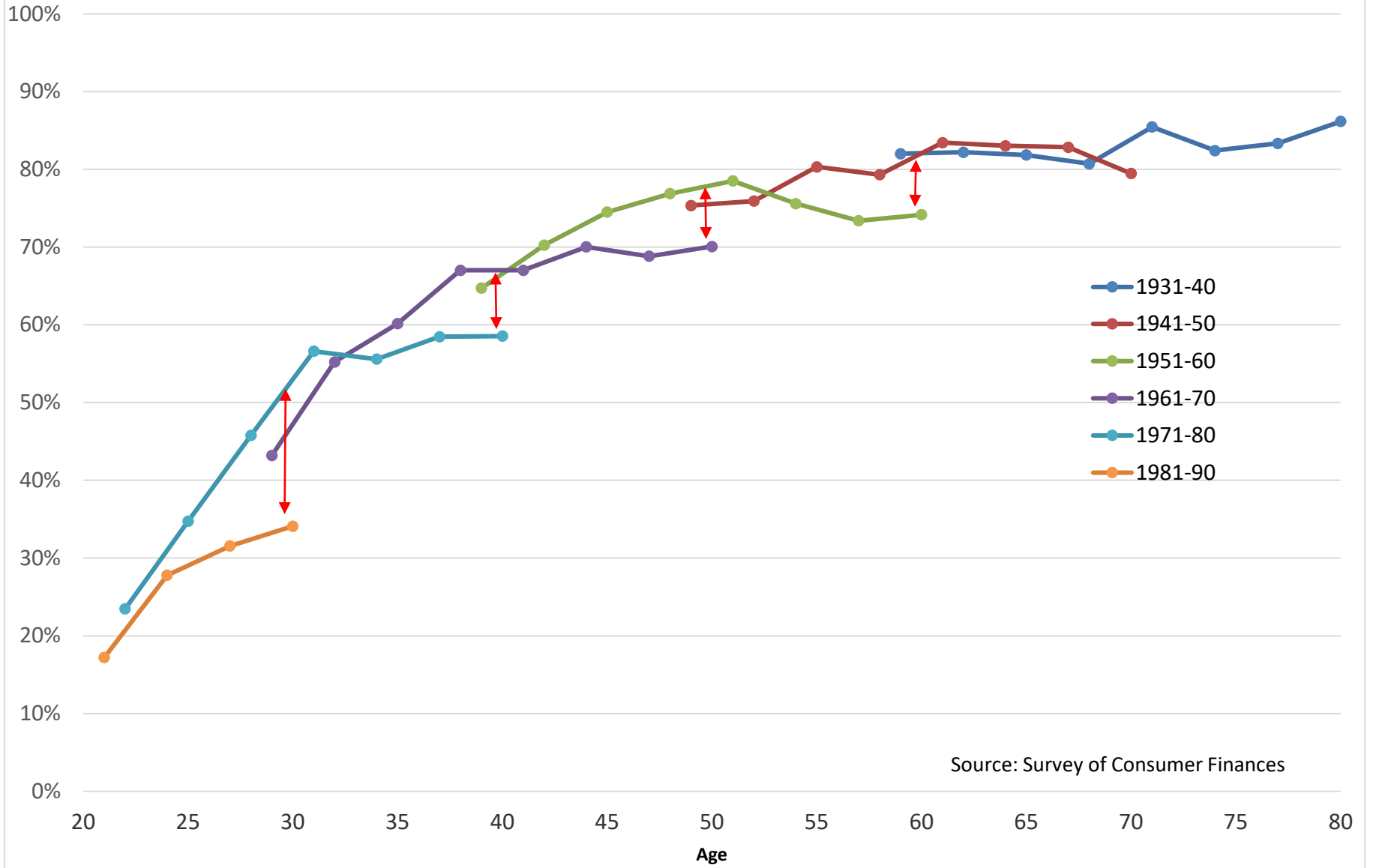
- Housing is both wealth and consumption flow
 - Owning => require less income, no rent to pay
 - Owning more certain, house prices don't matter
- Housing is also emergency end of life wealth
 - Having equity in house could pay for LTC
 - Lessens need to burden/rely on children
 - House transfers to children at death if untapped
- Suggests a dollar of housing wealth is unlike a dollar of other wealth; inelastic demand

Trends in Homeownership

- Predictable lifecycle pattern and differences across permanent income groups in U.S.
 - Almost 90% of current retirees own their home
 - Almost 80% of bottom half by permanent income in '1931-40 birth cohort homeowners
- But how is this changing?

U.S. Homeownership Rate by Cohort and Age, 1995 - 2016

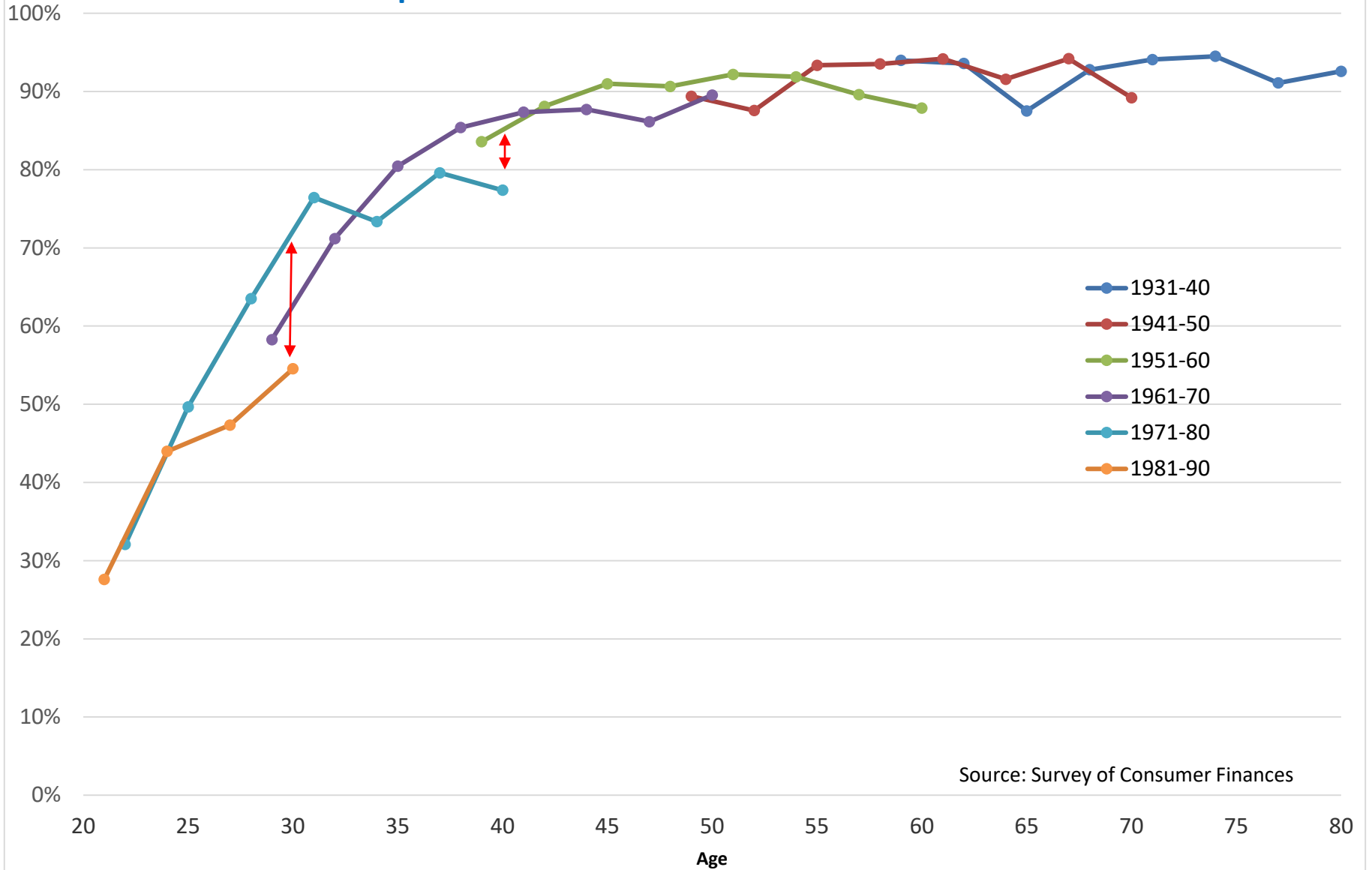
All Families



Source: Survey of Consumer Finances

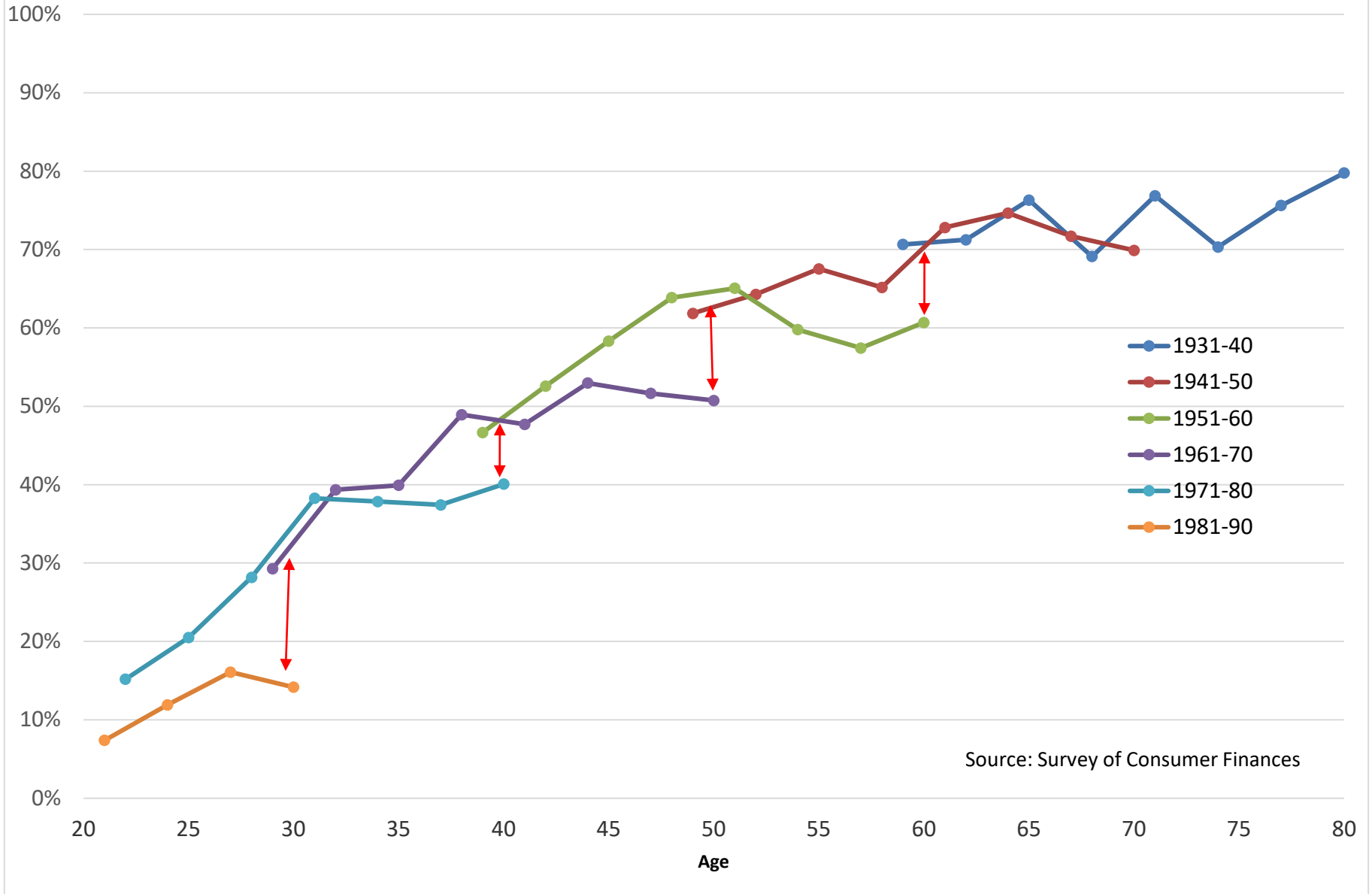
U.S. Homeownership Rate by Cohort and Age, 1995 - 2016

Top 50% of Permanent Income Distribution



U.S. Homeownership Rate by Cohort and Age, 1995 - 2016

Bottom 50% of Permanent Income Distribution



Source: Survey of Consumer Finances

Trends in Homeownership

- Predictable lifecycle pattern and differences across permanent income groups in U.S.
 - Most current retirees own their own home
 - Declines with income, but 80% of bottom income group for 1931-40 birth cohort are homeowners
- But how is this changing?
- Is declining homeownership another marker of increasing inequality/lack of opportunity?

Housing Debt as an Intergenerational Contract

- Contrast two societies
 - A: Homes transfer at death, no explicit loans
 - B: Old provide housing and issue bonds to young; young pay off bonds while working, eventually old owners
- Society A has debts, the debts are just implicit!
 - Usually intergenerational living arrangements
 - Evolution to separate living => more explicit debts
- Is Japan becoming more type B? U.S. back to A?
- Having to move in with kids another 'hardship'?

Income vs Wealth Fungibility Generally

- Annuitization puzzle: why do people forego the risk-sharing benefits of annuitizing wealth?
- Certain income stream versus liquid wealth each appropriate for addressing different types of risks
- Insurance coverage of risks (and homeownership is a form of insurance) is key for fungibility
- Rather than focus on debt people are carrying into retirement and implications for hardship, maybe we should focus more on housing policy?

Great papers!

Thanks for inviting me!

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