Property Tax Deferral: Can a Public-Private Partnership Help Provide Lifetime Income?

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Many retirees will not be able to maintain their pre-retirement standard of living.

Percentage of Households “At Risk” at Age 65 by Income Group, 2016

And retirees in states with high property taxes face a more serious situation.

Percentage of State Single Population 65+ Below the Elder Index by Property Tax Level, 2019

Note: Property tax level is for homeowners ages 65+.
States do offer some tax relief programs – the most promising is property tax deferral.

States that Currently Allow Seniors to Defer All of Their Property Taxes

Source: Authors’ analysis.
Currently, property tax deferral programs tend to have very low participation.

**MA Property Taxpayers 65+ and Participants in Property Tax Deferral Programs, FY2019**

<table>
<thead>
<tr>
<th>Massachusetts 65+</th>
<th>Circuit Breaker</th>
<th>Exemption</th>
<th>Deferral</th>
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<tbody>
<tr>
<td>194,716</td>
<td>92,734</td>
<td>12,084</td>
<td>838</td>
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Sources: U.S. Census Bureau, *American Community Survey*, 2018; Massachusetts Department of Revenue, 2019b. “Senior Circuit Breaker Credit Usage Report by Community.”; and Massachusetts Department of Revenue, Division of Local Services, 2019. “Municipal Databank/Local Aid Section: Exemptions Granted and Dollars Abated.”
Our proposal for a new statewide program could boost participation.

• All households, regardless of income, could defer taxes on up to $1 million in assessed value.

• Households could defer until sum of deferrals, accumulated interest, and mortgages equals 60 percent of assessed value.

• The interest rate on deferrals would be the state’s borrowing cost plus a buffer for administrative costs and defaults.

• The state would reimburse localities for foregone taxes.
The new program would also make sign-up very simple: just check a box.

Source: Authors’ illustration.
High participation rates are feasible, in part because most retirees rarely move.

Sequence Groups for Home-owning Households in the Synthetic Cohort

- Never movers (53%)
- Stable movers (17%)
- Frequent movers (14%)
- Late movers (16%)

Ages

The program is cost neutral for households, but poses a cash-flow issue for government.

Massachusetts Debt Relative to Gross State Product With and Without the Program, Assuming 20-Percent Participation Rate, 2020-2100

Ideally, the state would handle the financing responsibility for the program.

- The state could cover cash flows by issuing debt, perhaps backed by anticipated state revenues.

- The bonds would be easier to structure if interest were paid each year, either by homeowners or by the state through general revenues.

- However, the state could be reluctant to take on the financing.
An alternative could involve a public-private partnership.

• The state, or a state housing agency, could aggregate the loans and liens and sell to a private firm.

• The private firm could securitize the loans and sell the securities.

• The downside of private sector involvement is higher costs for the homeowner to compensate the private firm.
It’s important to find an acceptable financing method, because property tax deferrals are simpler and cheaper than a reverse mortgage.

• Complexity: property tax deferrals do not require a lengthy application process or mandatory counseling.

• Costs: property tax deferrals have no up-front costs, and interest rates would likely be lower.

• Access to funds: reverse mortgages offer the ability to access more home equity for most households.
Conclusion

• Increasingly, retirees will need to tap their home equity, and stable homeownership makes this option viable financially.

• Property tax deferrals offer a simple and inexpensive way to tap equity, and redesigning the programs could boost participation.

• In terms of financing, the programs are cost neutral for homeowners. Ideally, the state would handle the cash-flow burden, but an alternative is a public-private partnership.