

# Future Trends in Housing Tenure and the Adequacy of Retirement Income

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## VENUE

Online Launch

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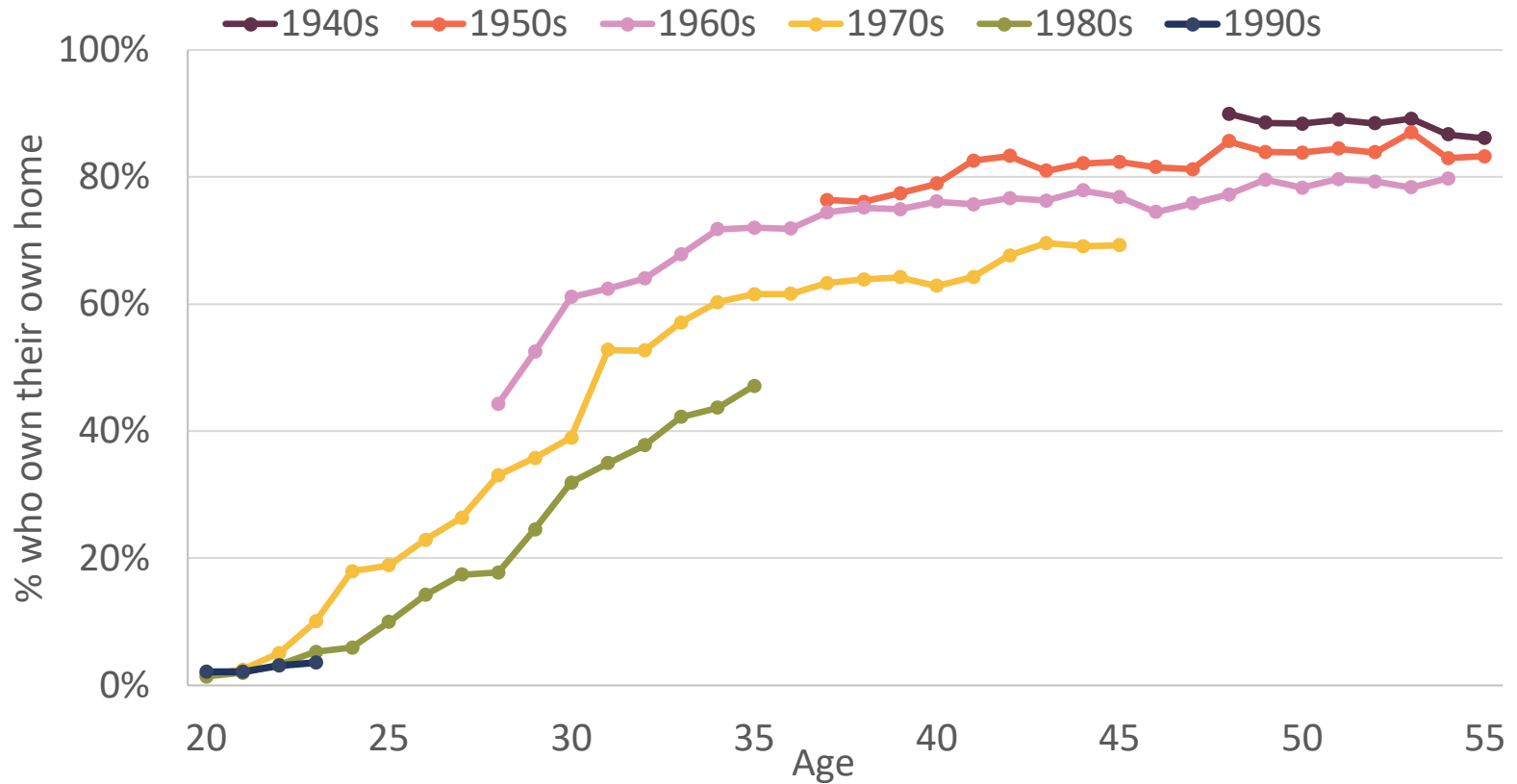
# Overview

- Research programme on 'Housing and Pensions' funded by the Pensions Council
- Broad objective is to assess the impact of housing costs on retirement income adequacy of future cohorts of retirees
- Use simulations of cohort-specific housing tenures and costs from ESRI AT-HOME model to assess retirement income adequacy of future retirees using ESRI TRIAM

# Policy Context

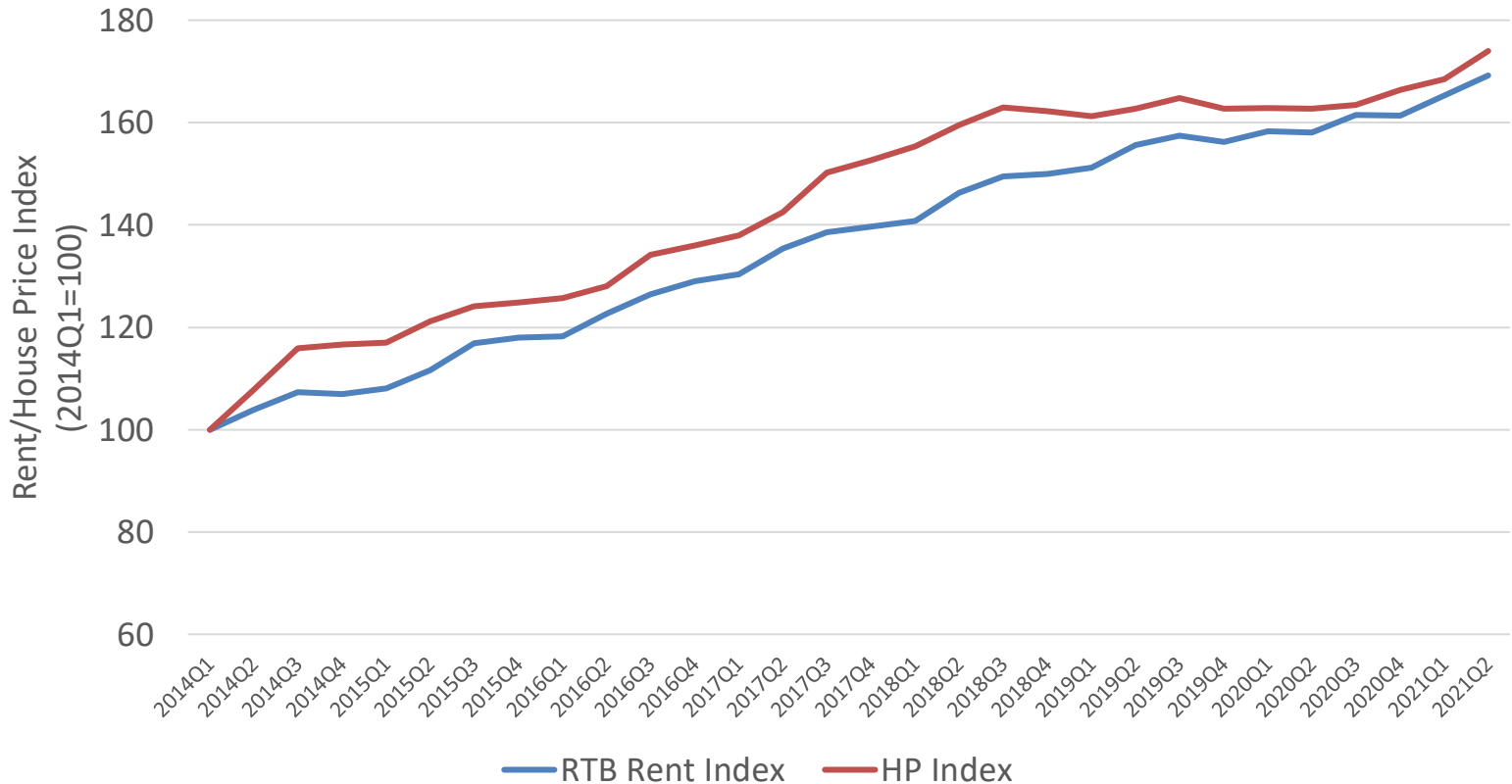
- Concern over pension coverage and adequacy for current and future generations of retirees (OECD, 2019; Government of Ireland, 2018; Mulligan et al., 2019)
- Difficulties for FTBs in accessing credit (Kelly & Mazza, 2019; McQuinn et al., 2021)
- Persistent housing affordability challenges for certain groups such as low to moderate income renters (Corrigan et al., 2019; O'Toole et al., 2020)
- CSO now publish an after housing costs (rent and mortgage payments) AROP rate

# Home Ownership Rates by Cohort and Age



Note: See Figure 4.7, Roantree et al. (2021)

# Growth in Rental and House Prices since 2014



# Research Questions

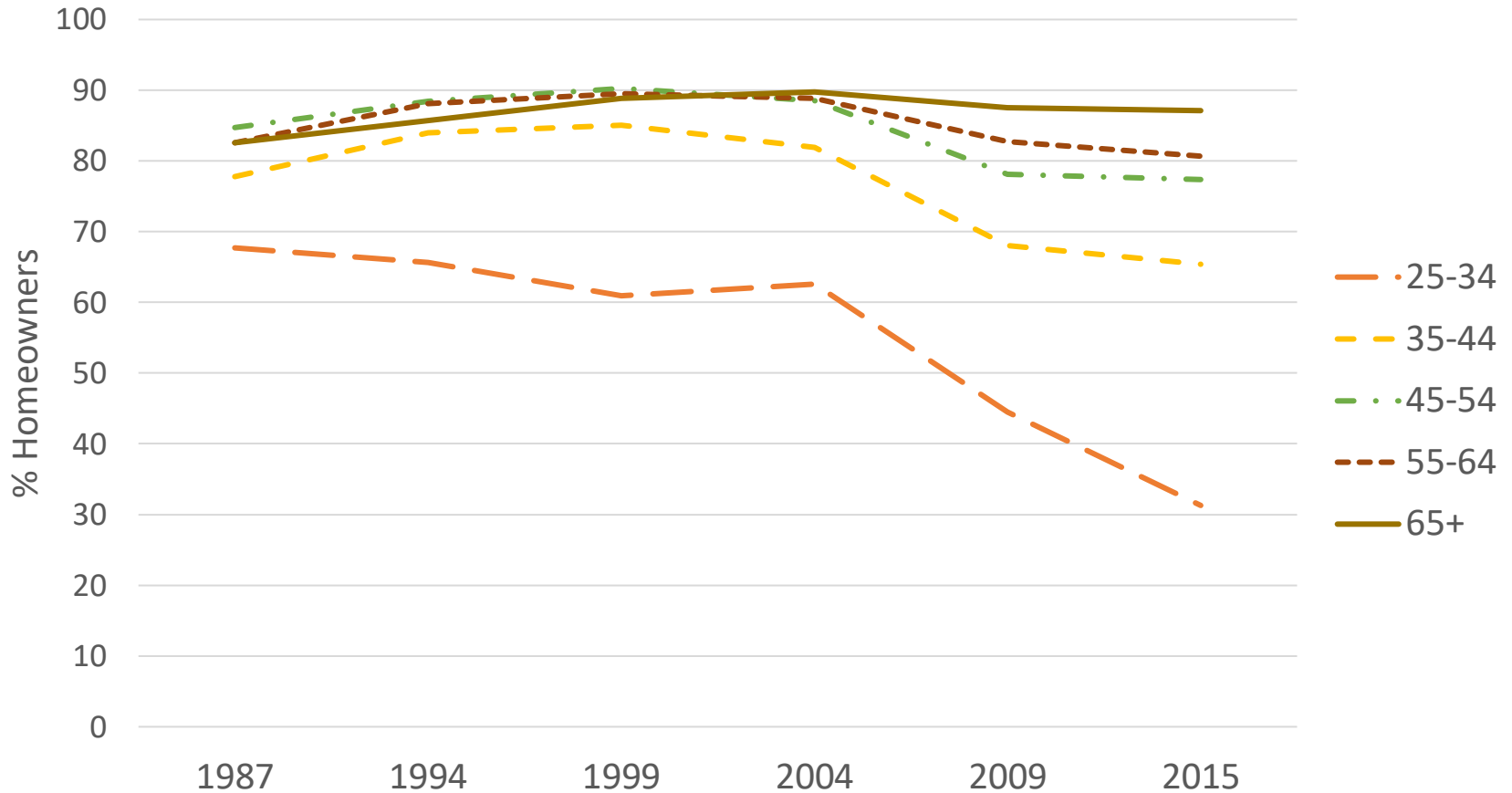
1. How do current tenure and housing cost patterns vary by age cohort?
2. What is the expected proportion of homeowners and renters in Ireland by age cohort going forward? (AT-HOME)
3. What implications do these projections have for the retirement income adequacy of future cohorts? (TRIAM)

**Q1:**

**How do current tenure and housing cost patterns vary by age cohort?**

# Changing % of Homeowners over Time by Age

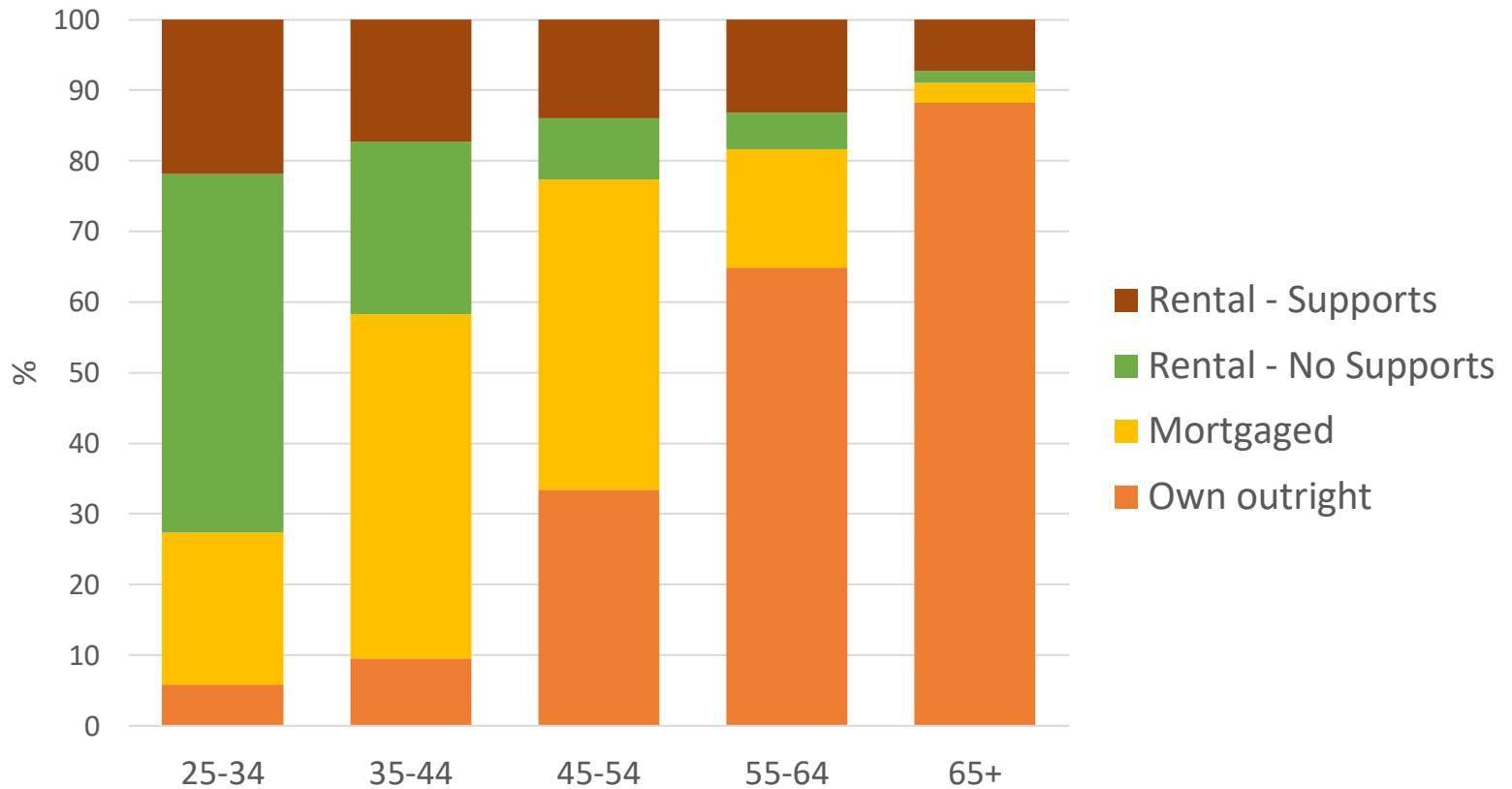
(Source: Household Budget Surveys)



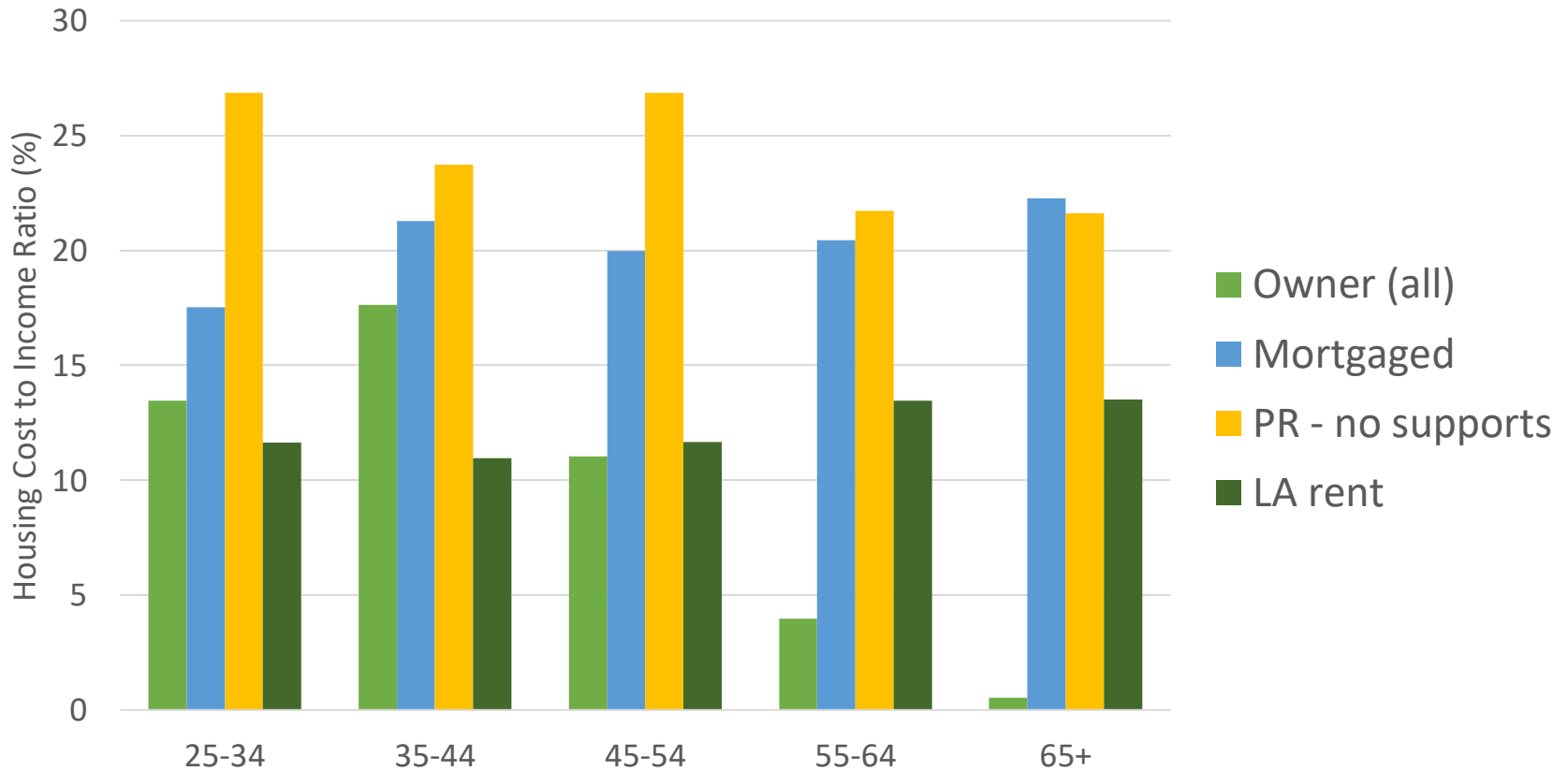


# Housing Tenure by Age 2018/19

(Source: SILC)



# Mean Housing Cost to (Net) Income Ratios by Tenure and Age Cohort (Source: SILC)



**Q2:**

**What is the expected proportion of homeowners and renters in Ireland by age cohort going forward?**

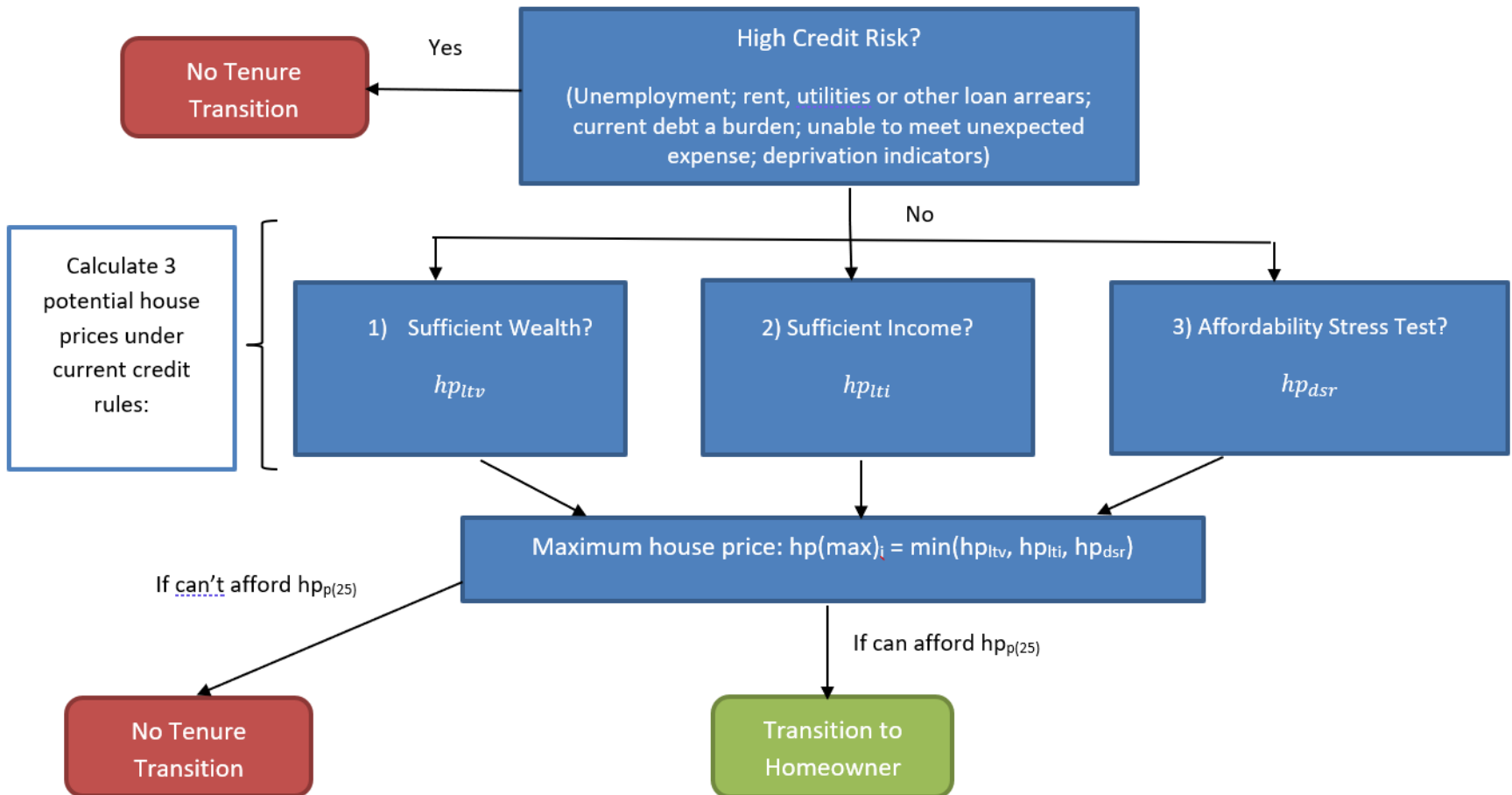
# AT-HOME Tenure Microsimulation Tool

- Use AT-HOME tool to simulate the likelihood of rental households in different age cohorts being able to transition to homeownership
- Use data on the incomes, employment characteristics, expenditures and housing costs of existing households
- Assess whether renter households can meet credit risk, down-payment, income and affordability criteria

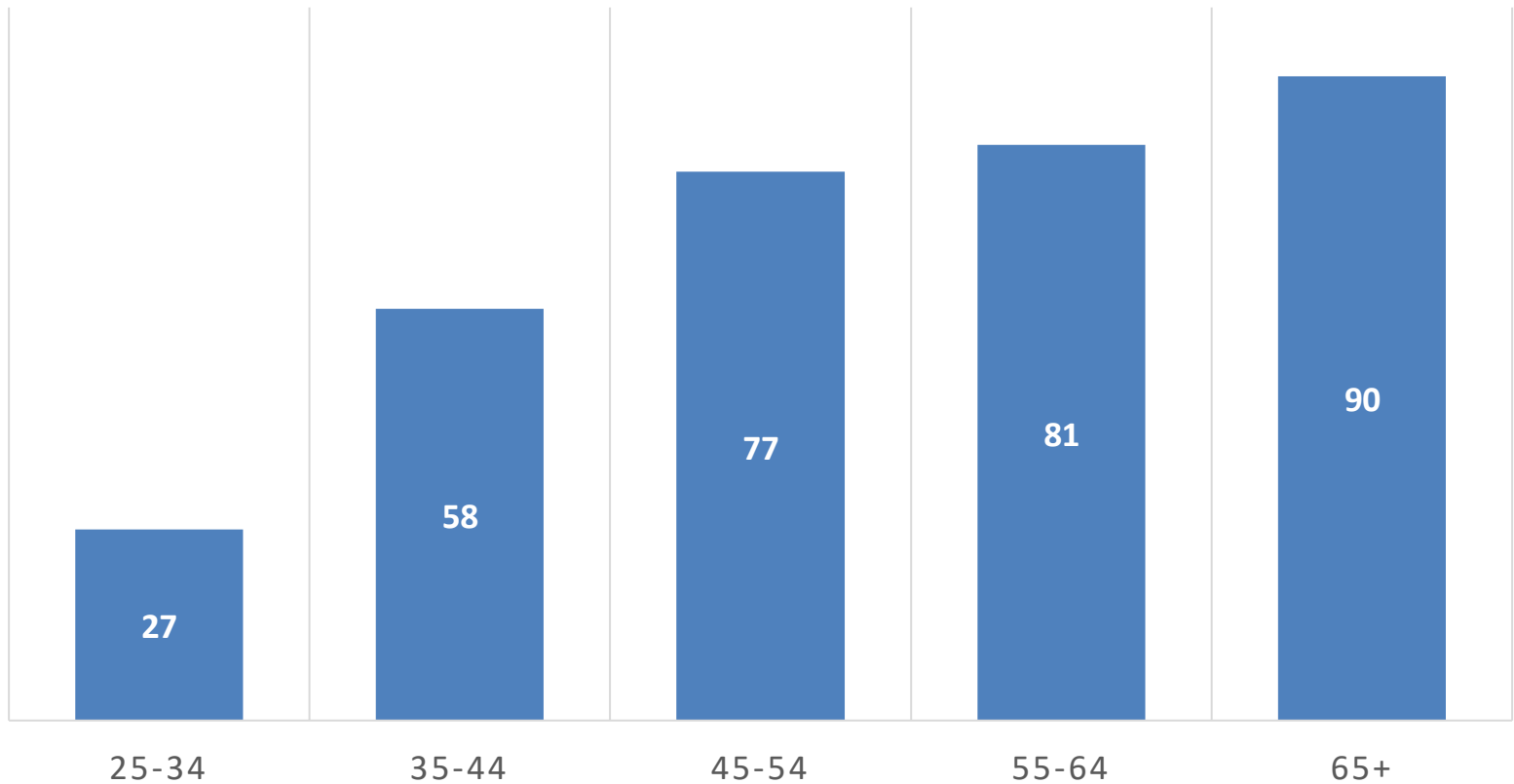
## Baseline assumptions – key parameters:

- Deposit:
  - Allow households to save 3 years' worth of any spare income (parameterised from Kelly & McCann, 2016)
  - 25% of households receive €10,000 gift (parameterised from TILDA data)
- 90% LTV, 3.5 LTI, stress test interest rates (2% above market), loan term =max(30 yrs, time to retirement)
- Can become homeowner if can afford p(25) house price in NUTS3 region

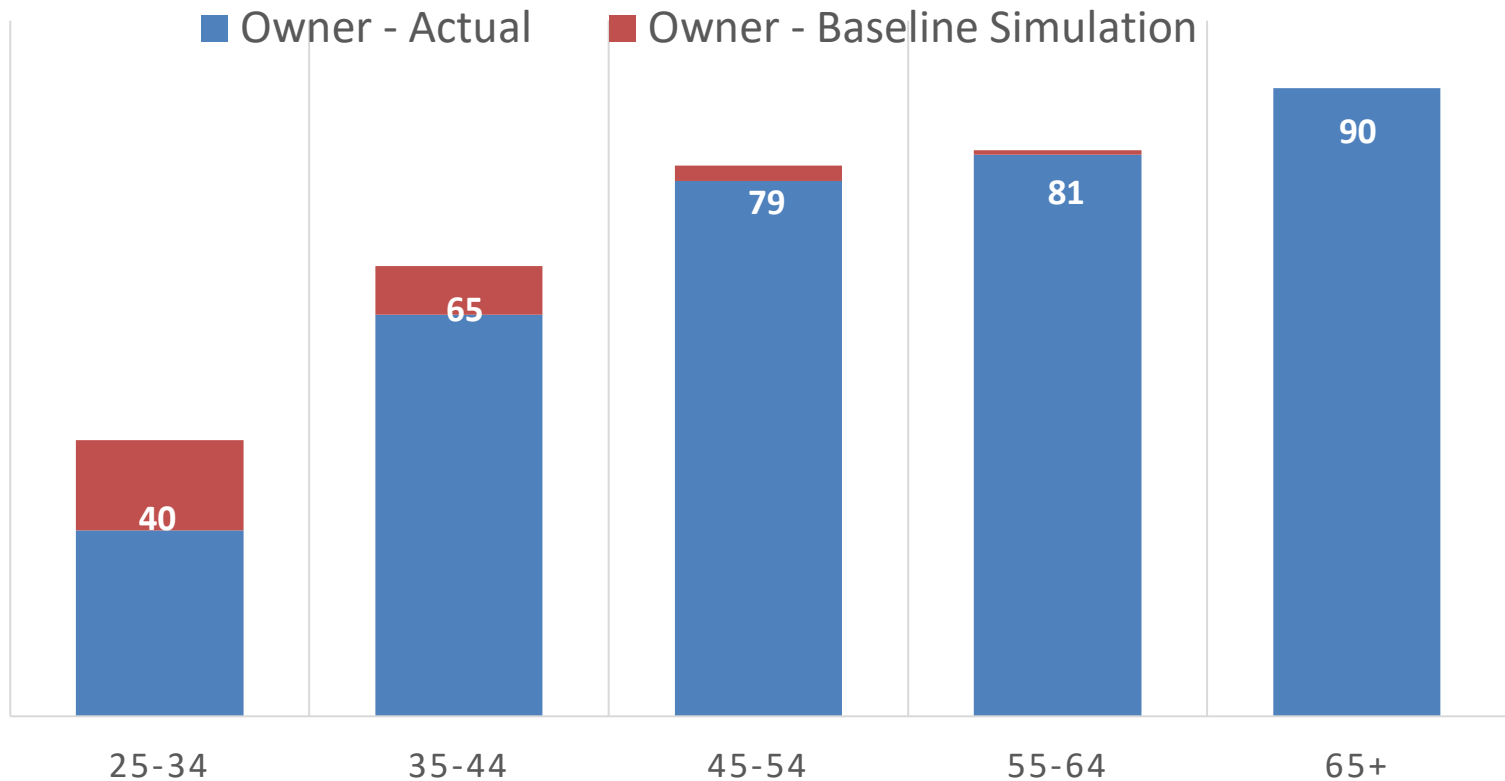
# Overview: AT-HOME Tenure Microsimulation Tool



# % Actual Homeowners by Age Cohort



# Simulation Results - % Homeowners by Age Cohort



# 25-34 Cohort – Dynamic Scenarios

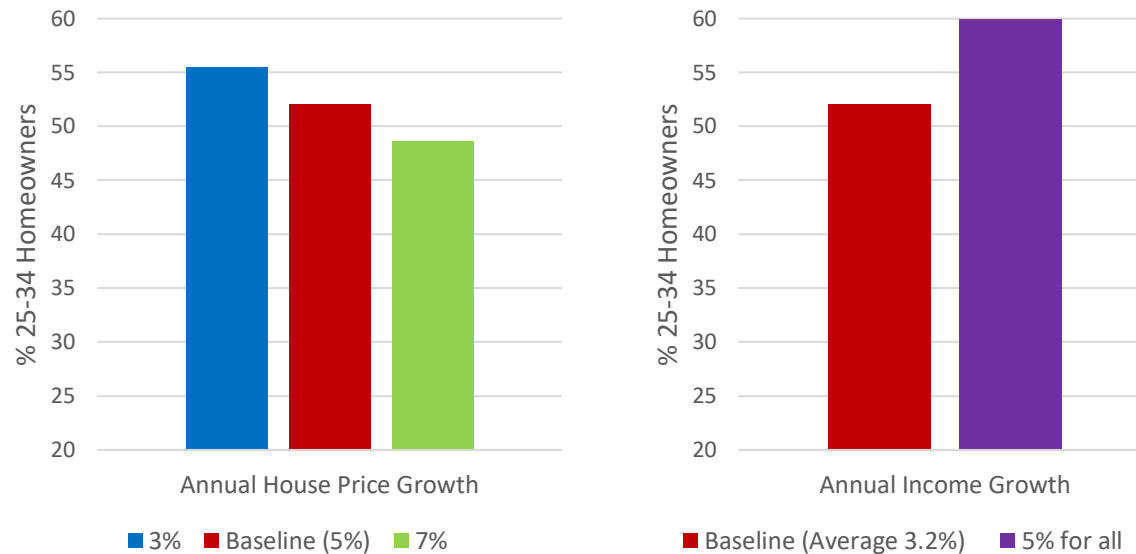
- Near-term modelling approach not appropriate for youngest cohort – median FTB age was 34 in 2019 (Gaffney & Kinghan, 2021)
- Likely that many will see significant income growth - grow incomes forwards 10 years based on a sector, age, education matrix

## Baseline Assumptions:

- Remove current credit risk assessment criteria
- Rents grow at 2% per year (as per Rent Pressure Zone legislation)
- Minimum expenditures grow at 2% per year
- House prices grow at 5% per year
- Gift, time to save deposit, LTI conditions as before



# Simulation Results & Sensitivity – 25-34 Cohort



- Baseline estimates suggest considerably lower homeownership rates than previous age cohorts (52%)
- Estimates most sensitive to income growth and house price growth
- While combining down-payment supports and loosening amount households can borrow relative to their incomes would boost homeownership rates (55%), they remain significantly below those of previous cohorts

# Housing Costs & Tenure Summary

- Currently 65+ have very high homeownership rates (90%). Majority of non-owners are in supported rental sector (7%) – low rents. Remaining 3% with housing costs paying on average 21-22% of net incomes
- On average housing cost to income ratios significantly higher in (non-supported) private rental sector than other tenures
- Homeownership rates 10 percentage points lower for 45-54 and 55-64 cohorts compared to 65+
- Estimates suggest around 65% of 35-44 cohort will become homeowners
- Baseline estimates suggest much lower 52% of 25-34 age cohort could become homeowners
- Ownership rates for 25-34 most sensitive to future house price and income growth assumptions

**Q3:**

**What implications do these projections have for the retirement income adequacy of future cohorts?**

# Assessing Retirement Income Adequacy

## Use TILDA-based model (TRIAM) to calculate likely income in retirement for those approaching the State Pension Age

- Cohort born 1955-60 expecting to retire between 2022 & 2027
- Assume everyone working continues to do so until they retire at the SPA, with earnings rising in line in forecast wage growth
- Full details described in appendices of Beirne et al. (2020)

## Consider two measures of income

1. Narrow: income from state, occupational & personal pensions
2. Broad: ... + annuitised value of net financial assets

# Focus on poverty-line adequacy benchmarks

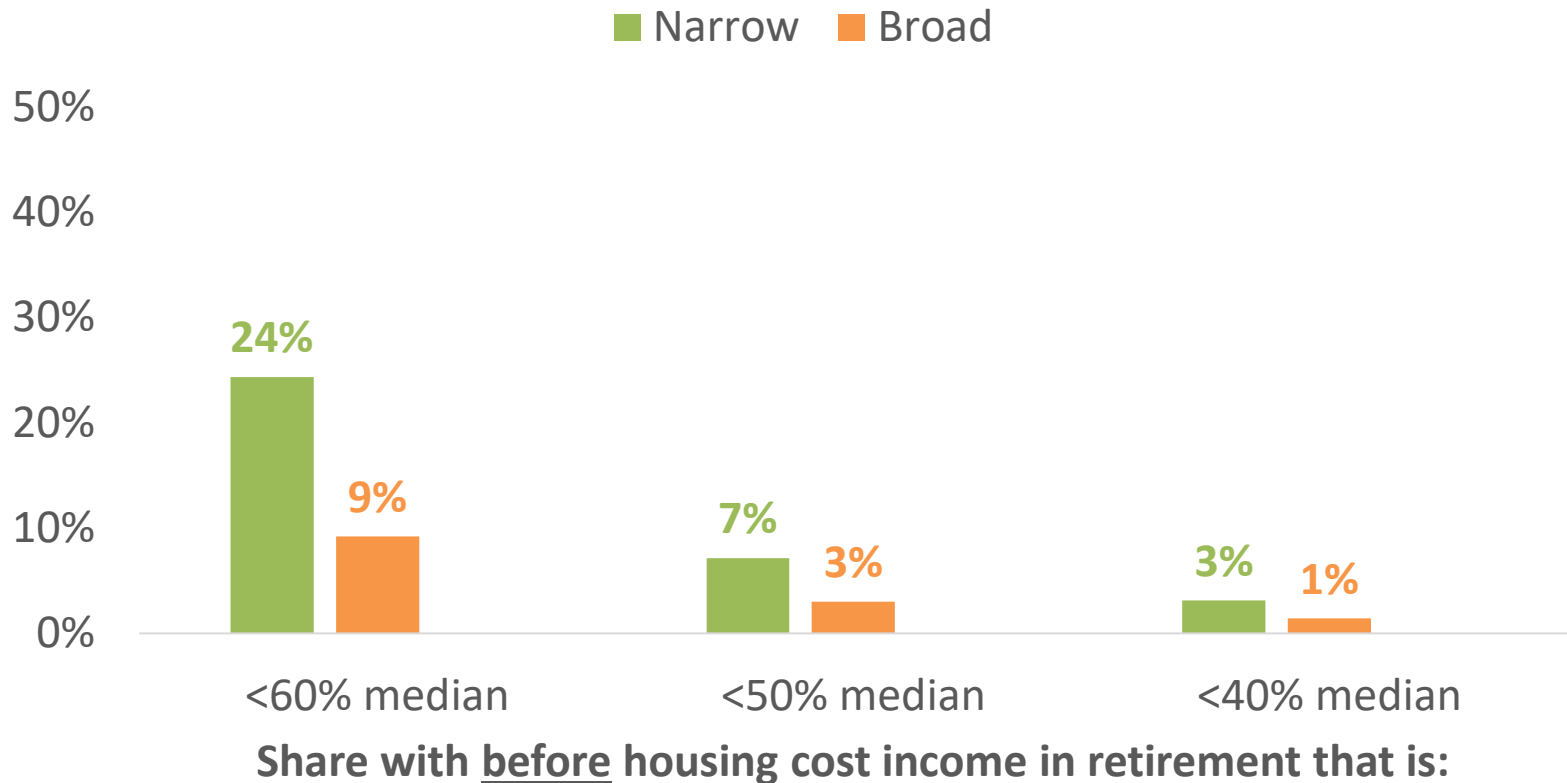
## Look at % with after housing-cost income below

1. 60% of median (similar to 'official' AROP rate)
2. 50% of median (similar to OECD AROP rate)
3. 40% of median (similar to 'extreme' AROP rate)

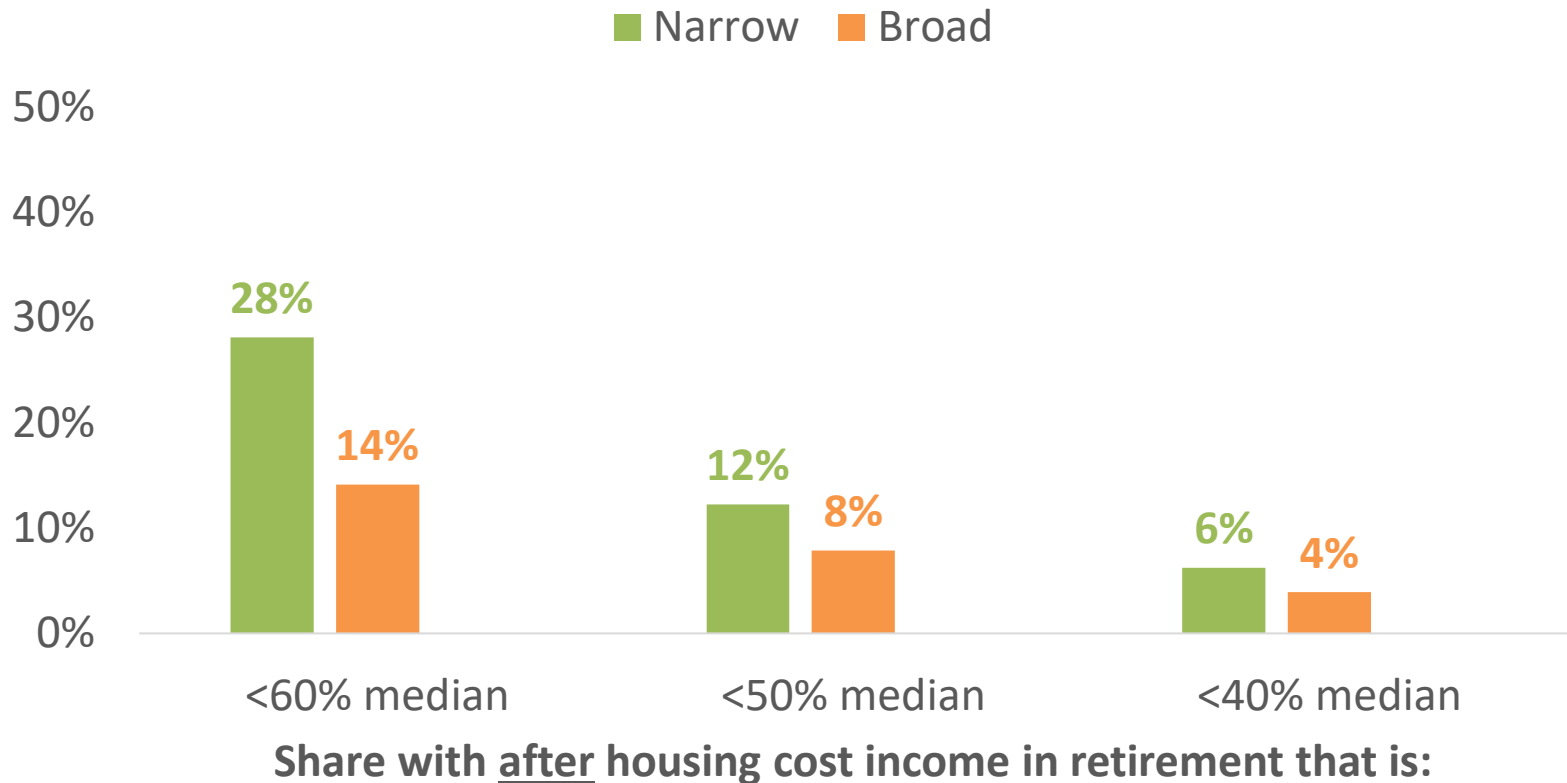
## ... under set of different scenarios

- A. Actual homeownership rate (c. 92% for this cohort)
- B. Simulated homeownership rates of 78%, 70% & 63% informed by analysis presented previously

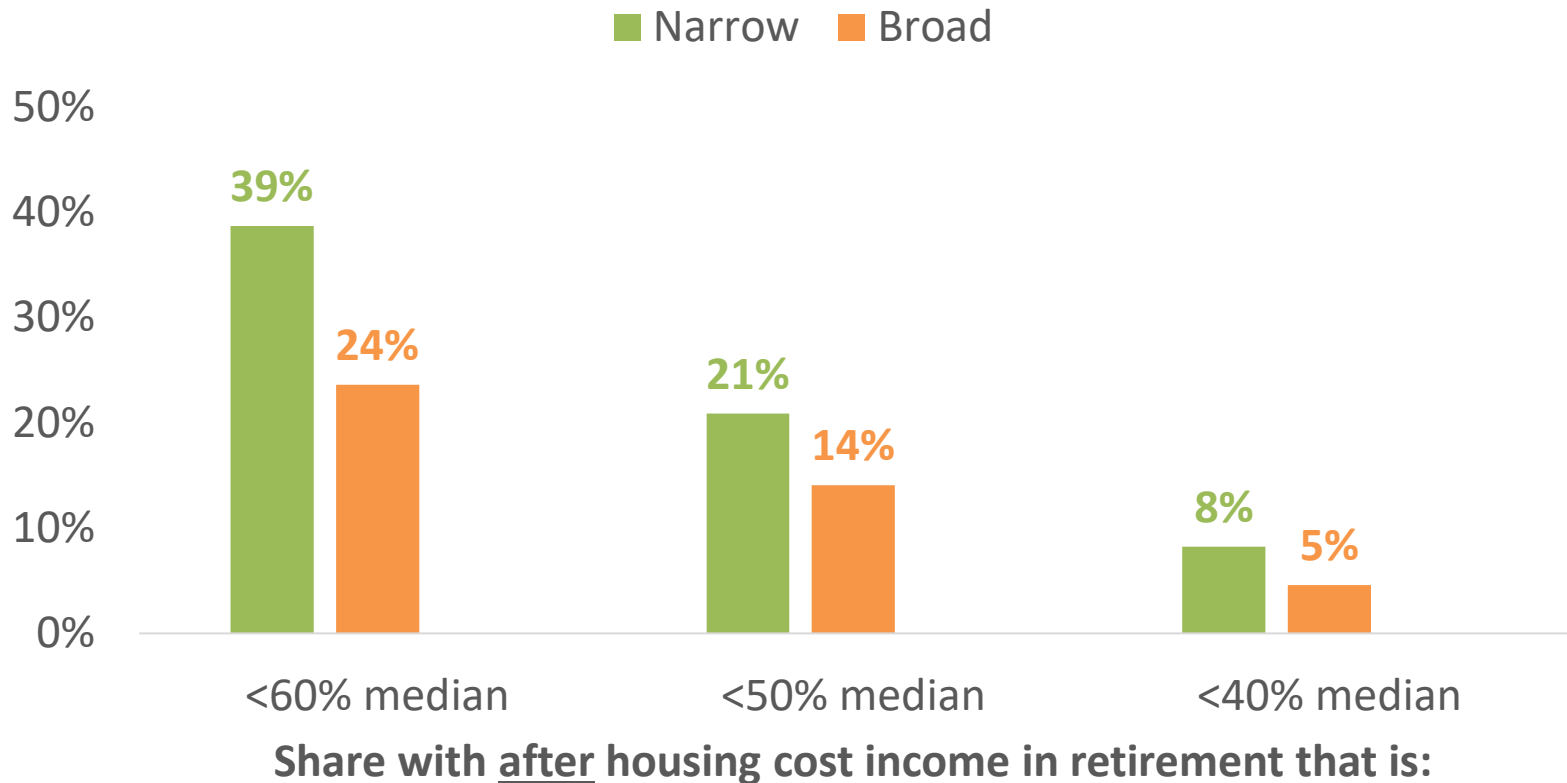
# Original results suggested few were at-risk-of-poverty (AROP) on before housing costs basis



# But more AROP on after housing cost basis with 92% homeownership rate

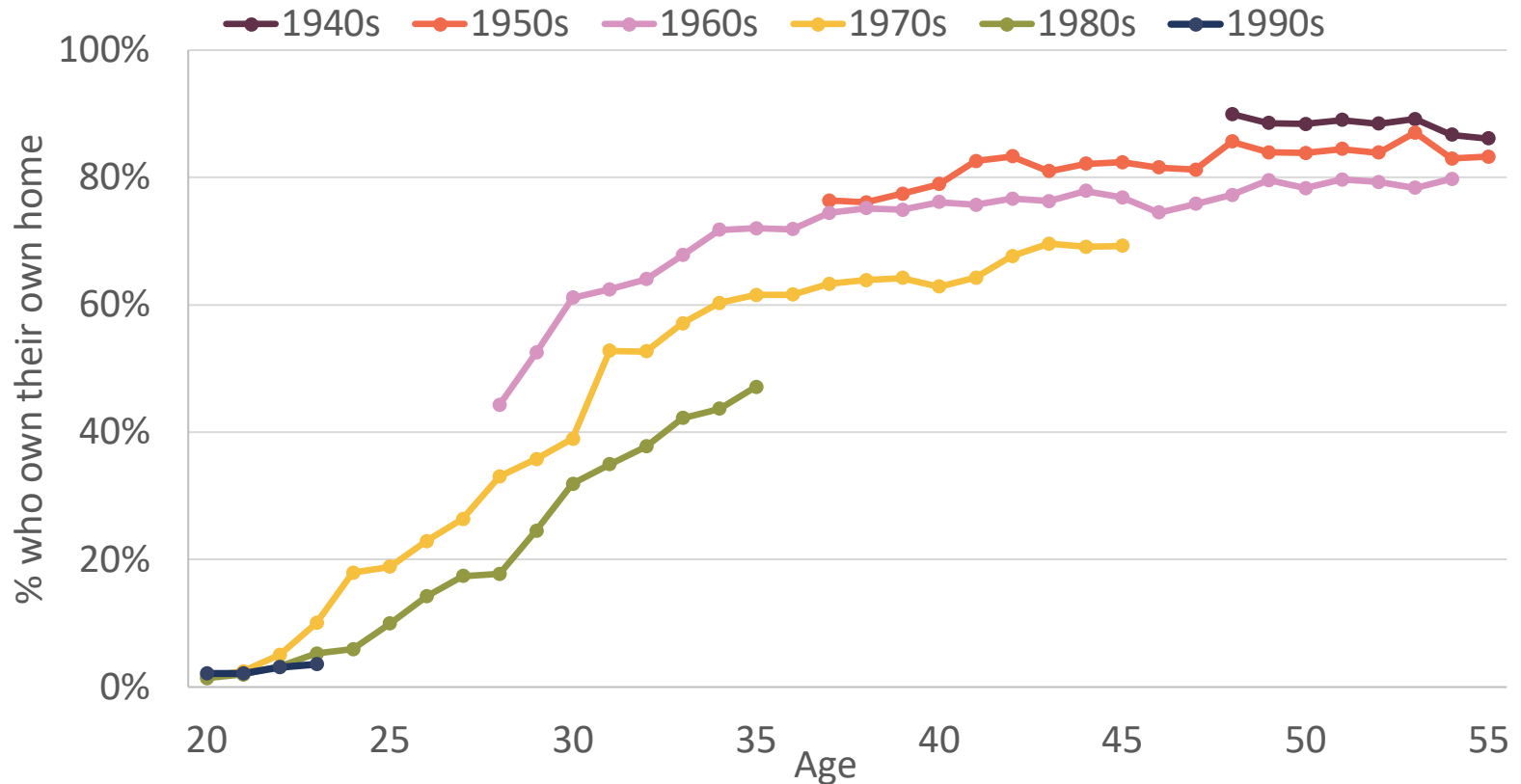


# ... we simulate much higher again under even our 'high' homeownership scenario (78%)



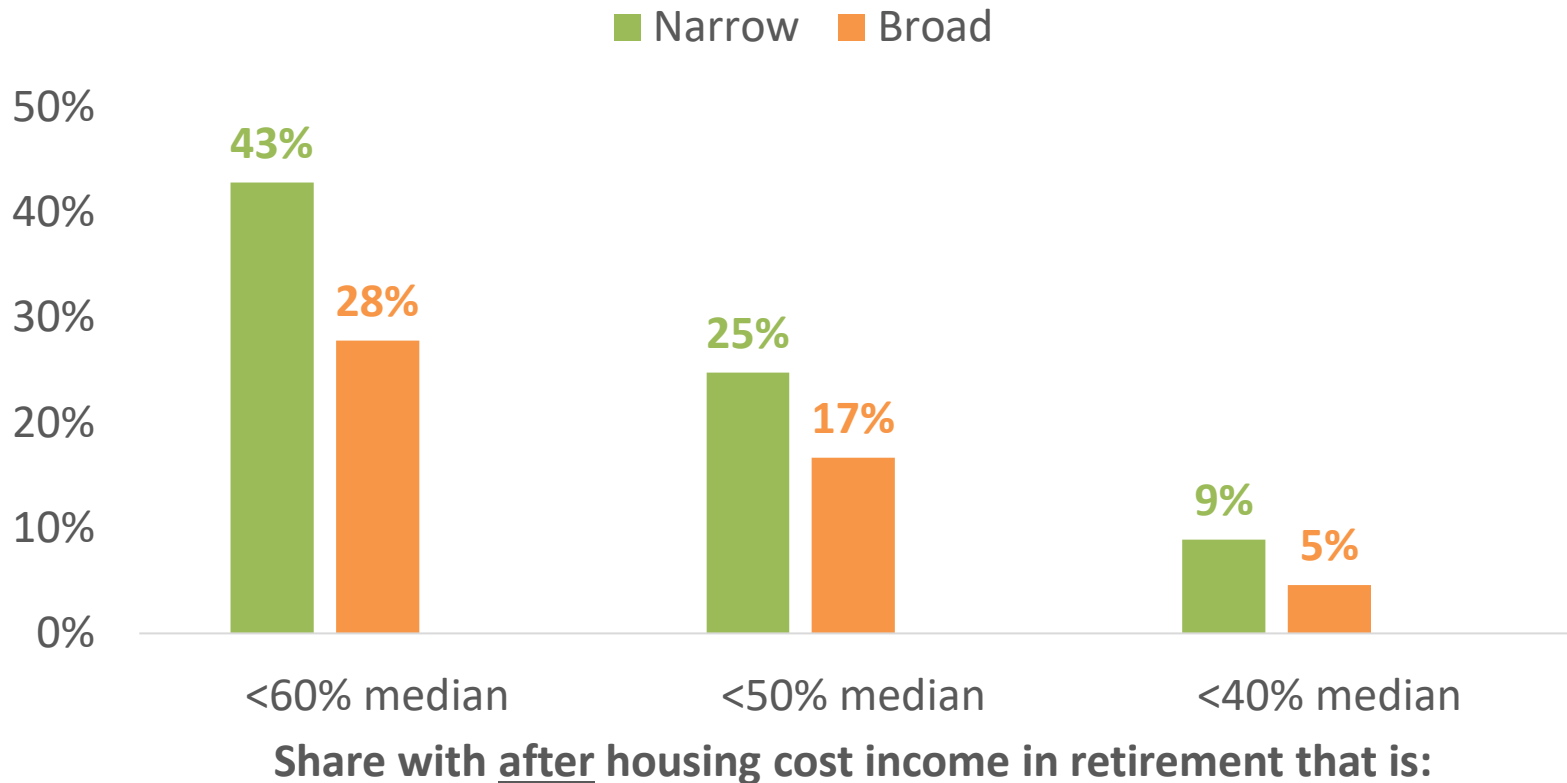


... which is looking like the high watermark for the 1960s and subsequent birth cohorts

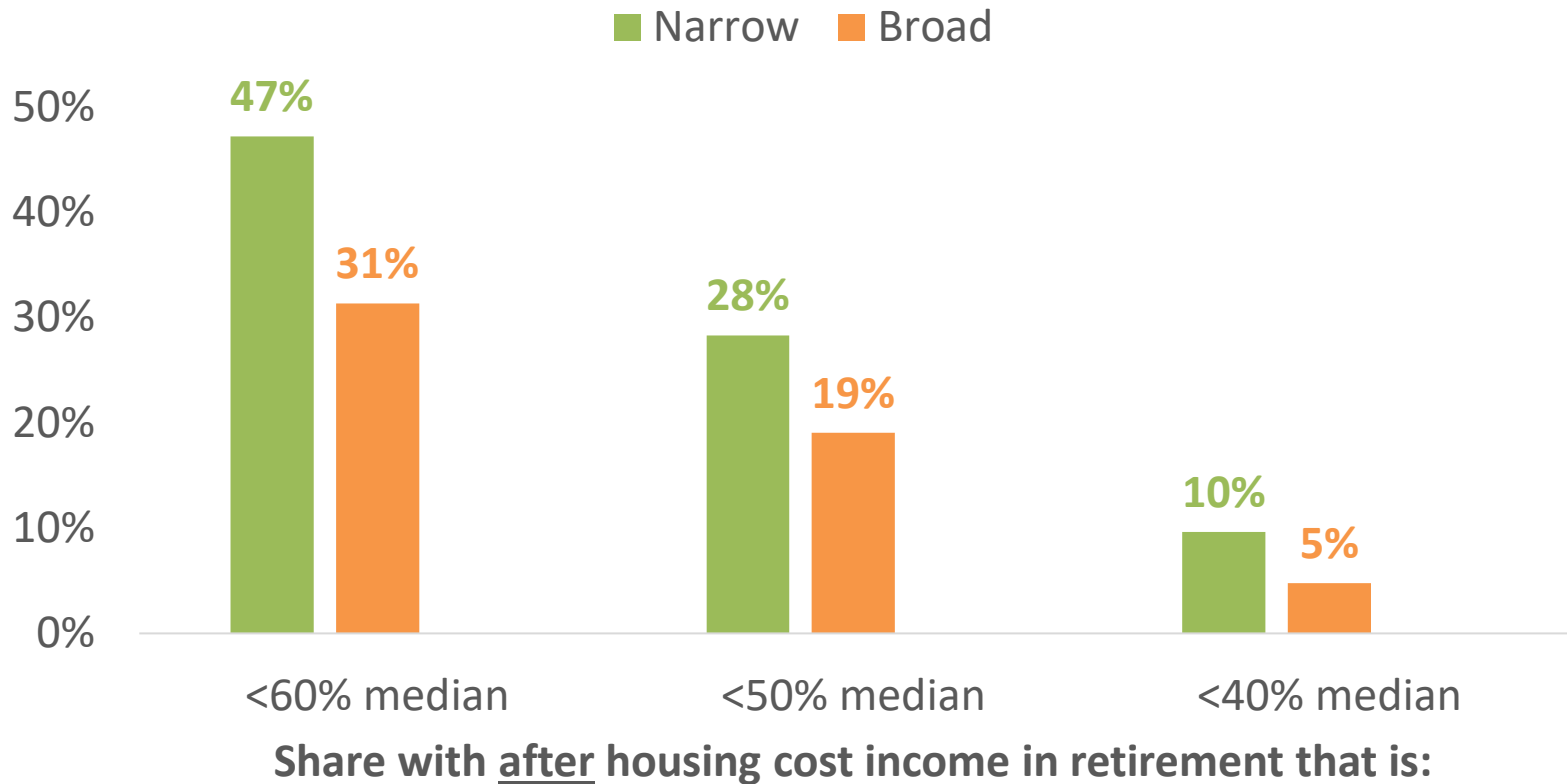


Note: See Figure 4.7, Roantree et al. (2021)

# Simulated poverty rates even higher under 'medium' homeownership scenario (70%)



# ... and higher again under 'low' scenario (63%)



# Who is most AROP on an AHC basis?

**For those currently approaching retirement, characteristics associated with AHC AROP include:**

- Female
- Living alone in working life
- Lower levels of education

# But some important limitations to analysis

## Simulating impact of lower homeownership using data on 1955-60 birth cohort (retiring 2022-27)

- Future cohorts could look different in many ways e.g. less financial wealth given paying rent across lifecycle?

## Simulated rents set at median of current renters

- Most older renters in social housing & paying quite low rents: will this be the case for future cohorts?

# Summary

## **Simulations show younger cohorts will not reach home ownership rates of current 65+ cohort**

- Approx. 80% for 45+, 65% for 35-44 and as low as 52% for 25-34
- But considerable uncertainty over 25-34 group

## **Could lead to substantial rise in AHC AROP rate**

- From 14% for current retirees, to 31% under lowest home ownership rate scenario

# Policy Implications

## **Housing cost/income ratio is the core policy concern**

- implications for policies in relation to both housing cost and income support

## **Implications also for policies at different stages of life course**

- instruments targeting increased supply which impact share of homeowners, increased direct provision of social housing or which develop alternative, non-market renting cohorts such as cost rental

**Developing a policy strategy which mixes lifetime incentives to accumulate retirement assets during employment with an adequate safety net is most likely to be required**