

# RESEARCH INSIGHTS BRIEF

## THE FIDELITY RESEARCH INSTITUTE

is designed to advance knowledge of how proven investment theory and public policy can be put into practice to help Americans invest wisely to meet their financial needs. The Institute calls on resources across Fidelity Investments as well as within the financial services industry and academia to accomplish its mission.

## The Role of Real Estate In Funding Retirement RETIREE AND PRE-RETIREE OPINIONS

### Survey Results Summary

#### INTRODUCTION

With the steady rise in home values during the past 10 to 15 years, residential real estate has come to represent a significant portion of assets for older Americans — by some measures, the largest portion. As a result, the question of how retirees might be able to leverage this growing home equity to help fund their retirement has been brought to the forefront.

With this background, the Fidelity Research Institute<sup>SM</sup> set out to better understand how Americans who are in and approaching retirement today are leveraging or plan to leverage home equity, and what factors play a role in their decision-making.

To answer these questions, the Institute sponsored a survey of more than 1,400 retirees and pre-retirees between the ages of 55 and 75. Presented in this brief are the survey's key findings, specifically on: how retirees and pre-retirees have used or plan to use home equity to finance their retirement; the incentives and barriers to using home equity to fund retirement; how decisions are made; which methods are used most often to leverage home equity; and the usage of and familiarity with reverse mortgages.



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## SURVEY METHODOLOGY

Telephone and online interviews were conducted from October to November, 2006, with more than 700 pre-retirees and 700 retirees aged 55 to 75 years old. Pre-retirees had to be working full-time (and a spouse/partner could not be retired). Retirees had to be fully retired or, at most, working part-time in retirement (and a spouse/partner could not be employed or looking for regular work). Respondents were primary or joint financial decision-makers for the household. The survey was conducted by Richard Day Research of Evanston, IL., on behalf of the Fidelity Research Institute.

## THE ROLE OF REAL ESTATE IN HELPING TO FUND RETIREMENT

### Home Equity Levels

Home ownership plays a vital role in lifelong wealth building for retirees and pre-retirees.

- Most pre-retirees (85%) and retirees (81%) own their primary residence. Three out of five (59%) retirees who do not currently own their primary residence, did own one previously.
- The median current market value of retirees' primary residence is \$175,000 and for pre-retirees it is \$185,000.
- While the majority of retirees have no debt on their home, the median amount of money still owed on a pre-retiree's primary residence through a mortgage, second mortgage or home equity line of credit is \$50,000.

### Moving Homes After Retiring

Moving upon retirement for family, mobility or climate is fairly common, but financial reasons for moving may play a greater role for the next generation of retirees.

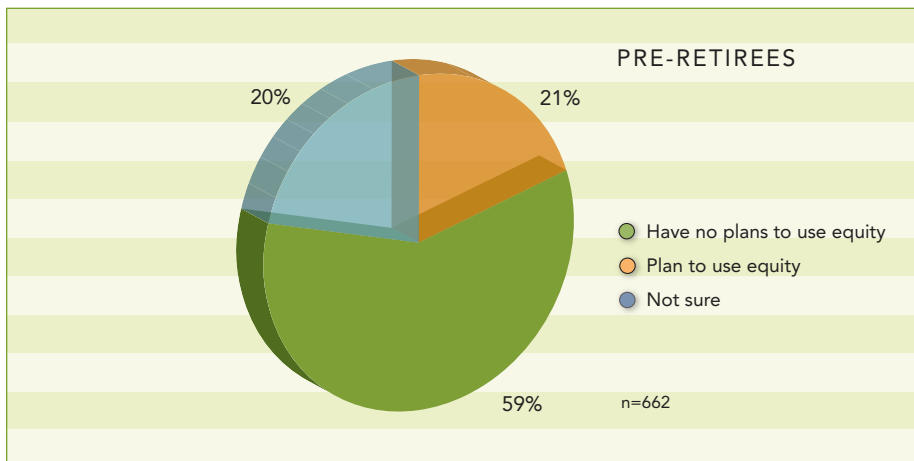
- Two-fifths of retirees moved after they retired, most just once, while another 15% plan to move. Only 23% of pre-retirees plan to move, with another 29% unsure.
- Retirees report many reasons for moving, mostly to be closer to family or to find a home that is easier to live in. More pre-retirees, however, are likely to believe they will move to access home equity than the percentage of retirees who have actually done so (35% of pre-retirees vs. 10% of retirees).
- Nearly one-third (31%) of retirees received more than they expected when they sold their primary residence and moved somewhere else, while 23% earned less than expected.

## Leveraging Home Equity: Prevalence, Popular Strategies, Incentives and Barriers to Use

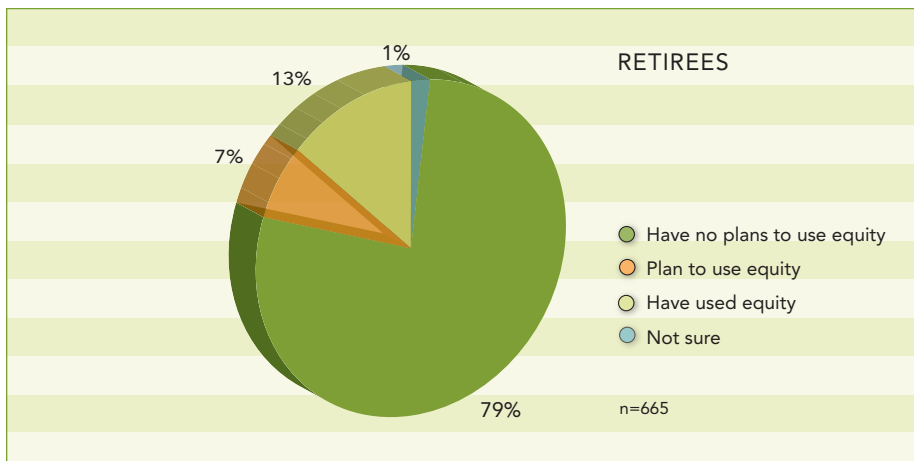
Trends indicate a potential increased use of home equity to fund retirement among pre-retirees, but retiree learnings show there may be emotional barriers to overcome first.

- About one in five retirees and pre-retirees have used or plan to use the equity in their home to help fund their retirement. Specifically, 13% of retirees have used the equity in their home for retirement and an additional 7% plan to. One-fifth (21%) of pre-retirees also plan to use their home equity for retirement income, with another 20% still undecided.

Do you plan to use the equity in your home/the proceeds from the sale of your previous home in any way to help fund your retirement?



**More than Half of Pre-Retirees Do Not Plan to Leverage Their Home Equity for Retirement Income**



**Most Retirees Have Not Used and Have No Intention of Using Their Home Equity for Retirement Income**

Source: Role of Real Estate in Retirement, November 2006

THE TOP THREE MOST POPULAR STRATEGIES FOR LEVERAGING EQUITY ARE:

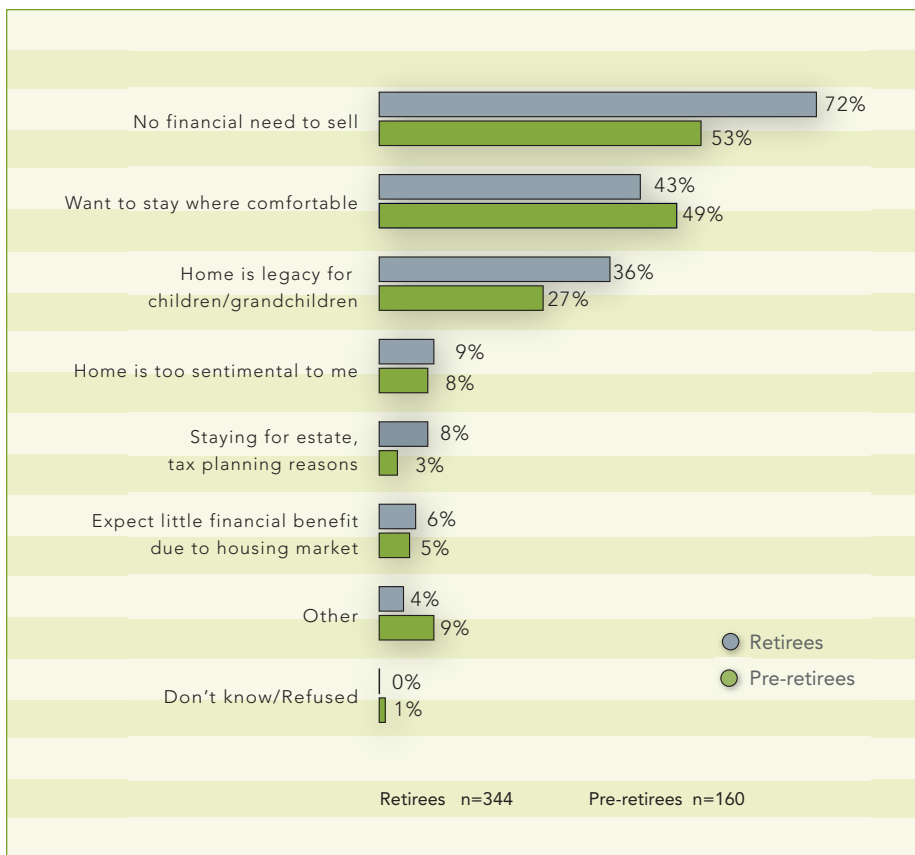
1. SELLING A PRIMARY RESIDENCE AND BUYING A LESS EXPENSIVE HOME
2. SELLING A PRIMARY RESIDENCE AND RENTING A HOME OR APARTMENT
3. OBTAINING A HOME EQUITY LINE OF CREDIT

- Multiple methods are used by retirees to access the equity in their home to help fund their retirement, with 70% of retirees selecting options that require them to move from their homes. The top three most popular strategies for leveraging equity are: selling a primary residence and buying a less expensive home, selling a primary residence and renting a home or apartment, and obtaining a home equity line of credit. Only about one in thirteen retirees who leverage their home equity sign up for a reverse mortgage.
- Most retirees (69%) decided after they retired to use the equity in their home to help fund retirement, indicating that the decision may have been an unplanned or reluctant one for some.
- Retirees who accessed the equity in their home used it for both short-term (three out of five) and future (two out of five) needs. Top cited areas for use include saving it for the future, covering day-to-day expenses, covering housing expenses and paying for medical bills.
- The vast majority (82%) of retirees who have leveraged their home equity are confident that they chose the best method of doing so. The same number of pre-retirees who plan to leverage home equity for retirement are confident that they understand the best way to access the equity.

- Those who have not used their home equity are generally familiar with the option, with 71% of retirees and 60% of pre-retirees reporting familiarity with some ways to use the equity in their home for retirement, but only willing to do so as a last resort. Only 10% of retirees and 14% of pre-retirees who have not used or do not plan to use home equity for income are unfamiliar with their options.
- Of those who do not plan to use the equity and are familiar with the options, most say they want to stay where they are comfortable as they grow older (49% of pre-retirees and 43% of retirees) or have no financial need to sell (53% of pre-retirees and 72% of retirees).

**If you do not plan to use the equity in your home to help fund your retirement, why not?**

**Barriers Divided Between Lack of Financial Need, and Attachment to One's Home**



Source: Role of Real Estate in Retirement, November 2006

Staying in a home where they are most comfortable as they age is especially important for the oldest retirees, women approaching retirement, and those less financially stable. In fact, the best candidates for using home equity (such as retirees with fewer assets but sizeable equity in their homes) are reluctant to leverage equity for emotional reasons, rather than financial ones. This reluctance suggests that some retirees may not be aware of or comfortable with the full range of options available (such as the reverse mortgage) which would allow them to remain in their home while tapping real estate equity.

- About half (47%) of pre-retirees who plan to use the equity in their home to help fund their retirement are somewhat or very concerned that the market value of their home when they decide to sell will be less than what they were expecting.

THE BEST CANDIDATES FOR USING HOME EQUITY ARE RELUCTANT TO LEVERAGE IT FOR EMOTIONAL REASONS, RATHER THAN FINANCIAL ONES

**TRENDS AND INSIGHTS ON REVERSE MORTGAGES**

- Two-thirds of pre-retirees (66%) and nearly three-quarters of retirees (73%) consider themselves at least somewhat familiar with the concept of a “reverse mortgage” as a method of accessing equity from one’s home.
- Pre-retirees and retirees who will choose another option for accessing home equity instead of getting a reverse mortgage cite multiple reasons, but wanting or needing to move to a different home is mentioned most often (cited by about one third), followed by a lack of trust of the product.
- Pre-retirees who are unfamiliar with a reverse mortgage and are read a description of its features are much more likely to subsequently consider using this option than retirees (50% vs. 17%).

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