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POLICY NOTE

HIGH RENTS INCREASINGLY BECOMING A DRIVER OF FINANCIAL FRAGILITY FOR LOW-INCOME OLDER HOUSEHOLDS

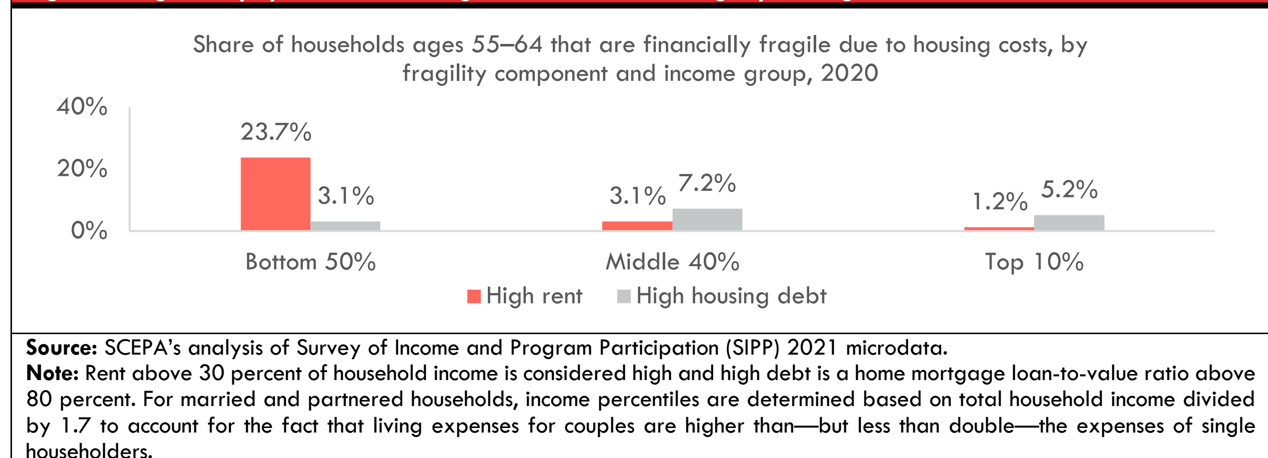
BY EVA CONWAY, BARBARA SCHUSTER, SIAVASH RADPOUR, AND TERESA GHILARDUCCI JUNE 2023

Elevator Pitch: In the United States, high overall rates of home ownership among households aged 55–64 obscure a vital reality. Many low-income older households risk financial fragility because they are renters and high rent burdens inhibit their ability to save for emergencies. Even middle- and high-income older households who own their own homes risk housing-related financial fragility due to high mortgage debt. Overall rates of financial fragility, which include non-housing debt and emergency savings, remain high for all older households regardless of income. Our policy recommendations focus on supporting higher wages, solidifying emergency savings, and reforming the retirement system to reduce financial fragility at older ages.

Outside of Social Security, housing equity is the primary mechanism for accumulating wealth in the United States, and indeed, 73 percent of households over age 65 own their home.[1] It may therefore come as a surprise that more than a quarter of households with a member between the ages of 55 and 64 in the bottom half of the income distribution face housing-related financial fragility. Middle- and high-income households are not exempt from the risk of financial fragility due to housing costs and debt, though many of these households own their own homes. Among these groups, 10.3 and 6.4 percent, respectively, face high housing costs and debt burdens (see Figure 1). What's more, the share of older low-income households facing housing-related fragility has increased steadily: between 2013 and 2020, the share of low-income older households who had to pay rent exceeding 30 percent of their income increased from 18.2 percent to 23.7 percent (See Table A1 in the Appendix for details).

The average older American household faces more than just housing- related financial fragility. Economic distress is not limited to the lower half of the income distribution, we find when using a

Figure 1: High rent payment is a leading cause of financial fragility among low-income older households



Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: Rent above 30 percent of household income is considered high and high debt is a home mortgage loan-to-value ratio above 80 percent. For married and partnered households, income percentiles are determined based on total household income divided by 1.7 to account for the fact that living expenses for couples are higher than—but less than double—the expenses of single householders.

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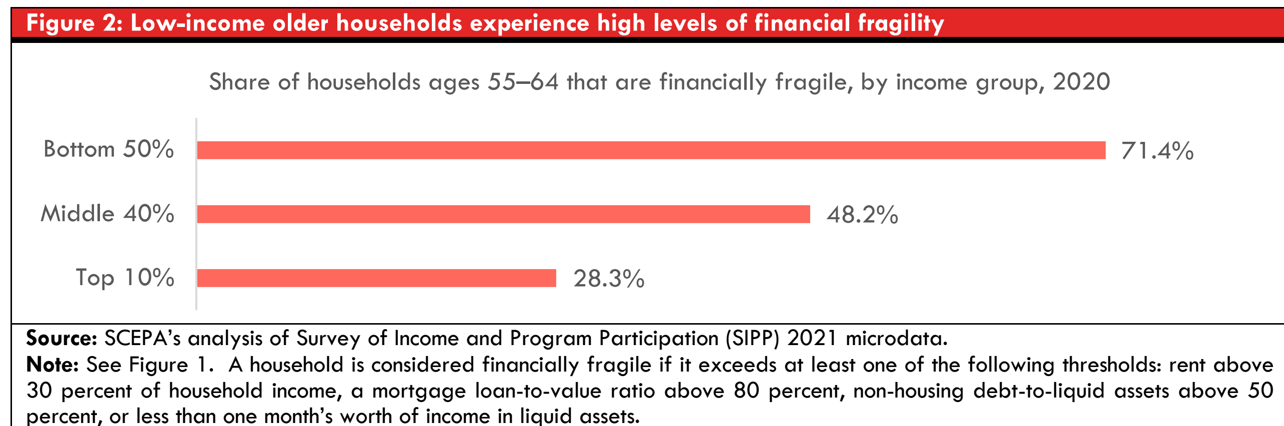
broader measure of financial fragility that includes non-housing debt and emergency savings (see the "What is financial fragility?" box below). Nearly half of middle-income older households and more than a quarter of high-income households are financially fragile (see Figure 2). In addition, older Black and Hispanic households are more financially vulnerable compared to their white and Asian counterparts along all metrics of financial fragility (see Figure 5).

We focus on households with a member between the ages of 55 and 64 because financial fragility in this age group leads to economic distress at older ages. Such high rates of financial fragility at a key time in one's financial life—the years preceding retirement—are of significant concern because the impact of corrective measures like working longer are limited and not always feasible.[2] Housing-related financial fragility in particular poses secondary problems including reduced ability to save for emergencies and heightened risk of elderly homelessness.

Policies that support better jobs and better pay would help older households increase their discretionary income and savings, making them more resilient to many forms of economic shocks.

Figure 2: Low-income older households experience high levels of financial fragility



Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1. A household is considered financially fragile if it exceeds at least one of the following thresholds: rent above 30 percent of household income, a mortgage loan-to-value ratio above 80 percent, non-housing debt-to-liquid assets above 50 percent, or less than one month's worth of income in liquid assets.

What is financial fragility?

Households that are financially fragile are vulnerable to difficulties when faced with unexpected changes in income. These households may struggle to handle such situations and may be forced to borrow money at high interest rates or rely on assistance from their family and friends.

After taking care of essential expenses like bills and necessary items as well as paying off their mortgages and credit card debt, households typically have some money left over from their income. This leftover amount is called "discretionary income." Households may save a portion of this discretionary income for emergencies and retirement while spending the rest on things they enjoy, like goods and services.

When households encounter an economic shock such as temporary unemployment or unexpected medical expenses, they can reduce their discretionary spending, use their savings, or borrow money. A household is deemed financially fragile if it exceeds at least one of the following thresholds:

Rent and mortgages: If households spend more than 30 percent of their income on rent, they are considered rent-burdened and have less money available to save for emergencies or economic shocks. Excessive mortgage debt—a home mortgage loan-to-value ratio above 80 percent—can also reduce a household's discretionary income and limit their ability to obtain second mortgages, which are an affordable measure sometimes taken to handle unexpected expenses.

Non-housing debt: High levels of non-housing debt such as credit card debt or student loans can eat into households' income. A ratio of non-housing debt to liquid assets above 50 percent is considered high and can not only reduce a household's ability to save but also make it challenging to borrow money at reasonable interest rates.

Emergency savings: If households have less than one month's worth of income in liquid assets, they may struggle to cope with economic shocks effectively (see Figure A1 in the Appendix for alternative definitions).

Housing related financial fragility is rising

A household is considered to have housing-related financial fragility if its rent payments exceed 30 percent of household income or if its home mortgage loan-to-value ratio is above 80 percent.

Our research indicates that older low-income households with high proportions of their income devoted to rent, as distinct from mortgage or home maintenance costs, have increased steadily. Between 2013 and 2020, the share of low-income older households who had to pay rent exceeding 30 percent of their income increased from 18.2 percent to 23.7 percent (See Table A1 in the Appendix).

High housing costs pose significant risks and can exacerbate other areas of fragility. With substantial resources spent on housing, households are left with little discretionary spending that can be used to invest or save, making them even more vulnerable to financial shocks and increasing the likelihood of resorting to high-interest credit.

High rent burdens are of particular concern for the bottom half of older households who are more likely to be renters: 32.8 percent of low-income households are renters, compared to 11.9 percent of middle-class and 8.8 percent of high-income households (see Table A3 in the Appendix).

High mortgage payments can also have significant implications for the financial fragility of older households. Mortgage payments consume a large portion of income well into retirement, leaving limited room for discretionary spending or savings or for handling a drop in income. There are additional risks: refinancing a mortgage becomes more challenging as income declines upon retirement, and older households, especially those relying on 401(k) plans to fund retirement, are exposed to housing market fluctuations. In the event of economic downturns, these households may face difficulties in selling a home or downsizing, which can limit their options for adjusting housing expenses to align with their financial situation.[3]

More broadly, high levels of financial fragility related to housing add nuance to a commonly held understanding that buying a home is an important mechanism for creating wealth. More than 7 percent of middle-income households are considered financially fragile due to their high mortgage debt (see Figure 1).

Looking forward, projections by the Urban Institute indicate that older renter households will increase from 22 percent in 2020 to 27 percent in 2040, a shift that necessitates policies to reduce the risk that these renters will face high rent burdens.[4] While older households could benefit from lower rents and mortgage payments, our policy recommendations focus on supporting higher wages to significantly reduce financial fragility at older ages.

Rates of other forms of financial fragility, including emergency savings and non-housing debt, remain high

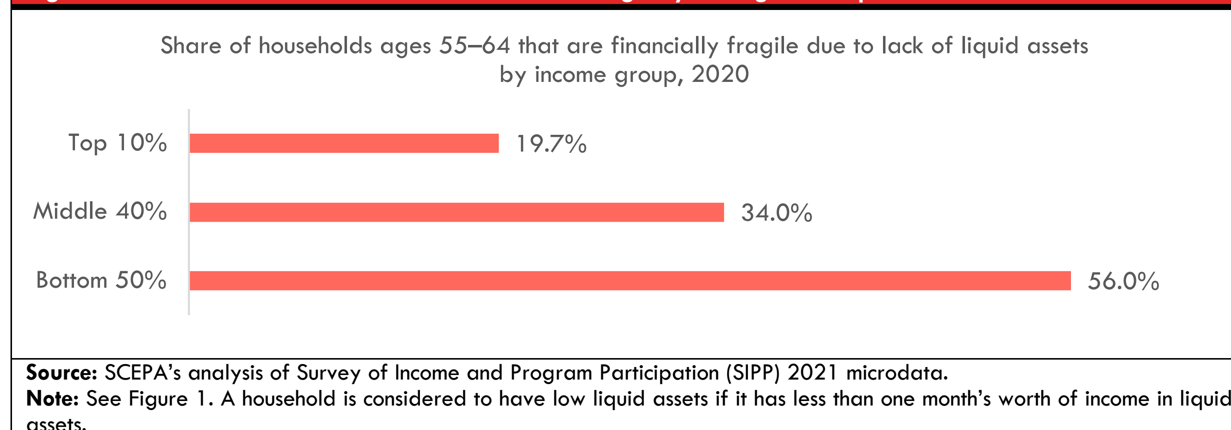
Several factors have helped shrink older households' financial fragility in recent years, including strong wage growth, soaring home values, and more income flowing to households in the form of Economic Impact Payments.

Nevertheless, nearly half (48.2 percent) and more than a quarter (28.3 percent) of middle- and high-income older households still experience financial fragility, respectively. And, as one might expect, financial fragility is highest among low-income elders (see Figure 2).

Low liquid assets are the primary driver of this financial fragility. More than half (56.0 percent) of low-income, one-third (34.0 percent) of middle-income, and one-fifth (19.7 percent) of high-income households have less than one month's worth of income in liquid assets such as assets held at financial institutions, stocks and mutual funds, other interest-earning assets, other financial investments, and equity in trusts (see Figure 3).

Households with insufficient discretionary income and low levels of liquid assets are at high risk of missing rent payments, liquidating any small amounts of long-term savings, and/or taking on high-interest loans if they need medical treatments, face unexpected car or home repairs, or lose their jobs or hours on the job.

Figure 3: Older households suffer from a lack of emergency savings and liquid assets



Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1. A household is considered to have low liquid assets if it has less than one month's worth of income in liquid assets.

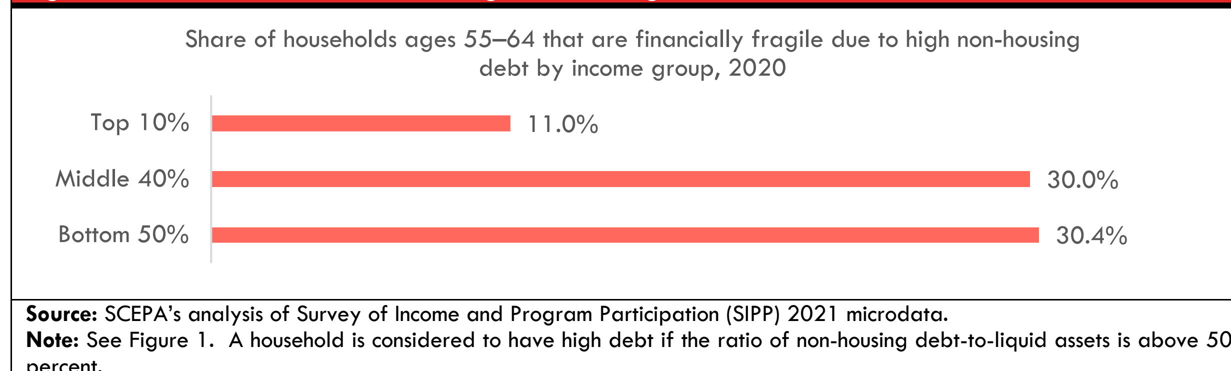
Another major contributor to financial stress for older households is high-interest non-housing debt, which includes credit card debt, store bills, education loans, and medical bills (see Table A2 in the Appendix). Using a large share of one's current income to pay off old purchases makes any new expense or drop in income even harder to manage. Almost one-third of households in the bottom 50 and middle 40 percent of the income distribution have a ratio of non-housing debt-to-liquid assets above 50 percent (see Figure 4).

Credit card and medical debt are the main culprits of such high debt levels. Credit card debt represents more than half of all unsecured debt among the bottom 90 percent of households, due in part to high-interest rates and perilously under-regulated credit access (see Table A2).

And, despite widespread Medicare coverage, many older Americans face high medical costs, which are implicated in significant levels of old-age poverty.[5] Holding too much high interest debt relative to the amount of liquid assets insidiously erodes discretionary income, making it difficult to save for retirement or pay for unexpected expenses.

Finally, education loans are the fastest growing type of debt and account for 34.9 percent of non-housing debt for top-income households, 19.0 percent for middle-class and 12.3 percent for low-income households (see Table A2). More than half of older households hold education loans for their children or grandchildren.[6]

Figure 4: Older households suffer from high non-housing debt



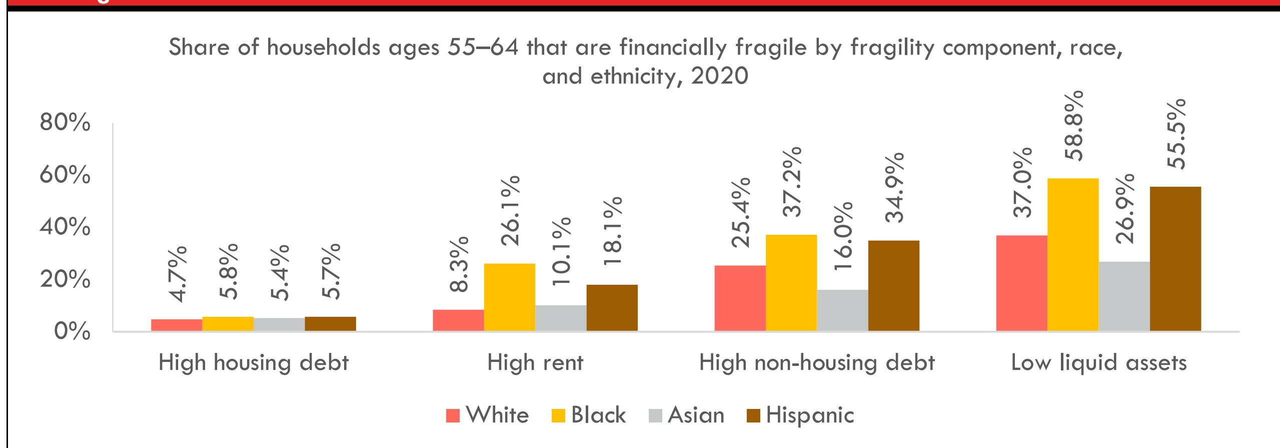
Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1. A household is considered to have high debt if the ratio of non-housing debt-to-liquid assets is above 50 percent.

Older Black and Hispanic households face high housing costs, low liquid assets, and high non-housing debt

Older Black and Hispanic households are more financially vulnerable compared to their white and Asian counterparts along all metrics of financial fragility, including access to liquid assets, level of non-housing debt, and housing cost burdens. Between 1989 and 2016, the debt-to-asset ratio of the typical household age 50 or older increased from 8 percent to 17 percent for white households, from 16 percent to 35 percent for Black households, and from 17 percent to 37 percent for Hispanic households.[7] Additionally, older Black households are much more likely than white or Hispanic households to have education debt, the fastest-growing type of debt among older American households.

Housing fragility among older workers of color stems from multiple factors, including lower income levels in Black and Hispanic households. However, the primary causes are rooted in the history of legal discriminatory and predatory lending practices, and residential segregation, as well as their persistence despite being illegal today.[8] Black older households are far more likely to be renters than white ones (41.4 percent), followed by 29.5 percent of Hispanic older households, making them prone to increasing rent burdens and limiting their wealth building opportunities (see Table A3 in the Appendix).

Figure 5: Older Black and Hispanic households face high housing costs, low liquid assets, and high non-housing debt



Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1. A household is considered financially fragile if it exceeds at least one of the following thresholds: rent above 30 percent of household income, a mortgage loan-to-value ratio above 80 percent, non-housing debt-to-liquid assets above 50 percent, or less than one month's worth of income in liquid assets.

Financial fragility increases the risk of downward mobility for older households and their children

When households experience economic shocks such as job loss, divorce, or the onset of ill health, they often reach for their retirement savings because they lack an emergency fund—especially if they must make debt payments. About one fifth of all retirement savings withdrawals are related to such shocks, and these drawdowns are concentrated among lower-income households least able to afford sacrificing their retirement wealth.[9]

If older households are unable to meet their expenses due to financial constraints, they will

likely shift the burden to friends and family members, particularly children who are most likely to support their parents. One-third of midlife adults provide financial support to their parents to help them with essential spending such as groceries or medical bills. However, those providing financial support to their parents express concerns that they struggle to save for their own retirement. Financial fragility thus becomes an intergenerational issue. [10]

Policy recommendations

Policies that can lower households' housing expenses—such as rent controls, low interest down payment assistance, and other policies that support affordable housing—could help reduce housing fragility. We focus here on policies that support better jobs and better pay so that older households can increase their discretionary income and savings, making them more resilient to many forms of economic shocks.

Improve pay and job security

Low pay and lack of discretionary income is the main cause of financial fragility among low-income households. One of the most effective ways to improve older workers' pay, working conditions, and retirement options is to expand unions. In the absence of union contracts and individual bargaining power, increasing the minimum wage would help older workers save or pay down their debt.

Expand social insurance and increase unemployment insurance

Federal assistance in the form of unemployment insurance, nutritional assistance programs, and comprehensive medical insurance need to be improved and expanded. In addition, supports for housing costs in the form of housing vouchers and rent subsidies could reduce financial stress in times of economic shock for those who are financially fragile. Finally, lowering the Medicare age to 50 would ensure that laid-off older workers could afford healthcare costs without depleting their savings.

Protect retirement savings from emergency withdrawals

Early withdrawals from retirement accounts undermine retirement security. Retirement funds must be protected from the urgency of short-term spending needs. Without safeguards, savings will either be significantly reduced or drained before an individual reaches retirement, leaving them vulnerable to deprivation in old age despite their best efforts to save. This is especially true for those with lower incomes who are more likely to need the immediate cash and less likely to be able to cut expenses.

To further protect retirement savings from emergency spending, lawmakers should provide households with an alternative source of emergency funds by implementing an emergency savings program. Such a program could be modeled on the Obama administration's MyIRA program, which automatically enrolled workers into emergency savings plans funded by payroll deductions.

Ensure the option of being able to afford an adequate retirement

Older workers who lose their jobs and earnings are less likely than younger and mid-career workers to find a new job and therefore face involuntary retirement and downward mobility. No amount of emergency savings can help those who experience involuntary retirement. For these workers, retirement is the only viable alternative when facing job loss and health shocks. Instead of increasing the retirement age, which is equivalent to a cut in benefits, lawmakers should increase Social Security's revenue to secure benefits, ensuring a reliable fallback option when working longer is not possible.

In the long-term, expanding access to retirement accounts by providing a universal retirement plan for all workers would provide older workers with much-needed retirement security.

Appendix

Trends in financial fragility

Since 2014, low liquid assets have remained the main driver of financial fragility and are prevalent among all earnings groups. However, in recent years the share of older households with illiquidity has slowly decreased (see Table A1). A similar pattern emerges for high non-housing debt, which is the second-largest fragility component. High rent burden follows a contrary trend: since 2015, it has become more prominent than high housing debt and has continued to increase, particularly for low-income households. The proportion of low-income households paying more than 30 percent of their income in rent rose from 18.2 percent in 2014 to 23.7 percent in 2021.

Table A1: High housing costs are the fastest-growing component of financial fragility for low-income households

	Income group					
	Bottom 50%		**Middle 40%**		**Top 10%**	
Type of fragility	2013	2020	2013	2020	2013	2020
High housing debt	12.1%	3.1%	14.1%	7.2%	15.4%	5.2%
High non-housing debt	30.0%	30.4%	28.0%	30.0%	12.5%	11.0%
Low liquid assets	64.0%	56.0%	39.7%	34.0%	22.7%	19.7%
High rent	18.2%	23.7%	1.8%	3.1%	0.9%	1.2%
Any financial fragility	75.6%	71.4%	52.0%	48.2%	34.9%	28.3%

Source: SCEPA's analysis of the Survey of Income and Program Participation (SIPP) 2014–2021 microdata.
Note: See Figure 1. A household is considered financially fragile if it exceeds at least one of the following thresholds: rent above 30 percent of household income, a mortgage loan-to-value ratio above 80 percent, non-housing debt-to-liquid assets above 50 percent, or less than one month's worth of income in liquid assets.

Components of non-mortgage debt

Table A2: Credit card debt is the largest component of households' non-mortgage debt

	Type of non-housing debt					
	Credit card debt		**Educational debt**		**Other debt**	
Income group	2013	2020	2013	2020	2013	2020
Bottom 50%	60.6%	51.6%	12.4%	12.3%	26.9%	36.2%
Middle 40%	60.8%	57.0%	23.3%	19.0%	15.9%	24.0%
Top 10%	48.6%	44.2%	35.2%	34.9%	16.2%	20.9%
All households	60.2%	53.7%	17.5%	16.6%	22.3%	29.8%

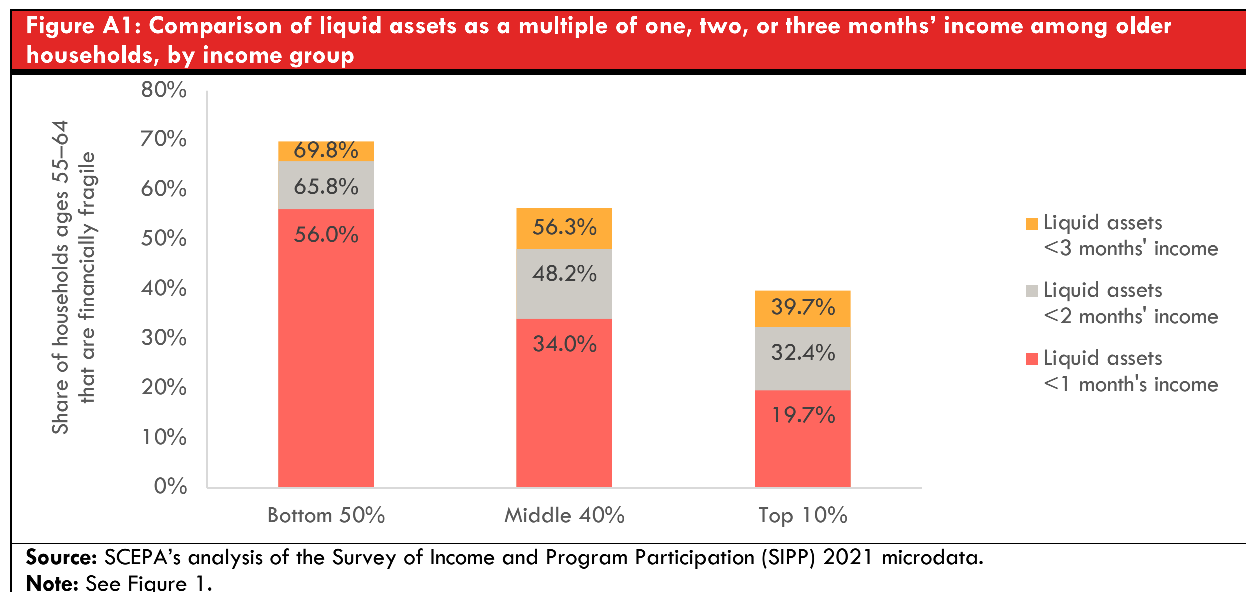
Source: SCEPA's analysis of Survey of Income and Program Participation (SIPP) 2014–2021 microdata.
Note: See Figure 1.

Determining the cut-off point for liquid assets inadequacy

Some researchers (and financial advisors) consider at least three months of income as the adequate amount of liquid assets necessary for dealing with emergencies. However, a significant share of households at all income levels lack such levels of readily accessible money (see Table A3). While maintaining at least three months' worth of income as liquid assets could be sound financial advice, a measure of financial fragility that counts the majority of households as financially fragile is of little use. In this report, we define insufficient amounts of liquid assets as less than one month's worth of income in liquid assets.

Figure A1 shows shares of households who do not have at least the equivalent of one, two, or three months of earnings in liquid assets, by income groups. Using a lower threshold of liquid assets mostly affects high earners, who are more likely to maintain some level of liquid assets but not three months' worth. In contrast, low-income households who are more likely to have nothing saved for emergencies are less likely to be affected by this threshold choice.

Figure A1: Comparison of liquid assets as a multiple of one, two, or three months' income among older households, by income group



Source: SCEPA's analysis of the Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1.

Mortgage debt and rent payment

Table A3: Share of older households ages 55–64 with rent payments or mortgage debt 2013–2020, by income group and race & ethnicity

	Share paying rent		Share with mortgage debt	
	2013	2020	2013	2020
All households	18.0%	20.8%	48.0%	43.9%
Income Group				
Bottom 50%	26.3%	32.8%	35.8%	25.3%
Middle 40%	9.1%	11.9%	61.9%	57.7%
Top 10%	5.7%	8.8%	63.5%	61.9%
Race\ethnicity				
White	13.2%	15.5%	52.3%	47.7%
Black	38.4%	41.4%	31.0%	29.9%
Asian	20.0%	17.2%	47.4%	45.6%
Hispanic	28.2%	29.5%	38.4%	37.8%

Source: SCEPA's analysis of the Survey of Income and Program Participation (SIPP) 2021 microdata.
Note: See Figure 1.

Endnotes

[1] Gooldman, L., Jun, Z. (2021) "What Will It Take to Support 5.5 Million More Senior Renters by 2040?" Urban Institute. URL: https://www.urban.org/urban-wire/what-will-it-take-support-55-million-more-senior-renters-2040

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[3] Morrissey, M., Radpour, S., and Schuster, B. (2022) "Older Workers and Retirement Chartbook" Economic Policy Institute and Schwartz Center for Economic Policy Analysis. URL: https://www.epi.org/publication/older-workers-retirement-chartbook/

[4] Gooldman, L., Jun, Z. (2021).

[5] Morrissey, M., Radpour, S., and Schuster, B. (2022). See charts 3A and 3B.

[6] Schuster, B. (2021). "Student Debt Weakens Retirement Security; COVID-19 Aggravates the Situation." ASA Generations Today 42, no. 5. URL: https://generations.asaging.org/student-debt-weakens-retirement-security-covid

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[8] Sanders, A. (2020) "Housing: Often Overlooked but a Critical Pillar for Older Adults." ASA Generations. URL: https://generations.asaging.org/housing-older-adults-health-inequities-policy

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