Retirement Savings and Expenditure Patterns of Renters and Homeowners: Different Resources or Different Views?

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This study examines the retirement preparation of renters and homeowners. Housing is commonly the largest asset for consumers and often provides benefits related to retirement such as reduced costs for housing services and the potential for reverse mortgages or other uses of equity. Consequently, the retirement preparation of renters is especially of interest, given their lack of housing equity. We examine two cohorts of renters and homeowners nearing retirement age using ten years of data from the Consumer Expenditure Survey (1995-2004). Although, standard life cycle theory suggests that similarly situated renters will attempt to compensate for the lack of housing equity by investing more heavily in other assets, this does not appear to be the case. Rather, renting appears to reflect an underlying time preference resulting in lack of investment in both housing and any other form of long-term investment.

A probit analysis of participation in retirement savings during the previous twelve months of renters and owners in the 45-54 age group and the 55-64 age group shows that renter status is significantly negatively associated with participating in retirement savings in both groups, even after controlling for percentage of income spent on housing costs and various economic and demographic variables. A truncated maximum likelihood analysis of those participating in retirement savings finds that renters participating in retirement savings save smaller amounts than similarly situated homeowners, again controlling for the same factors. Finally, a tobit analysis examining the share of positive savings designated towards different types of accounts found that renters in both age groups were significantly more likely to favor convenience accounts, such as checking and savings accounts, when they did save. Conversely, renters were significantly less likely to direct their savings to retirement accounts or any kind of securities. An examination of expenditures found that these renters spent a larger share of income on tobacco, but a smaller share on education and personal insurance when compared to homeowners in the same age group.

These results are all consistent with a conclusion that renters nearing retirement have a high rate of time discounting which results in their not purchasing a home and simultaneously failing to save for retirement. Policy implications include the reality that renters, as the more financially vulnerable group, do not appear to be preparing for retirement and will have to be supported largely by extended work lives or expanded social programs.

Endnotes

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