

## **HOUSING AND COMMUNITY RETIREMENT PREFERENCES: ARE THEY RELATED TO ANTICIPATED SOURCES OF RETIREMENT INCOME?**

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### **Abstract**

*This study examines housing and location preferences and how these correlate with anticipated sources of income of preretirement respondents. Of these respondents, 77 percent expressed a preference for a detached, single-family house during their first 10 years of retirement. The recreational vehicle was the least preferred. Those who preferred to retire in more populous areas expected retirement income from more sources than those who chose small towns and rural areas. The number of income sources expected during retirement was related to current income. The relationship between financial planning and the number of anticipated retirement-income sources was of moderate strength. Essential parts of preretirement planning include assuring an adequate income and satisfactory housing over an increasing life-span. The complexities that exist among retirement income, housing, and preretirement planning may threaten the quality of life during retirement.*

### **Introduction**

One of the major retirement issues today is housing (Poglianich, 1988). According to Poglianich, "when clients retire, they are often faced with the decision of whether to remain in the family home, to move to a retirement community, or to buy a condominium" (p. 29). These are some of the housing options that may be considered over a period that extends as much as 40 years for some retirees.

There are many questions regarding where to live during retirement. These include: housing preferences, geographic location, community size, and availability of support services. Actions and decisions made prior to retirement influence how these questions are answered. Retirement income and related financial resources figure prominently into the equation. One important, unanswered question is how community-retirement preferences are influenced by anticipated sources of retirement income.

### **Literature Review**

According to Barrow (1978), housing and retirement literature supports an association among age, home ownership, satisfaction, and a reluctance to move. Barrow studied nonmovers and movers to a retirement community. She found that "elderly in the community-at-large were more likely to be home owners who are satisfied with their homes" (p. 90) than those who had moved to a retirement community.

The quality of life among the elderly living alone has been compared with the quality of those in a retirement community. Although the percentage differences are small, older people who live alone are more likely to become institutionalized than people who live with others, and the risk increases with age; persons with strong social networks are more likely to survive and remain healthy than those without such interaction (Kovar, 1988, p. 15).

Data collected in 1984 and again in 1986 from the same sample of 5,151 subjects over 70 years of age, showed that "persons living alone in 1984 were older, on average, than those living with others and the majority were women whose life expectancy ex-

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ceeds men's" (Kovar, 1988, p. 15). This suggests that living alone is not correlated with a reduced life expectancy. Of the people living alone in 1984, 78 percent were still living alone two years later. From the 1986 data Kovar found that: 1) people who maintained frequent contact with friends or neighbors are more likely to remain alive, and 2) people in need of appropriate housing were significantly more likely to have died or to be institutionalized two years later than people who did not. (Kovar, 1988, p. 15)

These findings suggest that housing and locational decisions for retirement may be critical to health, independence, and longevity. Such decisions are commonly influenced by the financial resources available during retirement.

Previous studies have focused on related areas. Quinn (1977) found that the existence of pension coverage and income from assets encourage retirement. Sobol (1979) reported that asset accumulation at the time of retirement is highly related to income. Morgan (1980) showed that nonpension assets include property value and income from accumulated financial assets.

Economic status influences which housing options are viable to a retiree. Grad (1989) reported that retired-worker families had the highest median monthly income, \$1,209. Only 17 percent of this group was poor or near poor. In contrast, aged widows had the lowest median monthly income, \$641. Over 40 percent of this group was poor or near poor. Aged widows are further disadvantaged by smaller net worths. Their average net worth is two-thirds that of retired-worker households when home equity is included. The figure drops to 43 percent when home equity is ignored. The disparity is more alarming if the housing assets of these households are converted to monthly incomes to cover increases in personal or health care. Grad also reported that in such cases, assets of a retired worker would be exhausted in 19 months and that of an aged widow in 13 months.

Morgan (1981) reported that average home values appreciated by a factor of three between the early and late 1970s. Hence, housing considerations are important in today's retirement decisions. They may impact quality-of-life issues as well as finances and health. Decisions that relate to adequate housing needs should consider housing both as an accumulated asset and as an expense. Other studies have addressed issues related to housing equity and its conversion into an annuity or other income-generating assets (Neubig, 1980; Newman, 1976; Struyk, 1977).

Sherman (1985) concluded that,

assets form an important part of an individual's total financial situation. For older persons in particular, an owned home and possession of income-producing assets to supplement income from social security benefits and employee pensions are an integral part of their total economic well-being (p. 27).

A home is the asset most frequently found in the portfolio of the newly retired. Ninety percent of married workers own homes when they retire (Sherman, 1985). The same is true of nearly 60 percent of unmarried women and 50 percent of unmarried men. Only savings, checking, or credit-union accounts were more prevalent. These figures have been consistent among retirees. Sherman reported that for men or women, married or unmarried workers, home equity was 60 to 88 percent of retirees' net worth.

Since home equity accounts for the greatest proportion of net worth, housing takes on a greater significance. Unlike financial assets, which are usually portable, homes are community-bound. This dual nature of housing, shelter and asset, creates a complex of personal decisions and policy complications as people near retirement. Gray (1988) found that nearly one quarter of the Teachers Investment Annuity Association-College Retirement Equity Fund (TIAA-CREF) respondents were undecided about whether to sell their home. Almost 60 percent planned to keep their homes. Twenty-seven percent were undecided about moving to another state (Gray, 1988).

When preretirees do make housing and location choices, adequate retirement income is important. If income is inadequate, housing expenses may become a burden. In such cases equity may be needed to generate income or to meet current expenses. It is evident from the scarcity of literature in this specific area that issues related to re-

irement housing and planning deserve further study. Morgan (1981) reported that there had been "no official data collected on people's retirement plans or expectations" (p. 210). Retirement studies have largely used samples from retirees. Few have sampled preretirees.

### **Purpose of the Study**

Financial planning for retirement has been the focus of a number of research studies (Morgan, 1980; Sobol, 1979). Preferred retirement housing and location, however, have not been part of most retirement planning studies. Research has shown that retirement housing may impact the health and well-being of the retired individual (Barrow, 1978; Kovar, 1980). This research correlates the relationship of certain housing characteristics with 1) housing and location preferences of preretirees, 2) anticipated retirement-income sources, and 3) retirement planning actions.

The purpose of this study was to investigate the relationship between the anticipated number of sources of retirement income and the housing options preferred during retirement. It was hypothesized that 1) the mean number of anticipated retirement-income sources would not differ due to selected housing and location-preference variables, and 2) the mean number of anticipated income sources would not be related to the mean number of planning actions initiated.

### **Design of the Study**

Data for this study were collected as part of the Regional Project W-176 survey conducted in nine western states. Study variables were taken from questions related to housing choices and community preferences. The dependent variables that describe housing and community preferences are "housing type during the first ten years of retirement," "community size in county of retirement," and "location, rural or urban." Housing preference choices included apartment or townhouses, mobile homes, single-family dwelling, and recreational vehicles. The location variable levels were defined as: "preferred to retire in a larger city;" "preferred a suburb of a large city;" "preferred a smaller town;" "wanted a rural area within 20 miles of a city;" and "preferred a rural area more than 20 miles from a city."

The independent variable "anticipated income sources" is the number of expected income sources during retirement. Respondents reported which items among a list of 12 sources they anticipated as retirement income.

The independent variable "action" was determined by summing the number of actions completed from four action categories. These included "establish a savings or investment plan for retirement income," "move to a home more suited to retirement," "begin estate planning," and "have made a will." The possible action score ranged from zero to four.

Housing and community preferences were correlated with anticipated number of sources of retirement income using a one-way analysis of variance (ANOVA). When a significant association was indicated at probability level of 0.05 or less, the variances were analyzed by the multiple range test (MRT) using Fisher's least significant difference (LSD) procedure.

Anticipated sources of retirement income were analyzed by financial planning actions and levels of current income. Pearson's product moment (PPM) correlation and multiple regression were used to quantify relationships.

### **Findings**

#### ***Respondents***

A profile of the respondents and their households is found in Table 1. Typically they were males in their early 50s, in excellent health, and married. Respondents had attained higher levels of education than their spouses. Nearly all were employed full-time; over half of the spouses worked full-time, too. Most of them had two or three children,

the majority of whom were self-supporting. The family-income distribution was skewed to higher levels with the mean in the \$35,000 to \$50,000 category. Eighty-five percent of those surveyed lived in single-family homes; three fourths had mortgage payments.

Table 1. Profile of respondents and their households (N=5,662).

Characteristic	Respondent	Spouse/Partner
Age		
Mean	52 years	51 years
Range	40-79 years	25-85 years
Health (excellent or good)	95%	91%
Education level (highest)		
Bachelor	12%	25%
Doctorate	36%	11%
Full-time employment	94%	52%
Married	80%	Not asked
Number of children -2 or 3	54%	Not asked
Age of youngest child		
Mean	18 years	Not asked
Range	1-48 years	Not asked
≤ 18 years	37%	
Financially supporting children		
None	52%	Not asked
1 or 2 children	38%	Not asked
Family income -		
Mean	\$35,000-\$49,000	Not asked

**Retirement Income**

Three independent variables were individually compared to the dependent variable--number of income sources--by means of one-way analysis of variance (ANOVA). Tests with F values statistically significant at a probability level of 0.05 or smaller are reported in Table 2.

Table 2. One-way analysis of variance for anticipated income sources by county population and by preferred location (N=5,662).

Case	Source	D.F.	Mean squares	F ratio	F prob.
Number of anticipated income sources.....	Between groups	3	88.4450	20.0432	0.0000
	Within groups	<u>5088</u>	4.4127		
	Total	5091			
Number of anticipated income sources by county population.....	Between groups	5	76.4951	17.4863	0.0000
	Within groups	<u>5015</u>	4.3746		
	Total	5020			
Number of anticipated income sources by preferred location.....	Between groups	4	42.8905	9.5306	0.0000
	Within groups	<u>5103</u>	4.5003		
	Total	5107			

Note: Differences in totals reported are due to missing data.

The number of sources of retirement income ranged from 0 to 12 with a mean of 5.97. See Table 3. Seventy-five percent of the respondents expect to have from four to eight sources. The mode was six.

Table 3. Number of retirement income sources.

Number of sources	Frequency	Percent	Cumulative percent
0	33	0.6	0.6
1	39	0.7	1.3
2	208	3.7	4.9
3	453	8.0	12.9
4	746	13.2	26.1
5	893	15.8	41.9
6	984	17.4	59.3
7	892	15.8	75.0
8	712	12.6	87.6
9	420	7.4	95.0
10	207	3.7	98.7
11	70	1.2	99.9
12	5	0.1	100.0
Total	5662	100.0	

The four most common sources of income were: state or employer pensions, Social Security, savings, and individual retirement accounts. These are shown in Table 4. Two out of five respondents also planned on annuities, employment, mutual funds, paid-up life insurance, and stocks and bonds. These findings indicate that a majority of respondents anticipate multiple sources of retirement income. These sources reflect the end product of financial planning that will augment their pensions, Social Security, or other retirement plans.

Table 4. Anticipated income source in percent (N=5,662).

Income type	Yes	No	Do not know
State or employer pension plan	96.9	1.7	1.4
Social security	91.7	5.0	3.3
Savings, Passbook, CD, or bonds	75.9	17.1	7.0
Individual retirement account	68.0	24.4	7.6
Annuities	41.7	44.4	13.9
Full- or part-time employment	41.2	20.1	38.8
Mutual funds	41.0	44.6	14.4
Paid-up life insurance	40.5	48.9	10.6
Stocks or bonds	38.9	45.0	16.0
Sale of real estate or property	36.1	40.7	23.2
Income from property ownership	34.5	50.4	15.1
Military pension	7.5	89.2	3.4

### ***Housing and Community Preferences***

Consistent with studies of the general population, three fourths of the respondents in all states expressed a preference for a detached, single-family dwelling for housing during the first 10 years of retirement. Second in preference was the townhouse except in Colorado and Missouri where multiplexes were the second preference. The percentage of respondents preferring townhouses averaged over 40 percent. The next most popular preference was a mobile home on an owned lot. This choice garnered almost 20 percent in all states except Colorado and Missouri.

**Least preferred housing.** A critical factor in planning housing for future retirees is the type of housing least-preferred. Of the seven choices, 40 percent of all respondents indicated that the recreational vehicle was least-preferred. The two other least-favored dwelling types were mobile homes on rented lots, 21 percent, and apartment complexes, 19 percent.

**Preferred home occupancy.** In a separate question respondents were asked if they would prefer to own or rent their homes during the first 10 years of retirement. Over 90 percent of respondents in participating states preferred to own their homes.

The MRT indicated that those who preferred mobile homes differed from the three other groups. It also showed that the number of income sources of those who preferred recreational vehicles differed from those who preferred apartment or townhouses and single-family homes. This is shown in Table 5. The respondents who preferred mobile homes expected the fewest income sources. Those who preferred recreational vehicles anticipated the next fewest.

**Preferred county size.** Mean-income sources were cross-tabulated with county-size preferences for retirement. These are shown in Table 5. The MRT indicated the mean numbers of income sources anticipated by respondents with preferences for the three most populous county groups were different than those preferring counties with smaller populations. Group 3 was different than all other groups. Group 6 was different than 4. Those who preferred counties with larger populations expected, on average, more income sources, than those who preferred to retire in less-populous counties.

**Urban or rural preferences.** The variances were isolated by MRT using the LSD procedure. Respondents indicated whether they preferred to retire in a larger city, a suburb of a large city, a smaller town, a rural area within 20 miles of a city, or a rural area more than 20 miles from a city. The MRT clearly indicated that the mean number of income sources of Groups 3, 4, and 5 were significantly different than Groups 1 and 2. Those who preferred to retire in a city or a suburb expected more income sources than those who expected to retire in a rural area. This is shown in Table 5.

Table 5. Average number of anticipated income sources by preferred housing type, population, and location.

Group	Variable options	Mean number of anticipated income sources
<b>Housing</b>		
1	Apartment/townhouse	6.1
2	Mobile homes	4.9
3	Single-family dwelling	6.0
4	Recreation vehicles	5.5
<b>County population</b>		
1	500,000 or more	6.3
2	150,000 - 499,999	6.4
3	50,000 - 149,999	6.1
4	10,000 - 49,999	5.8
5	2,500 - 9,999	5.5
6	Less than 2,500	5.3
<b>Location</b>		
1	City	6.3
2	Suburban	6.3
3	Small town	5.9
4	Rural	5.9
5	Rural remote	5.9

**Financial Planning Actions**

The four categories for financial planning actions--money, estate planning, will, and savings or investments--were used to establish a score. Using this score the relationship between actions and anticipated income sources was analyzed. The correlation

between number of anticipated sources of retirement income and financial planning-action scores was moderate (Pearson's  $r = -0.45$ ,  $p < .0005$ ). The Type A Error of 0.46, however, suggested that the correlation may not be linear. The relation between income and education was expected to interact with the anticipated income variable, so a partial correlation was run to remove their effects. The partial  $r$  between anticipated income and action, with education and income eliminated, showed a somewhat weaker correlation. This resulted in a partial  $r = 0.38$ ,  $p < .003$ . Hence, part of the relationship between anticipated income sources and action was influenced by income and education.

The relationship between anticipated number of sources of retirement income and level of current income was examined using multiple regression. The results of the analysis--multiple  $r$  of .39,  $r$  squared .15,  $F = 726.74$ ,  $p < .0005$ --indicated a relationship between expected number of sources of retirement income and level of current income. This was consistent with Sobol (1979) who found asset accumulation at the time of retirement highly related to income.

### Conclusions

Assuring housing satisfaction and income adequacy for an increasing life-span is an essential part of preretirement planning. It may become a more elusive objective because of the increasing numbers of elderly and increased longevity.

Current and anticipated income figure prominently in preretirement planning for both housing and location decisions. Preretirees should note that current Social Security benefits provide the lowest mean monthly income for aged widows (Grad, 1989). As a result, aged widows may experience poverty for the first time in their lives, especially if they live alone. This has implications for housing and financial planning decisions.

Financial counselors and housing educators need to consider the relationship of housing to financial preparation for retirement and the well-being of the aging population. Housing decisions that include selection of type, location, financing, and tenure are primarily shelter decisions. These are straight forward when income is adequate, health is good, and self-care is a reality. When health declines, however, care-related decisions may take precedence over shelter-related decisions. Hence, planning for retirement requires a balance that will optimize income and housing asset value; assure suitable and affordable housing with desired community characteristics and opportunities; and provide a variety of housing options.

Housing professionals may need to consider how to best work with preretirees, retirees, the financial community, builders, or perhaps in multidisciplinary preretirement programs. Likewise the relationship among income, resources, and planning provides a challenge to professionals and policy makers to assess the purposes and outcomes of housing and housing-related tax policies.

Well-planned, public policies can moderate the expenses related to housing for the elderly. Examples of this include Colorado's property-tax deferral program. This program defers tax payments for those over 65. This frees money for other uses. During the first year of the program in 1979, \$16,000 was deferred. In 1989 the amount had grown to a half million dollars (Schoettler, 1989).

Another promising policy is the property tax option for older citizens that is similar to the "sweat equity" approach for the home buyer. In Larimer County, Colorado, the county, city (Fort Collins), and the school district each have programs which allow qualifying older citizens to work off portions of their property taxes. In 1988-89, the county program served 75 home owners. In addition to the goodwill and valuable citizen-government relationships it provided, an estimated 43 percent of the costs of a regular payroll was saved through the program (Larimer County, 1989).

In the hands of creative people, improving the quality-of-life can be affordable both for government and individuals. The potential for mutually beneficial programs is vast. Housing professionals should take advantage of this opportunity.

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