Netspar Network for Studies on Pensions, Aging and Retirement

Debt Affordability after Retirement

"Outstanding loan amount could be problematic for 5% of seniors"

Mauro Mastrogiacomo – DNB, VU Amsterdam

Over the next two decades, many people 65 and over will be reaching the end of the term on their interest-only mortgages. Whether the outstanding loan amount then presents a problem for these retirees depends on such factors as interest rates and whether or not they have made voluntary principal payments along the way. The high-risk group covers approximately 5% of these elderly. They do not have enough financial leeway to afford an increase in housing costs due to potentially higher interest rates and stricter requirements for extending the term of the mortgage.

Principal Findings

- This study examined the affordability of mortgages post-retirement for today's and tomorrow's seniors in the Netherlands.
- About 5% to 10% of the people who had an interest-only mortgage in 2015 and will be retiring in the next two decades face potential repayment problems.
- Moving is not an option for this high-risk group: their income and assets are too low to secure a new mortgage or a rental property on the open market, and they may not always be eligible for public housing.

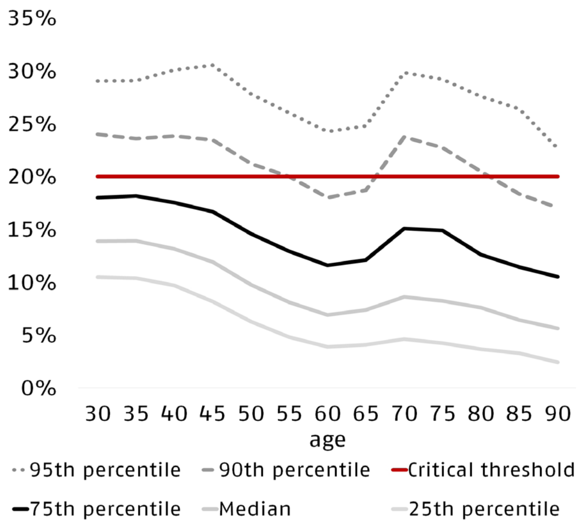

Figure: from the age of 65, 5-10% of the retirees passes the critical (red) line of debt-affordability, based on Nibud (National Institute for Family Finance Information) guidelines.

Key Takeaways for the Industry

- For most older homeowners, their mortgages will remain affordable. A small percentage, though, may run into difficulties. Despite the fact that this high-risk group is not very large, it should not be ignored; the problems they face are intractable.
- The most favorable option would be to devise a customized solution for these people, such as extending the life of the interest-free mortgage.
- This falls outside the parameters established by financial regulators, so some solution would need to be found for that.

Want to know more? Read the paper
'Debt affordability after retirement, interest rate shocks and voluntary repayments'