

Climate Change, Housing and Retirement Security

Anna Rappaport

Where to live is a very important retirement decision with major financial and lifestyle implications. Climate change adds new considerations into this picture, with special issues for retirees. Weather events can destroy housing or the area around a house, and the expectation of weather events can raise insurance costs or make insurance difficult or impossible to get. Experiencing a major weather event can be frightening and life threatening, and the aftermath of a major weather event can disrupt lives for a long period of time.

Research from the Society of Actuaries Research Institute's Aging and Retirement Strategic Research Program documents the importance of housing in a retiree's financial well-being and offers information concerning deciding where to live. In 2022, Hurricane Ian was a major event in Florida. The SOA annual meeting in 2022 was in Florida and I was asked to participate in a panel and provide personal experience with storms. This essay draws on prior research from the SOA Research Institute, personal and anecdotal experience with storms as well as new articles and papers about Hurricane Ian and other weather events and housing. It focuses on how housing impacts retirement well-being and then adds in issues related to climate change.

Housing and Retirement Economic Issues

Housing is a very important part of assets for many Americans. The SOA Research Institute study *Segmenting the Middle Market: Retirement Risks and Solutions – Phase 1 Report Update to 2010 Data*¹ provides an analysis of the assets of Americans at and near retirement age. The analysis was based on the Survey of Consumer Finances data. A key conclusion is that for certain middle market segments, non-financial assets (primarily their homes) are much more valuable than financial assets (not counting the value of defined benefit income or Social Security). Some retirees have few financial assets.

There are two related issues beyond the proportion of the housing asset relative to total assets:

- While conventional thinking often is that housing values always go up, they can go down as well, and they can be depressed for a long time. Values increased a great deal before the Great Recession and then declined markedly in some areas. Depending on the area, it took a long time for values to come back.
- Housing is not a liquid asset and incurs high transaction costs to sell. Depending on the market, it can take a long time to sell housing and it may be desirable to put considerable work and money into sprucing up the housing prior to selling.

¹ <https://www.soa.org/resources/research-reports/2013/research-seg-middle-market/>

My view is that it is important to consider how housing fits into the asset mix, and it is undesirable for the value of housing to be a very large percentage of total assets.

Housing cost is the largest area of spending for many retirees. Housing costs on average are the largest area of spending for retirees². The Elder Index³ measures the income seniors need to live independently based on location, single vs married, health status, and home-ownership status. This shows the importance of housing cost on an average basis. Examples are shown below for four areas selected to represent different cost levels. The website includes a simple process for calculating the index for other geographic areas. Table 1 shows costs by component for single homeowners with mortgages who are in good health. Table 2 shows costs by area for single homeowners with excellent health and different housing situations.

Table 1

ELDER INDEX VALUES – DOWNLOADED NOVEMBER 16, 2022

WHAT ARE THE COMPONENTS OF THE INDEX? MONTHLY INDEX DETAIL FOR SINGLE HOMEOWNER WITH MORTGAGE IN GOOD HEALTH

Area	Kenosha, WI	Osceola, FL	Hattiesburg, MS	Berkeley, CA
Cost level	Average (97%)	Low (86%)	Low (85%)	High (136%)
Housing	\$1,425	\$1,322	\$1,072	\$2,575
Transportation	291	277	377	250
Food	275	275	275	275
Health	421	303	416	453
Miscellaneous	331	267	288	326
Monthly Total	\$2,743	\$2,444	\$2,428	\$3,879

Note: The big difference by area is in housing costs. Other costs seem to vary also. Highest cost area has lowest transportation cost and probably has the most public transit. Percentages in cost level are overall percentages of the national average.

² See Tables 1 and 2 of Rappaport, Anna, *Impact of Inflation on Retirees*, 2023, <https://www.soa.org/491f93/globalassets/assets/files/resources/research-report/2023/inflation-essay-rappaport.pdf>

³ See Tables 1 and 2 of Rappaport, Anna, *Impact of Inflation on Retirees*, 2023, <https://www.soa.org/491f93/globalassets/assets/files/resources/research-report/2023/inflation-essay-rappaport.pdf>

Table 2

ELDER INDEX VALUES – DOWNLOADED NOVEMBER 16, 2022

HOW DOES INDEX VARY BASED ON HOME OWNERSHIP VS. RENTING, AND BASED ON HAVING A MORTGAGE OR NOT? MONTHLY INDEX FOR SINGLE IN EXCELLENT HEALTH – 2021 – BY HOME OWNERSHIP STATUS

Area	Kenosha, WI	Osceola, FL	Hattiesburg, MS	Berkeley, CA
Cost level	Average	Low	Low	High
Renter	\$1,939	\$2,102	\$1,903	\$3,408
Owner with Mortgage	2,639	2,368	2,329	3,794
Owner no Mortgage	1,880	1,528	1,631	1,870

Note: There is a large difference by area in housing costs for renters and owners with mortgages, much lower difference for owners without mortgages. Relative costs are very different depending on home ownership status.

Homeowners without a mortgage are still required to pay taxes, should buy insurance and should do maintenance on their homes. In many areas, taxes, insurance and maintenance for housing have gone up in the last few years. They can be dramatically higher than expected for homes owned for a long time. Homeowners still also need to pay for utilities which is a part of having a place to live.

Housing and Retirement Well-Being

Housing is an important factor in the lifestyle and well-being of retirees. Location affects access to family and friends, medical care, transportation, recreational opportunities, climate, safety and more. People are familiar with a house where they have lived for a long time and very often want to stay there. They find comfort in the familiar surroundings. There is a wide choice of housing. Some locations and communities are age friendly, and others are not. Some housing includes access to or provision of support services. The SOA Research Institute publication, *Where to Live in Retirement*⁴, lays out the questions to ask and issues involved in choosing retirement housing.

Some housing supports change and evolving needs. While retirees say that they want to remain in their homes, that does not mean that the homes will work for them if their needs change. The SOA Research Institute publication, *Late-in-Life Decisions Guide*⁵, lays out some of the issues related to housing needs as needs change late in life.

Specialized senior housing: Some specialized senior housing offers a combination of housing and support services. There are various levels of support in such housing, and different communities offer different packages. Continuing care retirement communities (CCRCs) combine independent living, assisted living and higher levels of care in one package⁶.

⁴ <https://www.soa.org/4937ba/globalassets/assets/files/research/research-pen-housing.pdf>

⁵ <https://www.soa.org/resources/research-reports/2022/2022-lil-decisions-guide/>

⁶ For more information about CCRCs and the levels of care and support they offer, see the paper *Improving Retirement Experience by Integrating Family, Friends, Housing and Support: Lessons from Personal Experience*, <https://www.soa.org/globalassets/assets/files/resources/essays-monographs/managing-impact-ltc/mono-2014-ltc-manage-rappaport.pdf>

How Climate Fits In

Climate can be an important factor in determining the desirability of a location. Some households prefer very warm climates, and others much cooler climates. Climate also is linked to access to different types of recreation during the year. Ice and snow present hazards and difficulties in driving and walking.

Climate and catastrophic events such as hurricanes, tornados, wildfires, floods, earthquakes, volcanic eruptions, and landslides are examples of climate events that can become catastrophic. The impact of climate may also lead to erosion of the seashore and shifting of barrier islands. Some events are immediate whereas other events such as droughts, beach erosion, and wildfires that keep burning can occur over a period of time. These events are not new, but their intensity and frequency has increased. The risk of these events should be considered in location choice. Some locations such as flood plains and some coastal areas have a high probability of future major events, whereas other areas have a lower probability with a lot of uncertainty about when or whether there will be an event or how serious it will be. The risk of serious events seems to be increasing over time. Serious events involve the risk of property damage or complete destruction of property, raise the cost of insurance, may affect the availability of insurance, may require evacuation and may present major risks to finances, health and safety.

Some climate events lead to major asset losses. There was press coverage in 2022 about Florida retirees⁷ who have lost most or all of their assets due to Hurricane Ian. A story in Scientific American indicates that uninsured property losses are estimated at between \$10 billion and \$17 billion. While it estimates the insurance losses, it does not provide an estimate of the number of people wiped out financially⁸.

Climate events often lead to changes in building codes. For example, hurricane damage has led to requirements for stronger construction to withstand wind. Flooding near the shoreline has led to requirements that some structures need to be built somewhat elevated and off the ground.

One of the immediate questions of the last few years is whether property destroyed or seriously damaged by a major climate event should be rebuilt. Zoning requirements and the availability of insurance affect the decision to rebuild. There is an increasing recognition that property should not be rebuilt where it has been repeatedly destroyed and is in a high-risk area⁹.

Challenges and Risks

Affordability. Housing is the greatest cost for Americans in retirement. Housing cost has risen a great deal during the last few years. Housing values have been affected by inflation.

Accessibility and safety. Many older individuals ultimately develop mobility problems. Housing with stairs is not suitable for many mobility limited people. Housing without significant stair issues can be made more accessible through the use of ramps, handrails, grab bars and chairs in showers, removal of fall hazards, etc. Stair lifts and elevators are options in some houses with full flights of stairs.

⁷ <https://www.orlandoweekly.com/news/uninsured-flood-losses-from-hurricane-ian-expected-to-top-10-billion-32653705>

⁸ <https://www.scientificamerican.com/article/hurricane-ian-destroyed-retirees-life-savings/>

⁹ Retirement Section News, April, 2023, *Climate Change, Emerging Risks, and Retirement Security*, <https://www.soa.org/sections/retirement/retirement-newsletter/2023/april/ret-2023-04-rappaport/>

There are additional safety issues in connection with evacuation and weather events. Evacuation options are different depending on whether (1) the individual has a car, can drive and manage the situation, (2) the individual has a car but needs help driving and/or managing, or (3) the individual has no car. Evacuation needs to be completed in advance of the event and evacuation by car depends on having passable roads. Evacuation is never easy, but it can be difficult or impossible for people with mobility, sight or hearing limitations and/or dementia. Evacuation depends on having a way to evacuate and a place to go with appropriate support. Evacuation incurs additional costs that some retirees cannot afford. Housing choice in areas with considerable climate risk should consider the feasibility of evacuation.

Risks and events affecting value and desirability of housing. Community choice and risk are also important in deciding where to live. As discussed above, climate events are linked to location. There are other forms of neighborhood or community change such as new parks, new employers coming to town and growth in the value of homes. There are also downside risks such as large employers leaving town, violence in the area, toxic waste dumps nearby, and highways being built through the middle of town. While some may be predictable, others are not. The town one lives in can have major problems, leading to a decline in public services, increase in taxes or both. A large employer in town may close its operation, or an important hospital (maybe the only one) can close. Condominium associations and gated communities offer many benefits, but they can have a variety of problems, causing difficulties to the owners, unexpected special assessments in condominiums and loss in value. Community risk may be predictable, as in a flood plain, but it also may be unpredictable.

Insurance. Homeowner's insurance is expensive, particularly in areas with major climate risk, such as barrier islands and flood plains. Homeowners can have a variety of insurance situations including having very good insurance, not having insurance, having homeowner's insurance but not flood insurance, having insurance but not enough, or having insurance but not getting a satisfactory settlement. Note that lenders require insurance but if there is no mortgage, there is no mandate to have insurance.

The challenges for homeowners in areas that experience major weather events include insurance company bankruptcies, rising insurance costs and limited availability of insurance.

It should also be noted that insurance does not always pay what is expected. This may be because of the provisions of the policy or the judgement of the insurance company.

The insurance markets in storm prone areas have had challenges. Insurance carriers have left the market and prices have risen a great deal. In Florida, Citizens Insurance was established by the legislature in 2002 in order to enable citizens who could not get market-based insurance to get homeowners' coverage¹⁰. The Florida legislature passed new legislation in the fall of 2022 designed to help the insurance industry¹¹.

There are some complexities with types of coverage needed. Hurricanes are one type of climate risk. Hurricane damage can come from wind damage or flooding. In Florida, homeowners' insurance would cover the wind damage, but not flooding. Flood insurance is usually provided by a federal program (but there may be some private options.). My understanding is that \$250,000 is the maximum that a private home can be insured for with an additional \$100,000 available to insure contents. For businesses, the limits are \$500,000 for a business structure

¹⁰ <https://www.citizensfla.com/who-we-are>

¹¹ <https://www.insurancebusinessmag.com/us/news/breaking-news/what-does-historic-florida-legislation-mean-for-struggling-insurance-market-431047.aspx>

and \$500,000 for additional items. Structures that flood also can suffer wind damage, and there may be many structures that suffer both, leaving the building owner in the middle between two insurers.

Insurance has gotten quite expensive and lower income homeowners may not be able to afford it. In any case, some homeowners will take a chance if insurance is not required.

Tips for Retirees and People Nearing Retirement

This information is provided for retirees. It may also be useful for financial wellness providers, employers and financial advisors. Employers are impacted when their employees and close family members are impacted by an event.

- Carefully consider the climate risk in the area you are choosing to live.
- Evaluate your total financial picture, including how much of your assets are allocated to housing, to avoid risking too much in a single asset.
- Be careful to determine how much insurance coverage you need, particularly if a high proportion of your assets are in your home. Seek out a reputable insurance carrier.
- Don't forget about flood insurance.
- Avoid living in areas or under situations where there is a good chance that you will need to evacuate if you are not able to do so or it will be very difficult.
- Pay attention to storm preparedness information from government agencies and other sources.
- Retirees, particularly younger retirees, frequently are helping their parents and other family members. In addition to paying attention to their own living situation, it is important to consider issues of location and climate for family members. The goal is to minimize the chance that they will be in difficult situations because of climate events, also.

Conclusions

The well-being and finances of retirees can be heavily linked to housing choices. There are many alternatives and risks involved with housing choices. Climate change intensifies some of the risks and makes some areas very risky to live in. It is important for households as they choose housing to consider these and other community risks.

Anna Rappaport is the owner of Rappaport Consulting. She can be reached at anna.rappaport@gmail.com.