

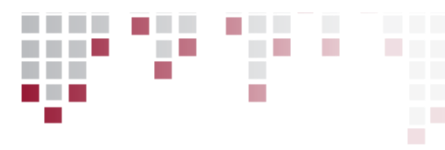
# AUSTRALIAN CENTRE FOR FINANCIAL STUDIES

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## HOME EQUITY RELEASE – THE FOURTH PILLAR OF RETIREMENT FUNDING

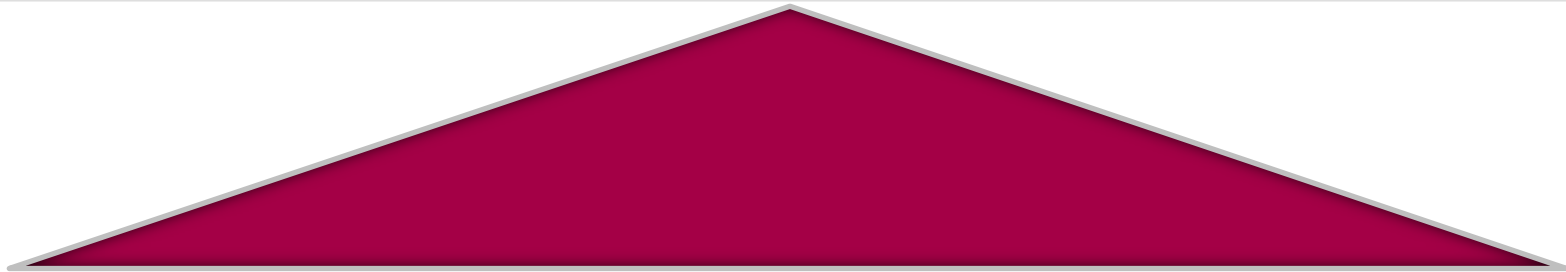
Christine Brownfield

20<sup>th</sup> November 2014



# Our Retirement Income System

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The Age  
Pension



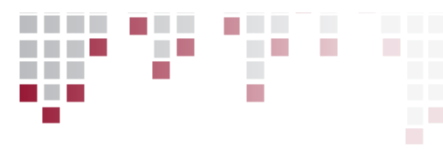
Compulsory  
Superannuation



Voluntary  
Superannuation +  
Other Savings



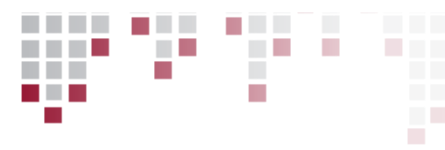
Housing  
Wealth



# Today's Session

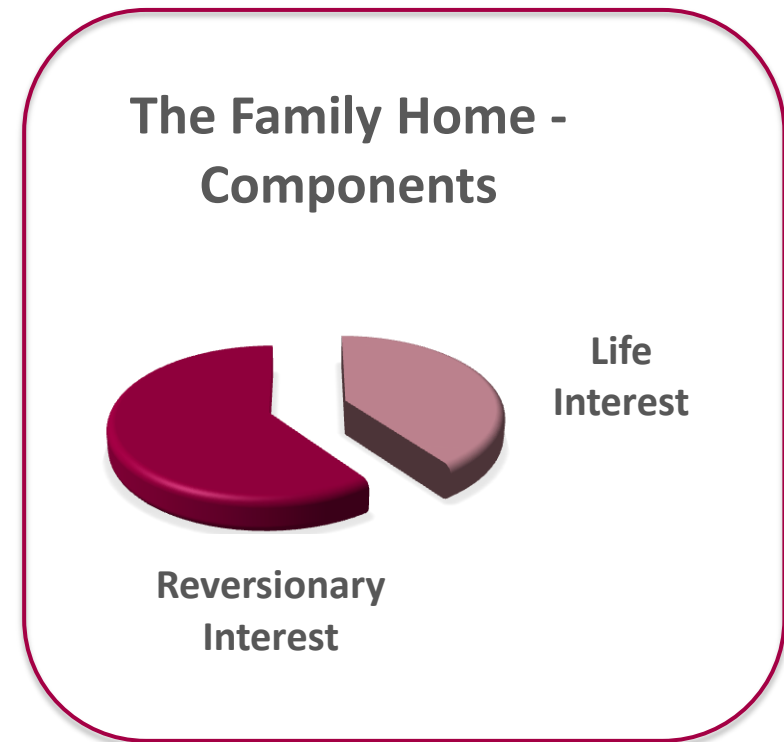
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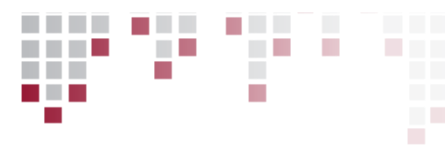
- What is home equity release?
- Setting the scene
- Why releasing home equity matters
- Why isn't more home equity released?
- Public policy: what's been happening?
- What could change?
- Discussion



# What is Home Equity Release?

- Selling the home
- Downsizing
- Using a product solution to facilitate the separation of the “place to live” and “store of wealth” attributes
  - Debt Products (Reverse Mortgages)
  - Equity Products (Home Reversions)

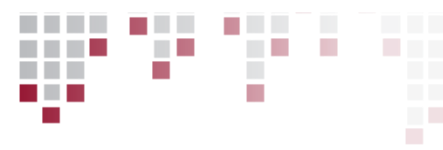




# Setting the Scene

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- Residential property – largest asset class
- High rates of home ownership: 85% of 75+
- Housing wealth significant for seniors
- Increasing numbers of retirees with housing debt
- Ageing population, falling worker to retiree ratio
- Housing inheritance \$16b - \$35b 2009-2025



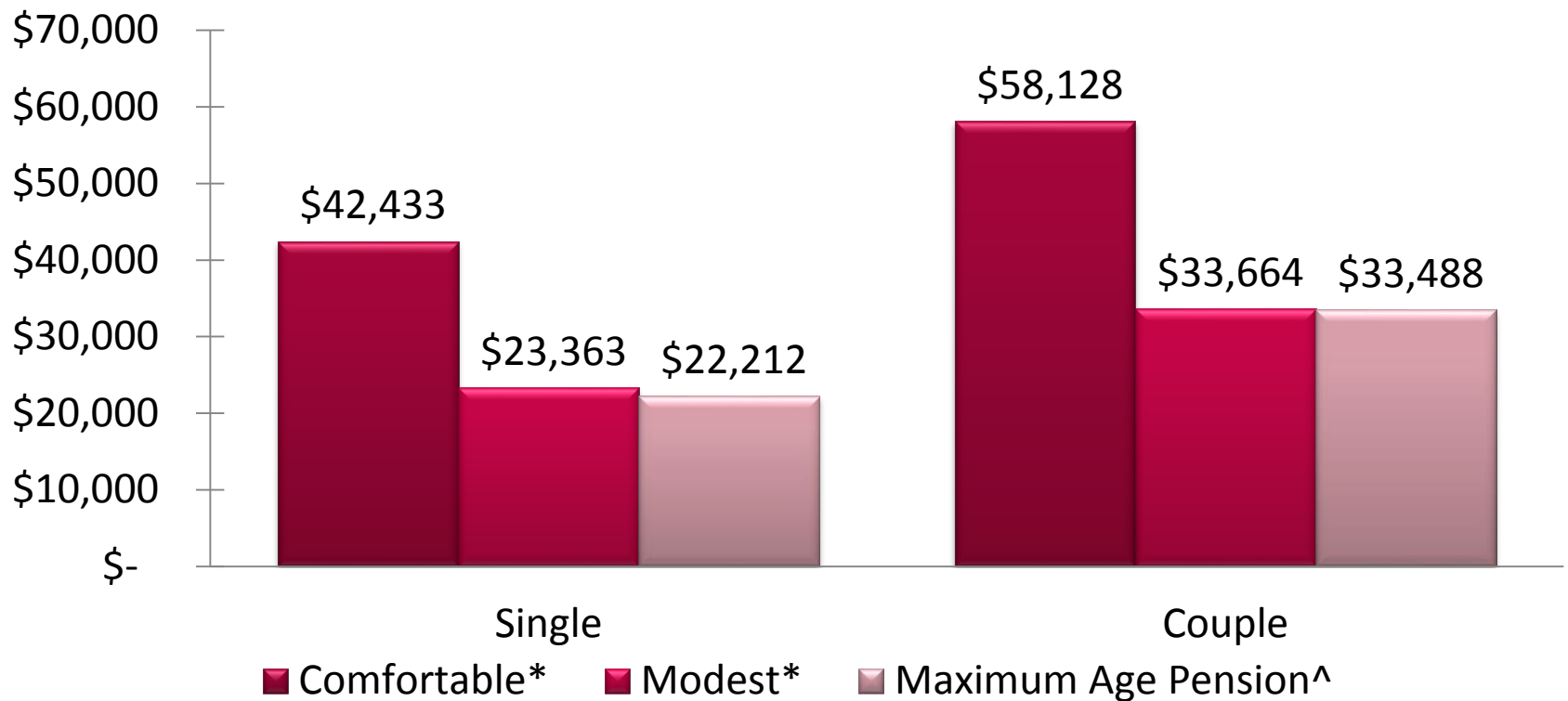
# Setting the Scene – Age Pension

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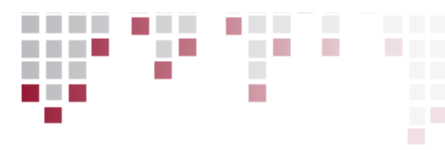
- Most retirees - full or part age pension
- Assets Test and Income Test
- Family home is exempt from Assets Test



# Home Equity Release Can Help Fund a Dignified Retirement



\* Lifestyle per ASFA Retirement Standard, June 2014    ^ from September 2014



# Setting the Scene – Years In Retirement

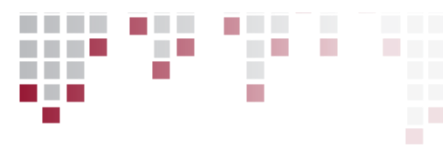
- Life expectancies have increased dramatically since the age pension was introduced

Life Tables	Males		Females	
	Life Expectancy From Age 0	Life Expectancy From Age 65	Life Expectancy From Age 0	Life Expectancy From Age 65
<b>1901-1910</b>	55	11	59	13
<b>1920-1922</b>	59	12	63	14
<b>1932-1934</b>	63	12	67	14
<b>1946-1948</b>	66	12	71	14
<b>1960-1962</b>	68	12	74	16
<b>1975-1977</b>	70	13	77	17
<b>1990-1992</b>	74	15	80	19
<b>2005-2007</b>	79	19	84	22

Source: Australian Life Tables 2005-2007

- Future mortality improvements are not captured
- Life expectancy from age 65 is now 21/24 years, projected to reach 27/28 years by 2050 (Actuaries Institute)

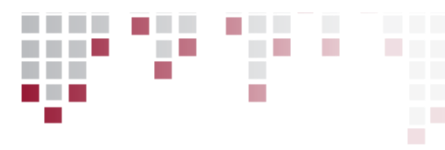




# Home Equity Release Can Improve Intergenerational Equity

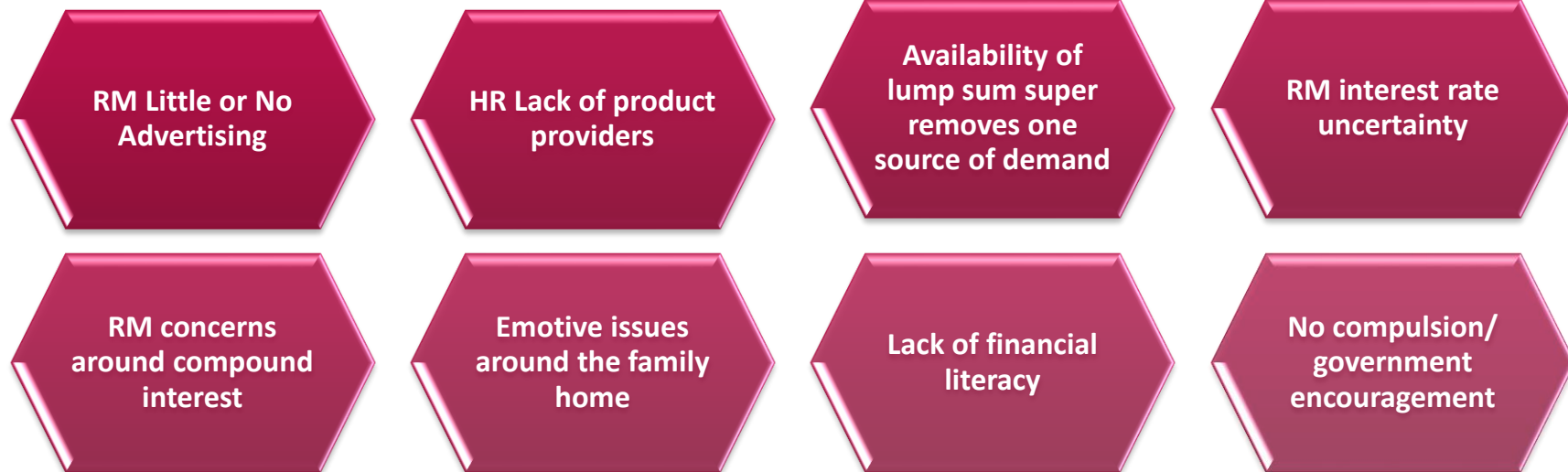
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- Intergenerational Equity – fairness between older and younger, or current and future, generations of society
- Actuaries Institute White Paper – one of three guiding principles: *“The need to encourage intergenerational equity whereby, to the extent possible, each generation funds their own costs of retirement”*
- ASFA Policy Principle 3: Equity – *considers both intra-generational equity and inter-generational equity*
- Using housing wealth to fund retirement, rather than bequeathing housing wealth, can improve both of these



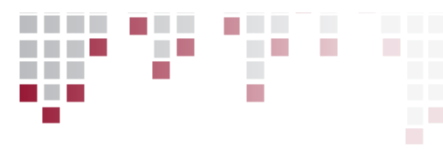
# Why Isn't More Home Equity Released?

**Demand**



**Supply**

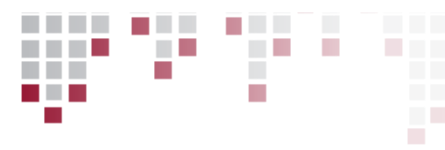




# Public Policy: What's Been Happening?

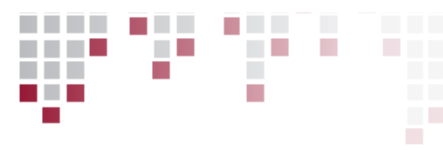
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- Productivity Commission Report
- Grattan Institute Report
- Commission of Audit
- FSI focus
- TAI on Pension Loan Scheme



# What Could Change?

	<b>OPTION</b>	<b>SOCIETAL IMPACT</b>	<b>ISSUES</b>
A	Status Quo	Nil.	Sustainability of age pension/ health costs, and IG equity
B	Small tailored schemes – eg for rates, in-home care, or private health insurance premiums	Small, could be meaningful for some individuals	As per (A) - does not address the big issues
C	No change to assets test. Encourage private sector products	Some retirees could live more comfortably	Uncertainty around private sector capacity and per (A)
D	Remove exemption of part/all of the family home from pensions assets test. Encourage private sector equity products	High - some retirees would no longer be eligible for the age pension.	Major societal change. Severe impact for retirees losing pensions but unable to source equity release products
E	Remove exemption. Introduce a scheme to allow retirees to access the pension then run up a debt against the home, payable when the home is sold	High. Reduction in intergenerational wealth transfer and improvement in equity.	Major societal change. Requires a bipartisan approach?



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Discussion