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HOME EQUITY, RETIREMENT INCOMES AND FAMILY RELATIONSHIPS

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HOME EQUITY, RETIREMENT INCOMES AND FAMILY RELATIONSHIPS

The growth in the availability of Home Equity Conversion loans[*], also called 'reverse mortgages', the strong growth in real estate property values in recent years and the ageing of Australia's population, in combination, raise the question: *to what extent will senior Australians seek to enhance their retirement living standards through accessing the capital in their homes and, if so, what impact might that have on family relationships?*

The focus of retirement incomes policy is to encourage the accumulation of private savings for retirement through the superannuation guarantee and other savings vehicles and to provide a minimum income in retirement through the Age Pension (or service pension equivalent for veterans).

For many senior Australians, the home is their major asset. While there is no requirement or expectation that they should do so, some may seek to access the capital in their home to supplement their living standards at some stage during retirement. There are a number of possibilities. For example, some might consider doing that through a home equity conversion loan or moving into a cheaper home, either later in retirement as other savings are drawn on or when going into retirement to boost their future retirement living standards. Accessing home equity could be part of a planned strategy to boost retirement circumstances or a response to an unplanned event.

Recent survey data suggests that some Australians may be developing more flexible attitudes towards viewing the capital in their homes as a means to supplement retirement living standards. The emergence of a growing range of home equity conversion loan products in the Australian marketplace provides senior Australians with greater choice in how they might access that capital should they wish to do so. Nevertheless, the survey evidence also suggests that accessing home equity is not a preferred choice for many senior Australians. Currently, very few take up home equity conversion loans.

Understanding trends in this area is important for retirement incomes policy because decisions taken in respect of the family home could have significant impacts on the living standards of senior Australians and their families.

This paper seeks to add to the existing body of research by examining recently available data on household wealth from the Wealth Module in Wave 2 of the Household Income and Labour Dynamics Australia (HILDA) Survey run by the Melbourne Institute and funded by the Department of Family and Community Services.

The new data provides the opportunity to examine the overall financial circumstances of senior Australians who own their homes. The purpose of the analysis is to consider the extent to which accessing home equity might be an attractive option for this group.

[*] Home Equity Conversion Loans allow a home-owner to borrow against the equity in their home, usually with repayment of the loan (and interest) deferred until the home-owner sells the property, or made from the home-owner's estate.

RETIREMENT INCOMES POLICY

Australia's retirement income system provides a strong basis to generate sustainable and adequate income for all Australians in retirement. It combines a publicly funded pension, compulsory superannuation and incentives for people to provide for themselves in retirement.

Australia's system comprises three complementary pillars:

- the Age Pension – a publicly funded, means tested payment that provides a modest but adequate income for people in retirement. The Age Pension is a flat rate payment, set at least 25 per cent of Male Total Average Weekly Earnings[1]. Currently almost 80 per cent of people of Age Pension age receive the full or a partial Age Pension (or service pension equivalent);
- compulsory superannuation contributions under the Superannuation Guarantee - an earnings-related scheme that provides benefits in retirement greater than Age Pension alone can provide. Superannuation Guarantee savings are supported by taxation concessions; and
- private savings, including voluntary superannuation supported by taxation concessions, private investments and other savings (including investment in the home).

For the purposes of discussion, it is proposed to characterise Australians as passing through three "stages" relating to retirement income:

THE CHANGING STAGES OF RETIREMENT INCOMES

First, the accumulation during working life of superannuation and other savings, the most substantial of which, for many, is the purchase of the home.

- This is reinforced by policies aimed at boosting workforce participation, by taxation concessions for superannuation, and by incentives to remain in the workforce after reaching Age Pension age[2].

Second, the transition from the accumulation stage to drawing down on savings and superannuation.

- Some do not need Age Pension and begin "retirement" as "self-funded retirees" - but may qualify for the Commonwealth Seniors Health Card.

Third, for some individuals, increasing reliance on the Age Pension as private savings are drawn down through retirement.

- For those individuals, this is associated with progressive transition to higher part-rate or to full-rate Age Pension as private savings are drawn down or as other income reduces[3].

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[1] The Government guarantees that the maximum single rate of base pension is at least 25 per cent of Male Total Average Weekly Earnings (MTAWE).

Whenever pensions are adjusted for increases in the CPI, and the new pension rate falls short of 25 per cent of MTAWE, then the Government tops up the pension so as to be equivalent to 25 per cent of MTAWE. The pension rate is never reduced as a result of indexation. If the single pension rate increases, the partnered pension rate also increases.

[2] Some 9 per cent of people over Age Pension age (about 246 000 people) are engaged in paid employment. Of these, about 32 per cent (about 78 000 people) receive a pension and about 17 per cent (about 41 000 people) have deferred claiming pension and are registered under the Pension Bonus Scheme.

[3] Pension data shows that as at June 2004 more older senior Australians receive an Age Pension than younger senior Australians, and that more older senior Australians qualify for the maximum rate of pension (as opposed to a part rate of pension). (Refer to Chart 1)

There is no expectation or requirement that people should draw on their home equity to support their living standards in retirement. Retirement incomes policy provides a framework for people to save for retirement and a guaranteed minimum income in retirement through the Age Pension.

- If individuals want a lifestyle in retirement greater than that which can be provided through the superannuation and Age Pension systems alone, they might adopt a range of strategies including choosing to save more through working life, lengthening their attachment to the workforce where they are willing and able to do so and/or, in retirement, drawing on any assets they have been able to accumulate through working life, one of which could be the equity in their home.
- There are number of ways in which a person could access the equity in their home, such as through taking a home equity conversion loan, downsizing to a cheaper home or (if they have sufficient income to meet repayments) through a more conventional loan using home equity as collateral. Any actions taken to access home equity could impact on the person's broader family relationships.
- This paper assesses the extent to which people might consider accessing their home equity because, from a retirement incomes policy perspective, it is important to understand how individuals manage their retirement, especially in the face of recent developments in house prices and greater availability of home equity conversion loan products.

CONSIDERATIONS AROUND DECISIONS TO ACCESS HOME EQUITY

The foregoing suggests that, for those senior Australians whose family home is a major asset and who may consider accessing some of their home equity to enhance their retirement living standards, there are a range of possible circumstances in which they might consider doing so, including:

- as a planned step early in retirement to enhance retirement living standards; or
- later in retirement if they have largely drawn upon their other assets.

To shed some light on the extent to which individuals might consider accessing their home equity, this paper considers three sources of data:

- first, Age Pension (and service pension) data to see what it can tell us about the circumstances of senior Australians who are in the later stages of retirement;
- second, Australian and international evidence on: attitudes towards accessing home equity; the extent to which home equity is accessed in practice; and whether attitudes might change in the future; and
- third, the recently available data on household wealth in the HILDA survey, to see if it can tell us more about the overall financial circumstances of those senior Australians who own their own homes.

TRENDS IN PENSION ELIGIBILITY AS PEOPLE AGE

If senior Australians do draw on their assets through retirement, then it would be expected that relatively more older senior Australians (perhaps those in their 80s) would be receiving a pension than those who are younger (in their 60s)[4].

Pension payments are subject to income and asset testing, collectively called "means testing", to ensure they are targeted towards those more in need. Means testing implies that a person on reaching Age Pension age may initially be ineligible to receive a pension if their income and/or assets exceed the pension means test thresholds. Means testing also means that if a person is initially ineligible for pension because of their income and or assets, they may be able to receive a payment later on if their income and assets are drawn down during retirement[5]. A person's principal home is exempt from the social security assets test.[6]

Pension data shown in Chart 1 shows that as at June 2004, relatively more older senior Australians receive a pension than younger senior Australians.

- The proportion of the population receiving a pension payment is higher among older age groups:
  - 70 per cent of people aged 65 to 69 receive at least some pension; while
  - 83 per cent of people aged 80 to 84 do so.

The pension data also shows that, in addition, relatively more older senior Australians receive the maximum rate of pension (as opposed to a part rate of pension).

- The proportion of the population receiving the maximum rate of pension is higher among older age groups:
  - 43 per cent of people aged 65 to 69 receive the maximum rate of payment; while
  - 57 per cent of people aged 80 to 84 receive a maximum rate of payment.

The pension data cannot, however, conclusively support the proposition that individuals draw on their savings through retirement as the data can only compare the pensions paid to people within different age groups at a point in time, not trends in pensions paid to individuals through time.

A range of factors might be influencing the trends observed in pension eligibility among different age groups. One possible factor is that individuals draw down their private savings through retirement. Another possible factor could be that older groups (perhaps those in their 80s) did not accumulate as much wealth during their working life or had less opportunity to participate in superannuation than those who are younger (in their 60s)[7]. Further study may be warranted to explore this issue.

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[4] Age Pension age is 65 years for men and currently 62.5 years for women (rising to 65 years by 2014).

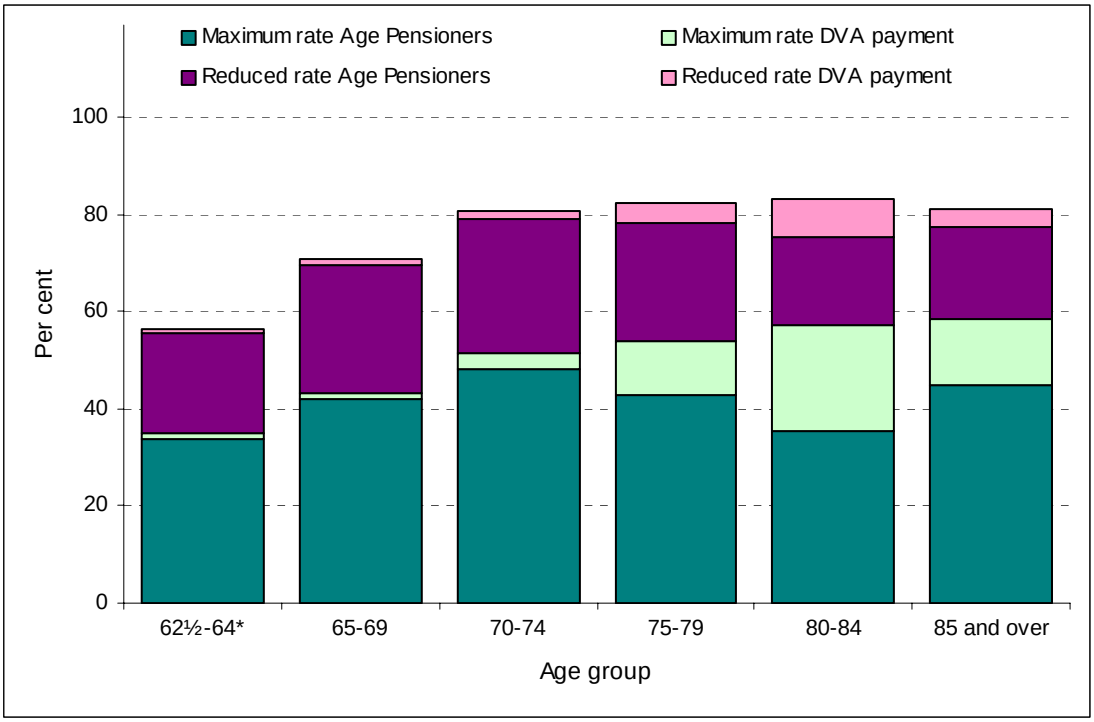
[5] From 20 September 2004 a part pension is still payable up to an income of $1313.25 a fortnight for a single pensioner, and up to an income of $2195.50 a fortnight (combined) for a pensioner couple.

From 1 July 2004 a part pension is still payable where assessable assets are below the following thresholds:
• $312 000 for a single home owner,
• $481 500 for home owner couples (combined) ($535 500 for illness separated couples),
• $422 500 for non-home owner singles,
• $592 000 for non-home owner couples (combined) ($646 000 for illness separated couples).Pensions are assessed under both the income and the assets test and the test that results in the lower (or nil) rate of pension is the one that is used to work out their pension rate.

[6] The principal home was exempted from the assets test when it was introduced in 1985, in recognition of the unique importance placed on the family home in Australian society.

[7] For further discussion of this point refer to NATSEM (National Centre for Social and Economic Modelling), Discussion Paper no.58, June 2002. (Harding, King and Kelly, 2002)

Chart 1: Estimated population of Age Pension age by rate of payment, June 2004



* Women only

Sources: Centrelink Superstar Pensions database, June 2004
Department of Veterans' Affairs Pensioner summary statistics, June 2004
Australian Bureau of Statistics Populations Projections for Australia, 2002-2101, Catalogue No. 3222.0

ATTITUDES TOWARDS ACCESSING HOME EQUITY – ARE THEY CHANGING?

For many Australians, owning the family home is one of life's major accomplishments. For some, the thought of moving from the family home late in life or reducing their equity in the home through a home equity conversion loan or some other mechanism in order to support a higher living standard in retirement would not be a preferred choice.

Recent surveys in Australia suggest that as the 'baby boomer' cohort moves into retirement, there may be a growing interest in accessing home equity to improve retirement living standards although the data also suggest that take up might still remain with a minority.

The *AHURI* research project 'Ageing in Place', which conducted a national survey of older Australians on their future housing intentions, found that around one third expected to move house in the next 5 years. The survey found that 14 per cent of relatively younger respondents considered they may downsize to release money to live on; but less than 10 per cent of all respondents envisaged taking out a loan on their home to pay for future needs. (Olsberg, 2004, p.4)

The survey also found that one third of respondents had moved house in the past 5 years, although only 10 per cent had moved to a smaller home and very few had downsized to

release money to live on or to release money to help children or other family members. (Olsberg, 2004, pp.3-4)

While the AHURI survey also found most expected to leave assets to their estate, a significant, younger, minority expected to use up all their assets while alive (about one fifth of males and one third of females). (Olsberg, 2004, p.5) The survey found that 35 per cent of those aged 50-59 expected to use up all their assets while alive, as did 33 per cent of those aged 60-69. By comparison, only 18 per cent of those aged 70-79 and 11 per cent of those aged over 80 expected to do so. (Olsberg, 2004, p.12) These data suggest there may be a growing willingness to access home equity by some future retirees.

A survey on the use of housing wealth undertaken by Diana Beal in 2001 found that attitudes to accessing housing wealth were equally divided: about half the households surveyed would be prepared to use their housing wealth to fund a more comfortable retirement and the remainder would not be. Those more willing to access their housing wealth appeared to be young to middle aged, higher educated, managers and professionals. Those less willing appeared to be people older than 65 years, people on lower incomes and singles or couples without dependents. (Beal, 2001, p.130)

The survey also found that retaining a home to leave a legacy for children was a major consideration for only 5 per cent of the sample and was a preoccupation only for those aged 65 to 74. The survey concluded that if younger people continue to disregard a bequeath motive for their children, then "it appears there is a social change in the air". (Beal, 2001, p.131)

While it would be inappropriate to conclude that there may be substantial changes in attitudes towards accessing home equity in the future, the surveys do suggest this is an issue that warrants further monitoring.

HOME EQUITY MORTGAGE DEVELOPMENTS IN AUSTRALIA

Prior to 2002 there were very few home equity conversion loan products available in Australia. The Australian Government subsidised a three-year pilot home equity conversion scheme, through the Advance Bank, from 1993 to 1996. Initial expectations were that the pilot would:

- generate public awareness of the benefits of this type of product;
- establish for financial institutions that there was demand for the product; and
- serve as a model for financial institutions to introduce new products.

At the time that the scheme was introduced, there were concerns that older people with little assets apart from their home were experiencing considerable difficulties in borrowing modest amounts for purposes such as home maintenance. However take-up was low and, as a result, the pilot was not continued.

More recently, there has been a growing awareness in the marketplace that consumers may be more willing to consider home equity conversion loans than in the past. There has been a significant growth in the availability of commercial products. Media reports suggest that in 2003 more than 5000 Australians undertook a home equity conversion loan. (Hughes, 2004)

The Australian Government has offered a type of home equity conversion loan product for some years in the form of the Pension Loans Scheme (PLS), which is available to part rate

pensioners and some self-funded retirees who own real estate. Under the scheme, a customer of Age Pension age, or the partner of someone who is, may be able to obtain a loan that will provide a fortnightly pension payment up to the maximum pension rate. Take up is modest with only 239 pensioners participating in the scheme at the end of 2004. (Centrelink, 2004)

The social security consequences of taking out a home equity conversion loan or accessing the capital in a home in other ways (such as through moving to a cheaper home) will vary, depending on a person's individual circumstances, how much equity they release and what they do with the money. The social security treatment of home equity conversion loans is explained in **Attachment A**.

INTERNATIONAL EXPERIENCE

International experience suggests that home equity conversion loans have had niche market appeal but with the potential for some growth in the future.

The take up of home equity conversion loans in the United States has been very limited but has grown somewhat in recent years. During the 1980s and early 1990s only a few hundred loans of this type were originated each year. **(**Reed and Gibler, 2003, p.9) More recently, take up has been closer to 8,000 a year**,** which, however, remains very small compared to the total population. (U.S. HUD, 2000 cited in Reed and Gibler, 2003, p.9) Research has found that the main barriers to further take up include issues around product design, availability of information, bequest motives and the desire to keep house equity as 'savings of last resort'. (Mayer and Simmons, 1994 cited in Beal, 2001, p.128)

The 2004 United Kingdom Pensions Commission Report estimates that only around 1 per cent of pensioner households currently use home equity conversion loans. One reason suggested for the low take up is that interest rates charged tend to be significantly higher than for standard mortgages, reflecting the limited development of this market and the risk of lending when the final maturity date of the loan is unknown. (Pensions Commission (UK), 2004, p.194)

Nevertheless, the Report found that a significant proportion of people say that they see equity in their home as a retirement asset and notes that press reports and anecdotes suggest that this attitude is growing. (Pensions Commission (UK), 2004, p.186) The report suggests that for some people, including the 10 per cent of the population who are childless at retirement age (likely to grow closer to 20 per cent in the next 20 years), equity release products could become an attractive option. (Pensions Commission (UK), 2004, p.194)

Similarly, in New Zealand, where traditionally housing wealth has been preserved to transfer to the next generation, childless elderly are more likely to access equity release. (Davey, 1996, pp.129-137) The results of the New Zealand *Age Concern Survey* suggest that those who use equity release schemes do so out of necessity, and that interest in the concept was very closely correlated with income – the higher the income the less the need to consider equity release. (Davey, 1995, pp.73-74)

The UK Pensions Commission Report reaches similar findings in respect of the UK where survey evidence suggests that for elderly homeowners, especially those who may wish to bequeath at least some housing assets to their children, equity release will tend to be a distress option. (Pensions Commission (UK), 2004, p.194) Research in the US also suggests a home equity conversion loan is often seen as a measure of last resort for an elderly person or

couple who had struggled financially for a long time before accessing some form of help. (Leviton, 2001, pp.10-11)

Research also suggests that participation in equity release schemes can be expected to be higher where financial markets provide easy access to mortgage financing and to equity withdrawal. More competition can be expected to offer a greater variety of mortgage products, to be able to serve a broader range of borrowers and to reduce the cost. Equity withdrawal is further facilitated where mortgage products specifically designed for this purpose are widely marketed. (Catte, Girouard, Price and Andre, 2004, pp.19-25)

This suggests that the appeal of home equity conversion loans may grow, both in Australia and internationally, if competition between providers:

- increases the range of secure products available and reduces the cost; and
- increases the level of advertising, thus increasing the level of exposure to the public and the level of acceptability.

THE IMPLICATIONS OF HOUSING WEALTH FOR RETIREMENT

UK Evidence

The UK Pensions Commission Report found that in the United Kingdom, among owner-occupiers, housing wealth does not fall during retirement, reflecting the fact that for most retirees the key benefit is the availability of rent-free living. Thus the Report finds that while pension fund and other financial savings are drawn down during retirement (except for the very wealthy), housing assets are largely retained and bequeathed. (Pensions Commission (UK), 2004, pp.186-188)

The HILDA Wealth Module

For Australia, data on housing and non-housing wealth has recently become available in the Wealth Module in Wave 2 of the Household Income and Labour Dynamics Australia (HILDA) Survey run by the Melbourne Institute and funded by Department of Family and Community Services. The Wealth Module provides data on the wealth and income of all Australian households (i.e. households which receive social security income support payments and households that do not) and will, if continued through successive surveys, allow trends in household wealth to be tracked over time.

- We have survey results that allow us to examine the financial circumstances of households headed by senior Australians of different ages at a particular point in time (2002). While this allows us to compare wealth holdings of households headed by senior Australians at different stages of retirement, the survey results cannot, at this point, inform us conclusively about the change in wealth holdings of individual households as they progress through retirement.

A recent paper from the Melbourne Institute analyses the quality of the wealth data in HILDA Wave 2 (Headey, B., Warren, D., and Wooden, M., 2004). While the Institute finds that the wealth data yield outcomes broadly similar to other measures of household wealth, there are some qualifications that need to be borne in mind when interpreting the data.

- While the survey attracted a response rate of 90 per cent in respect of most components of wealth, almost 40 per cent of households did not provide information about at least one

component of wealth. Missing data on wealth had to be imputed by the Reserve Bank of Australia.

- The Institute also concluded that estimates of household debt are understated because the survey may not have included enough questions on specific types of debt (which may have resulted in some debt not being reported), the fact that credit card debt will be understated (because respondents who said they routinely pay credit card debt at the end of each month were recorded as having no debt) and because respondents tend to under-report debt.

We have chosen to focus on survey results provided in respect of "single income unit" households, which means a single person/married couple with dependent children if any, where one member is aged 50 years and over. We have excluded households where there is more than one income unit (eg a house shared by two couples or where an employed adult child lives at home with their parents who may be aged over 50) because for those households, it becomes more complex to disentangle the financial situation of each member of the household. About 84 per cent of households with one member aged 50 or over are single unit households.

Consistent with its objectives, the paper examines the survey results in respect of those households reported as owning or paying off their home. We have excluded households that do not own their home. About 82 per cent of households with one member aged 50 or over own or are paying off their home.

In order to simplify the analysis we have chosen to primarily report survey data on the basis of "averages", that is, "mean" wealth holdings and incomes of households. We have done this in order to show broad trends in the financial circumstances of senior Australian households of different ages, irrespective of whether they are receiving Age Pension, an equivalent service pension or no pension payment at all (that is among those who are "self funded" retirees).

Evidence on the Asset Holdings of Senior Australians

As shown in Table 1 below, the HILDA Wealth module survey shows that senior Australians who own or are paying off their own home (the group of interest in this paper) also have significant non-home assets, either in the form of superannuation or other forms of savings.

TABLE 1: Average Household Wealth and Indebtedness, Populations Weighted Estimate (Sample = 2079)

Age	Home Equity $'000	Bank Accounts $'000	Other Non-Home Equity $'000	Household Debt $'000
50-54	289.2	30.9	382.3	108.1
55-59	291.7	43.0	418.5	61.6
60-64	293.3	34.1	421.4	25.0
65-69	302.4	39.9	321.5	13.1
70-74	275.5	41.0	200.2	8.6
75-79	232.4	39.9	152.0	(a)
80-84	269.8	46.9	88.0	(a)
85+	248.0	51.6	57.4	(a)

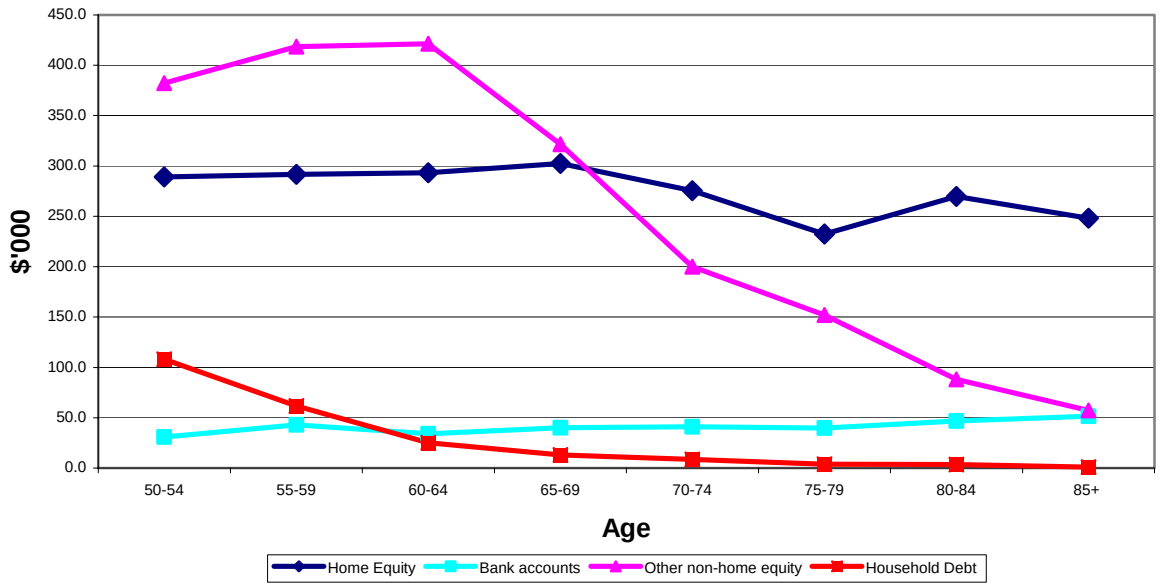
(a) Less than $5 000

In particular, among senior Australians who own or are paying off a home, the HILDA data suggests, that, on average:

- home equity is fairly stable across the age groups (ranging between $230 000 to $300 000), consistent with the UK Pension Commission Report findings noted above;
- bank account balances are also fairly stable across the age groups (ranging from $30 000 to $50 000) and appear to be slightly higher among older groups;
- older households report lower levels of other assets (investments, equities, business assets) than younger households; and
- reported household debt is low relative to asset holdings, and debt levels are negligible among households of Age Pension age. This may, however, be due in part to debts being understated in HILDA (Headey, B., Warren, D., and Wooden, M., 2004)

Chart 2 (below) illustrates this data as a graph to more clearly show the trends across the age groups.

Chart 2: Average Household Wealth and Indebtedness



While *consistent* with a hypothesis that senior Australians might maintain the value of their home equity but draw on other private savings as they age, the HILDA Wealth data cannot be said to provide *conclusive evidence*. This is because the data can only show the financial situation of different age groups at the one point in time.

The data might be influenced by a range of factors. One possible factor is that individuals have drawn down their private savings as they have aged but are able to manage their retirement living standards so as to maintain the value of the equity in their home and a reserve of funds in their bank accounts. Another possible factor could be that older groups (perhaps those in their 80s) did not accumulate as much wealth than those who are younger (in their 60s).

Nevertheless, it is significant that the HILDA data shows that on average, senior Australians who own or are paying off their home, maintain fairly stable levels of home equity and a stable (if not rising) reserve of funds in their bank accounts even among individuals aged 85 years and over.

The HILDA data show similar trends at different points in the wealth distribution, even though *levels* of wealth differ significantly from the averages shown. For example, trends in respect of the average or "mean" levels of wealth are consistent with those in respect of the "median" as shown in **Attachment B**[1].

Evidence on Household Income

An additional factor in considering the financial circumstances of senior Australians who own or are paying off their home is their income, as well as their asset holdings. Table 2 shows that reported household incomes are lower among older households but notwithstanding that, they appear able to maintain their home equity and bank account balances as discussed above.

TABLE 2: Average Home Equity, Bank Accounts and Financial Year Income, Populations Weighted Estimate (Sample = 2079)

Age	Home Equity $'000	Bank Accounts $'000	Household Financial Year Income $'000
50-54	289.2	30.9	81.9
55-59	291.7	43.0	68.4
60-64	293.3	34.1	46.9
65-69	302.4	39.9	38.8
70-74	275.5	41.0	28.5
75-79	232.4	39.9	25.6
80-84	269.8	46.9	20.0
85+	248.0	51.6	15.7

Summary of the HILDA Wealth Data Findings

The broad trends suggest that, on average, among households headed by senior Australians who own or are paying off their home:

- home equity is fairly stable across age ranges;
- non-home assets are lower among households in the older age ranges (consistent with Australian pension data);
- access to liquid assets (bank accounts) is stable across the age ranges and appears to be slightly higher among the more elderly; and
- the apparent stability in home equity and bank account balances is achieved even though incomes are lower among older households in this group.

These findings cannot tell us the extent to which, on average, senior Australian households might aspire to raise their retirement living standards through means that might include

[1] The Mean (or Average) is calculated by dividing the sum of all responses by the number of responses. The Median is the estimated mid point of the range of responses: Half of the responses are less than the median and half are more.

accessing the equity in their homes. Measuring that aspiration would require at the very least an analysis of retirement expectations and of trends in household wealth through time.

- However, the findings might suggest that, if households on average are able to maintain stable bank account balances, then perhaps they are able to maintain their retirement living standards without needing to draw on home equity. While further analysis and data would be required to confirm that, such a finding would be broadly consistent with the international and Australian research evidence that relatively few senior citizens access home equity conversion loans to support their retirement living standards.

FAMILY/INTERGENERATIONAL IMPLICATIONS

Home ownership can impact on retirement living standards in a number of ways, by providing:

- rent-free secure accommodation in retirement (which reduces the level of other income or assets needed to sustain a comfortable standard of living);
- a potential source of funds that can be accessed during retirement, which would allow a person the means to supplement their standard of living;
- a sense of security because the homeowner knows they could access their home equity to fund any unforseen future expenses and/or the payment of an accommodation bond should they eventually need to move into aged care; and/or
- a source of wealth for those who inherit the home, who may themselves be in, or close to, retirement, which would allow them to repay their mortgages, other debts or accumulate saving.

If equity held in the family home is used to fund improved retirement living standards, certain family/intergenerational issues may arise around:

- the expectations of family members for inheritance – children of senior Australians may not support their parents' choice to 'run down' the value of their potential inheritance – a source of possible conflict;
- the costs associated with caring for and supporting older Australians as they reach their later years – if equity in the family home is 'used up', issues may arise as to who pays for future expenses such as modifying the home or an accommodation bond;
- the broader impact of drawing down home equity – reducing succeeding generations' access to wealth that previously was handed on. (Davey, 1995, p.77)

Families will no doubt continue to consider these matters in the context of the wide range of issues that impact on family relationships, such as:

- the role of older generations as carers or mentors for younger family members (grandparents caring for grandchildren being an example); and
- the role of families in supporting older members who need care.

If it is the case that people approaching retirement have more flexible attitudes towards accessing their home equity to support their retirement, then the longer-term implications for family relationships may need to be monitored over time.

CONCLUSIONS

The paper sought to answer the question:

To what extent will senior Australians seek to enhance their retirement living standards through accessing the capital in their homes and, if so, what impact might that have on family relationships?

We have found that Australian survey evidence suggests that in future there is likely to be increasing interest in accessing home equity as a way to enhance retirement living standards. The evidence also suggests that any increase would be from a low base, as relatively few individuals currently see this as a preferred option. Further monitoring will be required before we can confidently judge the strength of future trends.

While not definitive, the HILDA Wealth data suggests that, on average, older people who own or are paying off their home may currently be able to manage their retirement without having to access their home equity. The data suggest that while those more elderly senior Australians who own or are paying off their home earn, on average, lower incomes than younger senior Australians, they nevertheless seem to maintain similar home equity and liquid assets through their bank accounts. Further, those more elderly senior Australians who started retirement as "self funded" retirees may be able to receive a pension later on in life if they have drawn on their resources through retirement.

Trends towards accessing home equity will need to be monitored to examine if mooted growing acceptance translates into action. Should changes in attitudes occur, then the possible implications for family relationships may need to be further explored in order to gain clearer understandings of how society and families manage the consequences of an ageing population.

ATTACHMENT A

Social Security Treatment of Home Equity Conversion Loans

A home equity conversion loan (also known as a 'reverse mortgage') generally involves borrowing against equity in a home, with the option of deferring repayments so the loan, plus interest, is repaid from the borrower's estate.

Home equity conversion loans are not all the same. There is no Government involvement in these loans and they operate on commercial terms. Individuals need to understand the terms and conditions before entering into one of these arrangements.

Under the social security means tests, a home equity conversion loan amount is not counted as income**.** However, should the loan proceeds be placed in a financial investment, then income from the investment is assessed under the deeming rules applying to all financial investments. In this case, the recipient would be earning income from the investment and the income test would ensure their additional income would exceed any reduction in income support leaving them better off overall.

Under the social security assets test, the first $40 000 of an unspent home equity conversion loan is an exempt asset for 90 days after receipt. If after 90 days a pensioner has not spent the loan, the full amount is included in the person's assets.

Any assessable assets purchased with the loan proceeds are assessed at market value.

However, a person's pension payment would not be affected if their total assessable income and assets remained below the relevant income and assets test free areas.

Social security recipients with a Home Equity Conversion loan arrangement are still considered to be homeowners for assessment purposes.

Income Streams

A different means test treatment applies if the proceeds of a Home Equity Conversion loan or proceeds from, say, downsizing into a cheaper home, are used to purchase an income stream to support their retirement.

Income streams are investment products that allow a person to receive regular payments. These regular payments usually comprise income and a return of the capital used to purchase the product.

Depending on the characteristics of the income stream, some income streams purchased after September 2004 can qualify for a 50 per cent asset test exemption. Further details can be obtained from the website of the Department of Family and Community Services:

http://www.facs.gov.au/guide/ssguide/49.htm

ATTACHMENT B

Selected Wealth Variables for Home-Owner Households with at least one member aged 50 or over by Mean and Median

Age	Home Equity $'000	
	Mean	Median
50-54	289.2	210.0
55-59	291.7	240.0
60-64	293.3	248.0
65-69	302.4	225.0
70-74	275.5	230.0
75-79	232.4	200.0
80-84	269.8	200.0
85+	248.0	160.0
TOTAL	282.2	220.0

Age	Total bank accounts $'000	
	Mean	Median
50-54	30.9	8.5
55-59	43.0	9.0
60-64	34.1	10.0
65-69	39.9	12.0
70-74	41.0	15.0
75-79	39.9	14.3
80-84	46.9	15.0
85+	51.6	18.0
TOTAL	38.6	11.0

Age	Other Non-Home Equity $'000	
	Mean	Median
50-54	382.3	218.0
55-59	418.5	188.0
60-64	421.4	191.0
65-69	321.5	106.0
70-74	200.2	42.2
75-79	152.0	18.0
80-84	88.0	11.0
85+	57.4	(a)
TOTAL	314.4	109.0

Age	Household Debt $'000	
	Mean	Median
50-54	108.1	48.0
55-59	61.6	(a)
60-64	25.0	(a)
65-69	13.1	(a)
70-74	8.6	(a)
75-79	(a)	(a)
80-84	(a)	(a)
85+	(a)	(a)
TOTAL	40.9	(a)

(a) Less than $5,000

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