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How does the loss of a partner affect housing outcomes?

LOSING A PARTNER WHETHER THROUGH DIVORCE, SEPARATION OR BEREAVEMENT POSES A SERIOUS THREAT TO THE HOUSING AND RELATED FINANCIAL HEALTH OF THOSE AFFECTED. IN THE TWO YEARS FOLLOWING HOUSEHOLD DISSOLUTION FROM DIVORCE OR SEPARATION, RATES OF HOME OWNERSHIP FELL FROM 69 PER CENT TO BELOW 50 PER CENT.

KEY POINTS

- Overall, divorce and separation impose a greater housing cost burden than bereavement, as separating couples are forced to establish two households from the same resources that previously had supported only one household.
- In the first year following loss of a partner, the housing costs of renters and purchasers double as a proportion of their household income, and rates of housing affordability stress increase from 9 per cent of these households to almost one-third.
- In the two years following household dissolution from divorce or separation, rates of home ownership among those who had lost a partner fell from 69 per cent to below 50 per cent. The contrast with 'intact' couples is stark, with home ownership rates reaching almost 90 per cent over a comparable timeframe.
- In public housing, when household dissolution is due to divorce or separation, one-third of tenants were obliged to move out of public housing and no longer benefited from the financial 'safety net' of rebated rents.
- In private rental housing, 41 per cent of remaining tenants become eligible for Commonwealth Rent Assistance (CRA) or receive more CRA following household dissolution. However, rates of CRA do not increase for existing recipients who continue to live in the same house. Two groups are particularly vulnerable: women with children who remain in the family home and widows (typically women), because they suffer an abrupt fall in income.

This bulletin is based on research by ***Professor Gavin Wood**, **Associate Professor Chris Chamberlain*** *and* ***Alperhan Babercan*** *(of the AHURI RMIT-NATSEM Research Centre), and* ***Mike Dockery**, **Grant Cullen*** *and* ***Greg Costello*** *(of the AHURI Western Australia Research Centre) and investigates the effects that divorce, separation or bereavement have on the housing and related financial circumstances of Australians. The study examines the housing affordability and housing tenure pathways of a panel of Australians who lost a partner, using the Household Income and Labour Dynamics in Australia (HILDA) Survey. It also reports the findings from in-depth interviews with divorcees and the bereaved.*

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BACKGROUND

Losing a partner, whether through separation, divorce or death, has significant consequences. Many people need time to deal with feelings of grief from the loss of, or separation from, a loved one, and the need to cope with a number of daily living responsibilities previously carried by their partner. Then there are also the additional concerns of a change in financial circumstances, and the lifestyle consequences these may entail.

The research undertaken for this report was motivated by a concern that the housing cost burden, particularly for older Australians, can be seriously aggravated by loss of partner. Because the population in this demographic group is increasing, it might be anticipated that there will be a growing demand for housing assistance, including new forms of housing assistance.

RESEARCH METHOD

This research project uses the HILDA survey to follow a panel of Australian couples who subsequently broke up due to divorce, separation or bereavement. Housing affordability and tenure status was measured before and after loss of partner and these housing pathways were compared with those of 'surviving' couples. There is a particular focus on older Australians in private rental housing, but the sample analysed is formed using all Australian households. The sample frame is extended beyond private renter couples because home owner couples who divorce or separate often fall out of home ownership and become renters following break-up.

The analysis of secondary data sets is complemented by in-depth interviews with a sample of older Australians who have lost a partner.

Finally, the study produces projections of the future demand for public housing using the confidentialised administrative records of the Department of Housing and Works in Western Australia. A conservative approach is taken, with the assumption that public housing continues to house the same proportion of older single Australians as in 2001. The Australian Bureau of Statistics population projections are then employed to project the future demand for public housing by older single persons and the proportion of each state's public housing stock that will be needed to meet this demand.

KEY FINDINGS

What impact does loss of partner have on housing affordability?

- Public housing tenants who remain in the tenure following loss of partner are 'insured' against housing affordability risks because rents are set as a fixed percentage of assessable income, usually 25 per cent. But where household dissolution is caused by separation or divorce, one partner typically moves out of the family home, usually seeking alternative accommodation in the private market.
- In the first year following loss of partner, the housing costs of renters and purchasers doubles as a proportion of their household income, and rates of housing affordability stress increase from 9 per cent of these households to almost one-third. These dramatic short-term consequences arise because, in the case of divorce and separation, two households replace one. Both households generally experience a fall in income and housing costs typically rise compared to the pre-dissolution situation.
- There is a large increase in demand for housing assistance from private renters following loss of partner. It was found that 41 per cent of private renter couples who lose a partner either become eligible for CRA or receive more CRA following household dissolution. However, the group that misses out are people who are eligible for CRA before the loss of partner but continue to live in the same house after the partner has left. They will receive the same housing assistance even though their partner has departed and despite a likely fall in income. The two tenant groups who are particularly vulnerable are women with children, because they typically remain in the family home, and widows (again typically women), because they often suffer an abrupt fall in income.
- The majority of households affected by loss of partner (59 per cent) are beyond the reach of housing assistance programs because they are home purchasers. Their housing costs escalate after loss of partner and there is no offsetting increase in assistance to protect them from housing affordability problems. As a consequence, their housing affordability stress rates increased from 3 per cent to 34 per cent, one year after household dissolution.

Is loss of partner a serious threat to home ownership status?

- The evidence indicates that divorce and separation are a major source of disruption to home ownership careers. In a two-year period following household dissolution, rates of home ownership among those who had lost a partner fell from 69 per cent to below 50 per cent. The contrast with 'intact' couples is stark, with home ownership rates reaching almost 90 per cent over a comparable timeframe. The disruption was felt most among households that were home purchasers.

- The longer-term implications of this threat to home ownership are potentially serious, as home ownership is often pursued as a vehicle for the accumulation of wealth to help finance retirement plans. More than one in five divorced or separated female home owners plan to release housing wealth in retirement. The corresponding propensity among divorced and separated men is closer to one in ten.

How does the loss of partner affect the housing adjustments of older Australians?

- Older private renters who lose a partner are particularly vulnerable, because their income usually falls but their housing costs remain the same. Many older private renters have ended their working lives and can also expect rising rents in the longer term.
- The qualitative data confirmed the quantitative evidence that private renters and home owners who have mortgages are likely to move if they lose a partner. Public tenants are less likely to move because their rental payments are linked to their income. Outright home owners often stay in the family home after the death of their spouse. If outright home owners move, it is normally because they want to live near children, or because they want to move to a smaller dwelling.
- Retired people have been reported as wanting independence from their children and to continue to live autonomously after their retirement. Data confirmed that this is the case for the Anglo-Celtic majority, but a significant number of people from non-English-speaking backgrounds either move in with their children following the death of their spouse, or expect to move in with them when they need additional care and support.

Will any increase in older singles result in a higher demand for public housing in Australia?

- The population of persons aged 50 or over in Australia is projected to increase by around three-quarters between 2001 and 2025, to 9.7 million. Only 0.34 of one per cent of persons in this age group are admitted into public housing as single persons or sole parents. But if public housing is to continue to house that very small proportion of 'older singles', 7.7 per cent of the nation's public housing will be occupied by older singles in 2010, rising to 10.4 per cent in 2025.
- By 2025, around 15 per cent of all public housing tenancies in Queensland and Victoria must be allocated to older singles, while the projected figure is closer to 10 per cent in Western Australia and New South Wales, and 5 per cent for the remaining states and territories. These projections are based on an unchanged stock of public housing, and so the increased share of public housing tenancies taken by older singles is at the expense of other sections of the population.

POLICY IMPLICATIONS

Home purchasers

As divorce rates are now at much higher levels than 20 to 30 years ago, this life course event will pose an increasing threat to Australia's traditionally high rates of home ownership. The threat is greater for women than for men because men are more likely to re-partner. It is anticipated that there will be a growing Australian market in mortgage products designed to suit the needs of the divorced.

Early signs of such a market are emerging. The Yorkshire Building Society in the United Kingdom launched 'divorce mortgages' in 2005 and its 'Fresh Start' service offers independent counselling and support service to customers going through divorce or separation. In Australia, Bluestone is marketing non-traditional loans that assist those with a good credit history but where marriage breakdown poses a one-off 'credit impairment situation'. The entry of private financial institutions into this market is a welcome development, but there are concerns about predatory lending, where unscrupulous lenders target vulnerable and poorly informed groups and incorporate onerous repayment conditions into loan contracts. This is a regulatory issue that policy makers may wish to monitor as the market develops.

There is also a potential direct role for government, with scope for government intervention in the form of an income contingent loan – the Housing Lifeline Proposal – to meet the needs of those such as the divorced and the bereaved who suffer unanticipated reductions in income. It would offer a universal entitlement to all Australians, who can draw down the entitlement to meet mortgage payments that are subsequently repaid through the tax system once income exceeds a threshold level, similar to HECS. Federal and state governments might also consider extending first home-buyer scheme concessions to persons who lose home ownership status through divorce or separation.

Outright owners

The housing difficulties faced by outright owners who lose a partner are different from those of home purchasers. Income-contingent loans are unsuitable for

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this target group, who tend to be asset rich but income poor. An alternative is 'wealth-contingent loans' or 'shared appreciation mortgages'. The home owner 'sells' a share of their home (say 20 per cent) to a government agency or financial institution. There are no recurrent repayments, but on sale the home owner pays back a share of the sale value (say 40 per cent), or it is paid from the estate of the deceased. Unlike reverse mortgages, where outstanding debt 'balloons' as unpaid interest is added to the outstanding debt, the wealth-contingent loan offers the borrower protection from risk because pay-back arrangements ensure a liability that is restricted to a share of the sale value.

Once again there is a potential niche in the mortgage market for such products. Governments might choose to take a lead in this area and launch their own wealth contingent loan schemes.

Private renters

At present the CRA program is ill-suited to meet the financial hardships that many older private renters experience when they lose a partner, a major reason being the means test arrangements for CRA. Those eligible for CRA before loss of partner and who continue to live in the family home will receive the same CRA entitlement even though their household income has fallen. The demographic trends indicate that the numbers of such tenants will increase in the future.

The Federal Government could administer CRA differently depending on whether the applicant is of working age. For those aged 65 or over, a separate income test could be applied that is sensitive to household type and offers proportionately more support to singles, in view of the greater hardship typically experienced by older singles. The work incentive issue is not as relevant to those aged 65 years or over, and so a separate income test for the over-65s would raise fewer concerns of this kind. It is also targeted because at this late stage in the life course CRA recipients cannot expect a growing earnings profile from which rising rent payments can be met.

Public housing

In this research, projections of the future demand for public housing have been made on the conservative basis that state housing authorities continue to house the same proportion of older singles that Western Australia achieved back in 2001 (only 0.36 of one per cent).

Based on these assumptions, the national stock of public housing must increase by 3 per cent over the timeframe to 2025, to meet the projected demand from this segment of the population. The estimated requirement in Queensland is 5 per cent, and in Western Australia and Victoria over 4 per cent. This would be in addition to requirements by people in other age groups and older, partnered people. In the absence of this stock increase, either the success rate in entering public housing for older, single people on waiting lists will need to decline, or their share of public housing tenancies will need to increase at the expense of other sections of the population.

FURTHER INFORMATION

Further work on the preferences of older people (comparing their preferences with other younger cohorts) will be available through the AHURI National Research Venture, *21st century housing careers.*

This bulletin is based on AHURI project 30315, *Implications of loss of a partner for older private renters.*

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

The following documents are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300

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