



**Actuaries
Institute**

Unlocking Housing Wealth

– options to meet
retirement needs



Real Estate and Retirement

Australians generally retire owning their own home, together with superannuation and personal savings. But is this enough to fund their retirement to the living standard they expect and cover aged care and accommodation down the track?

This session will explore how retirees can access their real estate to meet post retirement expenses, with reference to the recent Actuaries Institute Paper “Unlocking Housing Wealth – options to meet retirement needs” and related research.

- How could retirees tap into their real estate investments to fund the costs of the transition from active retirement to aged care?
- Are equity release and reverse mortgage products going to be the answer?

These and other questions will be discussed in this informal session.

Australian Context

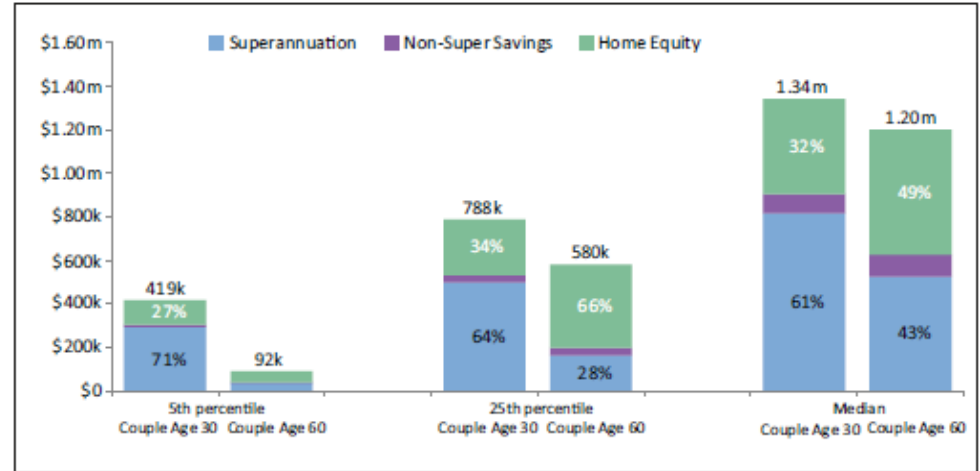
- Retirement income system – 3 Pillars
 - Publicly funded age pension
 - Superannuation, compulsory & voluntary
 - Other savings in financial products, shares, property, etc
- Australia 2nd worst OECD country for income poverty in retirement
- Housing wealth is a store of considerable wealth for many
 - Relatively untapped
 - The 4th pillar!

Hong Kong Context

- Retirement protection system
 - Publicly funded social security
 - Compulsory contributions to MPF schemes, occupational retirement schemes and civil service pensions
 - Voluntary contributions to MPF schemes, retirement savings, financial products etc
 - Other: Public housing, healthcare, concessions, family support, **self-owned properties**
- Housing wealth is a store of considerable wealth for some
 - Relatively untapped
 - Already in the 4th pillar

Australian housing wealth is significant

- **85%** of >65s own home
- \$1trn vs \$300 bn in super
- Majority wealth for >75s
- Doubled in value over past 20 yrs
- Housing (like super) benefits from considerable tax concessions for CGT and Age pension



For Richer for Poorer Actuaries Institute White Paper 2015

Increase in value of this asset along with increase in aged expenditures and costs means housing assets will play increasing role in future financing

Hong Kong housing – government role

Government schemes to provide access to housing

- **54%** live in a private permanent house – Goal is 70%
- **29%** live in public rental housing
- **17%** live in public subsidised sale flats

On average 3 people in every dwelling

Government scheme to enable reverse mortgages for over 55s

- 1,211 taken out to 31 March 2016
- Average age 69
- 1 - 2 borrowers
- Average property value HK\$5.2m
- Average payout HK\$15,000 per month

Role of housing

- A place to live with security of tenure
- An important store of wealth
 - Self insurance against longevity & aged care costs
 - Can result in lower standard of living in retirement and unintended bequests for adult children
- Important (implied) cross generational contract for informal care
- Bequests
- Equity release schemes are currently limited
 - Australia: < 1% of potential home equity market
 - Hong Kong Reverse Mortgage Scheme: Also <1% of potential
 - Supply and demand constraints

Views

Australian views on role of housing in retirement:

Australian productivity commission survey 2015

- **75%** of over 60s want to remain in home through retirement
- **70%** see home as financial safety net
- **50%** had bequest motive
- **40%** saw home as potential retirement asset
- **40%** uncomfortable with debt in retirement

Hong Kong views on funding retirement :

Hong Kong thematic household survey 2013

Of the currently retired (mainly over 65) 1.2m

- **88%** receive some social security
- **70%** receive some financial support from family members

When thinking back to their pre-retirement planning

- **66%** had no employment based retirement fund
- **47%** had not planned for financial needs in retirement at all
- **27%** planned to rely on children

Of the currently working 3.0m

- **16%** plan to rely on children
- **51%** plan to use savings/investments
- **17%** plan to insure health/medical/illness costs in old age
- **41%** have not planned at all

Objectives for reform in Australia

- **A better standard of living in retirement**
- Remove biases and/or impediments for accessing housing wealth, **if and when** required
- Neither encourage nor discourage remaining in home or taking out financial products
- Not targeting reductions in government expenditures, although this may be an outcome

Principles for reform in Australia

- **Sustainability** to ensure reliable, secure, adequate resources in retirement to meet all needs
- **Flexibility** which facilitates choice and transaction fluidity
- **Equity**
 - Intergeneration equity re tax concessions and social security
 - Horizontal equity taking into account all wealth
- **Efficiency** re public expenditure
- **Simplicity** which minimises the need and cost for advice
- **Supportive regulatory frameworks** to support competition and consumer protection

Reform options and their relevance to Hong Kong?

- ❑ **Social Security/Age Pension**
 - How to assess for amounts released under home equity release/ downsizing
- ❑ **Downsizing**
 - Any friction costs for retirees that can be reduced to support downsizing
 - Consider bank lending rules and practices re availability of bridging finance.
- ❑ **Private equity release schemes – regulation and consumer protection**
 - Is there a need for principles based regulation to ensure security of tenure, for all types of schemes and providers, and which facilitates standard and simpler disclosures
 - Consider level of independent financial advice required by retiree, and licensing requirements for third party distributors and advisors.

Reform options and their relevance to Hong Kong?

- ❑ Financial abuse of older citizens
 - Is there a need for regulatory protective measures to guard against the risk of financial abuse of older citizens given the significant quantum of their housing wealth, intergenerational housing, and potential vulnerability due to diminished cognitive facilities
- ❑ Home owners v non – home owners
 - Is there an issue with social security fairness when assessing income/assets/housing costs between home owners – v – non home owners
- ❑ Government measures
 - Is there a need to facilitate access to home equity release including publicity, financial literacy, measures to encourage supply of schemes by private providers in addition to Government HKMC

