



Final Report

Housing equity withdrawal: uses, risks, and barriers to alternative mechanisms in later life

authored by

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ACRONYMS

ABS	Australian Bureau of Statistics
BHPS	British Household Panel Survey
CGT	Capital Gains Tax
COTANSW	Council of the Ageing, NSW
COTAWA	Council of the Ageing, WA
CPI	Consumer Price Index
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FPI	Fractionalised property investment
FTB	Family Tax Benefit
GFC	Global financial crisis
HECS	Higher Education Contribution Scheme
ISP	Income support program
HEW	Housing equity withdrawal
HILDA	Household, Income and Labour Dynamics in Australia Survey
HECM	Home Equity Conversion Mortgage (US)
LVR	Loan to value ratio
MEW	Mortgage equity withdrawal
NICRI	National Information Centre on Retirement Investments
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
POPI	Property Options for Pensioners and Investors
SEQUAL	Senior Australians Equity Release Association of Lenders
SIH	Survey of Income and Housing
UK	United Kingdom
WA	Western Australia

EXECUTIVE SUMMARY

This project uncovers the uses, risks of and barriers to housing equity withdrawal (HEW) by older home owners aged 45 years and over via three alternative mechanisms: *in situ* mortgage equity withdrawal (MEW), downsizing and selling up. Its overall objective is to provide an evidence base for policies and programs aimed at maximising the availability and quality of information to support Australians in their decision-making over the use of housing wealth in later life.

The project is particularly relevant in the context of population ageing. As the cost of providing age-related payments and services escalate, governments are beginning to view the owner-occupied home as a key store of wealth that can perform a pension role beyond that of ensuring low housing costs in old age, encouraged by the fact that the majority of older home owners in Australia hold most of their wealth in the primary home. However, the increase in the use of financial instruments that facilitate *in situ* MEW throughout the life course is creating a concern that growing numbers of home owners will approach or enter retirement with large outstanding debts. Furthermore, recent economic events have highlighted the potential riskiness of housing as a vehicle to fund retirement. The benefits of HEW may also be limited by taxation and the impact on means-tested benefits in Australia.

We implement an embedded mixed methods approach comprising complementary quantitative and qualitative analyses. The quantitative arm of our analysis exploits the 2001–10 Household, Income and Labour Dynamics in Australia (HILDA) Survey. This is complemented by data from semi-structured interviews conducted with older home owners and professional service providers in areas of policy and practice related to HEW.

Prevalence and uses of HEW in later life

The incidence of HEW has increased over the last decade, and older home owners' appetite for HEW has not abated despite a GFC and its aftermath. *In situ* equity borrowing is the dominant form of HEW among those under pension age, while there is a shift towards the more traditional forms of HEW—downsizing or selling up—among those above pension age.

There is evidence that decision-making surrounding the use of housing equity among those above pension age is increasingly dominated by concerns about health, confirming the proposition that housing wealth is increasingly viewed as a means of achieving private provision of certain functions that are traditionally publicly provided, such as health care.

The typical *in situ* equity borrower has a relatively strong financial and employment background. Those cashing in housing equity by downsizing and selling up are likely to have suffered unfavourable circumstances such as ill health, separation, divorce and bereavement prior to the sale of their primary home. One senses that for older downsizers and sellers, *in situ* MEW is no longer an option to cushion living standards in the face of adversity. Selling up is a '*last resort*' option. Importantly, it appears to be an option that groups in financially vulnerable situations are prone to fall back on, such as older women and singles with few other resources to tap into.

Risks of HEW in later life

In situ equity borrowing itself does not lift repayment risk among older home owners. However, repayment risk is highly correlated with adverse life events. For example, marital breakdown and unemployment are events that commonly take place prior to

MEW. Furthermore, older *in situ* mortgage equity borrowers do so from a somewhat risky position of above-average levels of mortgage indebtedness. Hence, while equity borrowers typically have reasonably sound economic positions, financial distress could ensue if adverse life events were to befall them. Negative equity risk is negligible among MEW users. The risk of being left with limited equity (i.e. less than 40% of one's primary home value) is much more likely, but it is once again mitigated by the secure financial positions that form a typical platform for equity borrowing through policies designed to encourage older home owners to tap into their housing wealth beyond current average amounts of HEW to say, fund aged care needs, may expose many to undesirable levels of limited equity risk. The dangers of inadequate or inappropriate advice are also important sources of risk for *in situ* equity borrowers. For some, adverse life events may force them to make financial decisions related to the sale of their home due to time pressures, preventing information gathering and considered planning, and hence elevating the risks of making unsound financial judgments during crisis events.

Various strategies can be employed to mitigate the risks attached to HEW. Supply-side restrictions such as caps on maximum loan advances, 'red-lining' of particular geographic locations, and no negative equity guarantees can be (and are typically) applied to MEW products. Equity finance is a new, potentially promising, form of financial innovation that aims to mitigate some of the risks associated with debt-based forms of finance. Consumer understanding of MEW products is critical, and it is important that older home owners manage their housing wealth from a position of generally sound financial literacy and with full awareness of the kinds of protection afforded to them under consumer protection laws.

Barriers to HEW in later life

MEW products, particularly reverse mortgages, are viewed as inherently risky by older home owners. Initiatives that offer protection against the risks of MEW would go some way towards removing the stigma attached to reverse mortgages.

For those who engage in HEW through property transactions, transaction costs and the operation of means tests eat into the housing equity realised on downsizing or selling up. We know that older home owners who engage in selling up typically have very little income or assets to rely on. Hence, it is imperative that those who decide to sell their primary home to withdraw housing equity be aware of the consequences of such forms of HEW for their ISP entitlement levels, as well as the transaction costs applicable to downsizing. Transaction cost and means test rules could potentially be reformed to allow individuals to retain more of the equity they have released.

The sale of the primary home is also associated with potential social isolation. Policies that assist 'ageing in place' are important in this regard. For those who are forced by adverse circumstances to sell up and rent, policies that offer ageing tenants some of the benefits of home ownership such as tenure security will be critical in meeting the need for ontological security in old age.

1 INTRODUCTION

1.1 Objective and key research questions

This Final Report is the second output of a project that aims to uncover the uses, risks and barriers to housing equity withdrawal (HEW) in later life. By HEW, we are specifically referring to any mechanism that home owners use in order to draw down on the equity stored in their primary home. These alternative mechanisms typically take the form of *in situ* mortgage equity withdrawal (MEW) where home owners increase the mortgage debt secured against their property without moving, downsizing where home owners move into a lower value owner-occupied home, and selling up where home owners cash in on their primary home and move into the rental sector.

The overall objective of this project is to provide a comprehensive evidence base for policies and programs aimed at maximising the availability and quality of information to support Australians in their decision-making over the use of housing wealth in later life.

This Final Report addresses the following key research questions related to the project's objective:

1. To what extent are older Australians tapping into their housing equity via alternative mechanisms, and what motivates HEW by older Australians?
2. What impedes HEW, and what are the risks associated with the use of HEW mechanisms in later life? How do these vary across the older population according to socio-economic groups and across scenarios relating to asset price changes and tax-benefit settings?
3. How do older Australians perceive the different mechanisms for HEW and how do these perceptions influence decisions about the use of HEW?
4. What mechanisms can mitigate the risks of HEW and overcome barriers to alternative HEW mechanisms in later life?

In Section 1.2, we describe the demographic and policy context shaping increasing reliance on the primary home as a resource to fund consumption needs in later life. Section 1.3 outlines the structure of this report.

1.2 Policy context

Population ageing is a global demographic transition that is creating seismic shifts in the age structure of populations worldwide. The confluence of long-run declines in fertility rates and longer life expectancies has accelerated population ageing. As a result, the cost of providing age-related payments and services are escalating, a fiscal responsibility that will threaten the sustainability of balanced government budgets.

A cross-country review of institutional settings in the Positioning Paper of this project (Ong et al. 2013a) highlighted the fact that Australia's public pension replacement rate¹ is the lowest among the six countries reviewed, the others being the Netherlands, UK, US, Germany and Finland. In addition, Australia's compulsory superannuation guarantee was introduced relatively recently in 1992.²

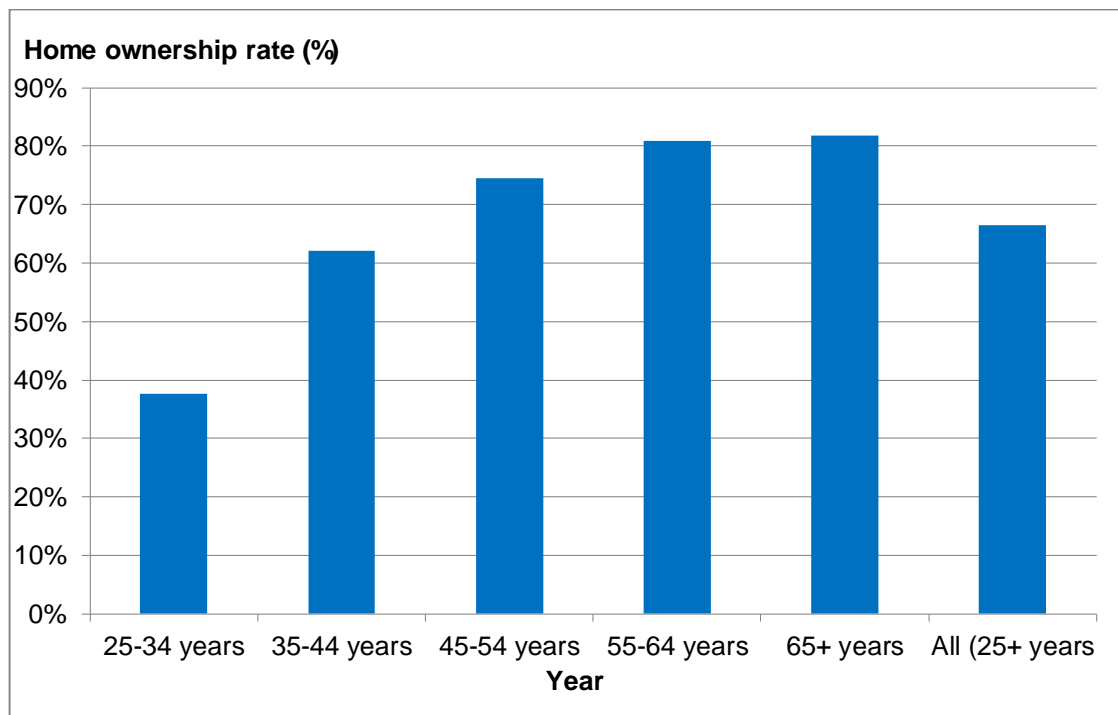
1 The gross replacement rate estimates the level of public pensions in retirement relative to earnings when working.

2 The Netherlands' quasi-mandatory private pension system was introduced in the mid-1800s for railroad workers. By 1949, it had become legally obligatory for employers to participate in pension funds in sectors where there was a collective agreement on occupational pensions schemes (Trampusch et al. 2010).

Hence, as pressures on government budgets to meet age-related payments and services grow, it is not surprising to find that the owner-occupied home is increasingly being viewed as a key store of wealth that can perform an age pension role beyond that of ensuring low housing costs in old age. This notion is encouraged by the fact that the majority of older home owners in Australia and other Western countries hold most of their wealth in the primary home (Chiuri & Jappelli 2010; Ong et al. 2013a).

Figure 1 below compares the home ownership rates for each of five age groups ranging from 25–34 years to 65 years and over using the 2009 Survey of Income and Housing from the Australian Bureau of Statistics (ABS). It is clear that a significant majority of those aged 45 years and over are home owners. Around three-quarters of those aged 45–54 years own their own home, and four in five persons aged 55 years and over are home owners.

Figure 1: Home ownership rate, by age group, per cent, 1982–2009



Source: 2009 Survey of Income and Housing from the ABS

As costs associated with population ageing accelerate, we can expect the continued retreat of welfare states in countries with neo-liberal welfare regimes such as Australia, and as a result older home owners are likely to increasingly rely on HEW to supplement retirement incomes. In Australia and the UK, recently published reports have recommended financial mechanisms that promote HEW to help pay for age care. In Australia, the Productivity Commission's inquiry into the aged care sector argues that 'many older Australians with low income have substantial wealth, which gives them the capacity to meet their lifetime accommodation costs and to make a modest contribution to the costs of their care' (Productivity Commission 2011, p.xxvi). The Dilnot et al. (2011) report in the UK emphasises personal responsibility as the starting point for meeting the costs of care in old age, which can be paid from income, savings, housing assets or financial products that allow HEW.³

³ However, means-tested funding would still be available for those with insufficient resources to fund their own aged care.

Kemeny (1980, 1981) and Castles (1998) have proposed that there is a trade-off between the size of a country's owner-occupied sector and the size of its welfare state. It arises because outright ownership ensures low housing costs in old age. Kemeny (1981) found that countries with relatively less developed welfare states have high rates of home ownership. Castles and Ferrera (1996) report a similar inverse relationship for many OECD countries in the 1980s.⁴

Successive Australian governments have promoted housing asset-based welfare by the use of tax expenditures, concessionary asset tests governing eligibility to allowances and pensions and assistance to first home buyers. These policy instruments and the high levels of home ownership they foster are an important pillar supporting welfare in old age. The assumption has been that older, low income outright owners will have low housing costs because they are no longer paying off mortgages, and can therefore get by on smaller pensions (Castles 1998).

There is some comparative evidence supporting the effectiveness of this strategy. Evidence reported in Ritakallio (2003, p.81) shows 'that, instead of vast differences in inequality, poverty and, in particular, old-age poverty, the real differences between Australia and Finland are only modest when housing costs are taken into account'. On comparing six countries, Yates and Bradbury (2010) find that while Australia has the highest before-housing poverty rate among those aged 65 years or over, this same age group has one of the lowest after-housing poverty rates.⁵ The low housing costs of older outright owners, which is the dominant housing tenure among Australians reaching retirement age, is responsible for these findings.

In recent times, a more wide-ranging welfare role for owner-occupied housing has emerged. Financial deregulation and mortgage innovation spawned a plethora of financial instruments that facilitate *in situ* MEW. One of the more important innovations was the flexible mortgage—a secured loan that can be repaid in varying instalments, while at the same time allowing the borrower to access their housing equity up to some agreed limit. Flexible mortgages have grown in popularity in countries with well-developed mortgage markets, such as Australia and the UK. Their success was helped along by soaring house prices between the mid-1990s and mid-2000s, and historically low interest rates. Also there is no costly application process; these products turn housing wealth into an 'ATM' with borrowers drawing down or adding to their housing equity as and when they choose (Klyuev & Mills 2010). Flexible mortgages can be accessed at any stage of the life course; the housing wealth of the current cohort of older Australians is then much more liquid than that of their counterparts 30 years ago.

There are also MEW products, such as reverse or lifetime mortgages, that are targeted at 'elderly' home owners, generally in their 60s or over, while excluding those in their 40s and 50s, who are typically pre-retirees under pension age. Their market penetration has increased in some countries (Reifner et al. 2007), but they remain a small share of the mortgage market. Reverse mortgages, also called lifetime mortgages, allow borrowers to draw on loans just like any other mortgage, but repayment is not required until the house is sold. Interest payments are deferred so the outstanding debt balloons over the loan term. This feature could be responsible for their low take-up.

⁴ But the direction of causation is a matter of dispute.

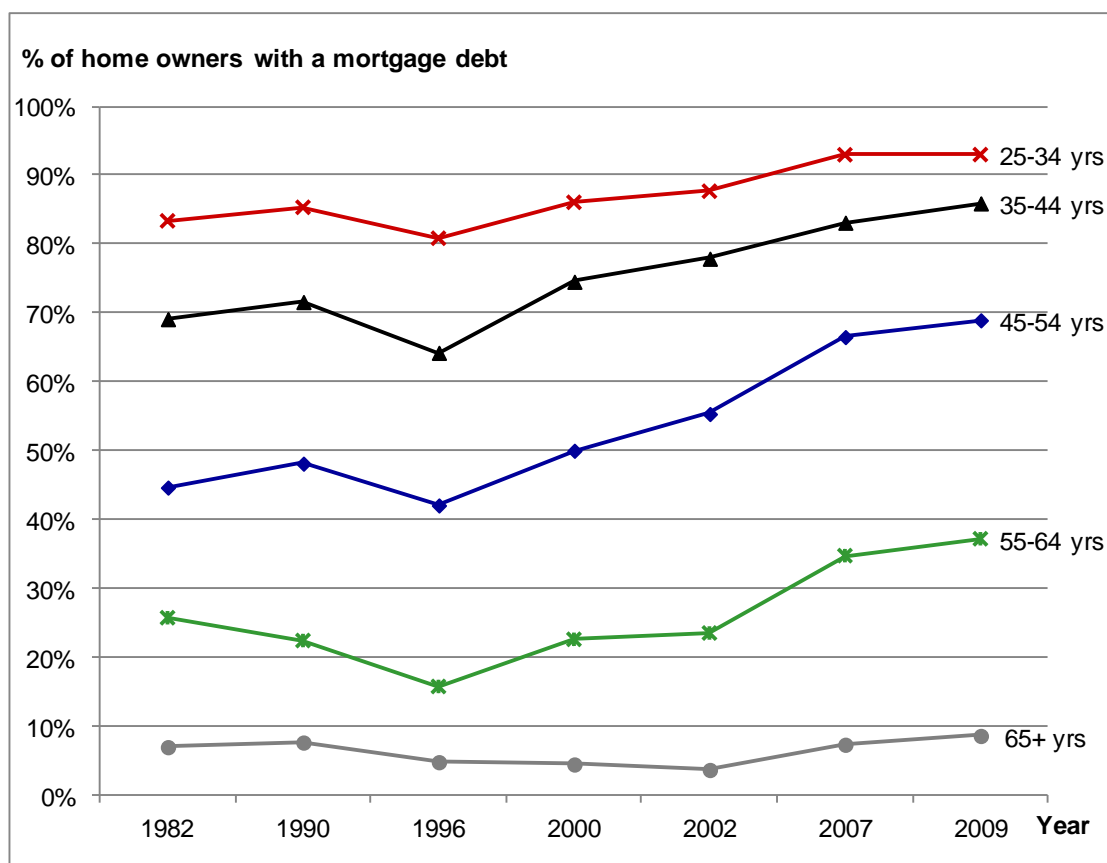
⁵ Doling and Ronald (2010) report a significant positive correlation between before-housing poverty rates among over 65s and the rate of home ownership in a sample of EU countries. Heylen and Haffner (2012) argue that it is the rate of *outright* ownership that is important in lowering after-housing poverty rates.

Toussaint and Elsinga (2009) distinguish between traditional and new forms of housing asset-based welfare. In the former, home ownership is a vehicle for the accumulation of housing wealth that can be tapped into as a last resort, and typically late in the life course. In its new role, housing equity is now a financial resource to be stored or released as needed over the life course given the plethora of financial instruments that facilitate *in situ* MEW.

But there is a fear that growing numbers of home owners will approach or even enter retirement with large outstanding debts. This would weaken the traditional asset-based welfare role of housing wealth in old age. Indeed, Figure 2 below shows that with the exception of those aged 65 years and over, whose debts remain low, mortgage indebtedness has already been rising significantly among all other age groups between 1982 and 2009. Furthermore, the move towards housing asset-based welfare tends to be predicated on the assumption that investment in 'bricks and mortar' will yield significant returns as house prices continue to increase indefinitely. In fact, recent economic events have highlighted the potential riskiness of housing as a vehicle to fund retirement. Housing wealth is also a unique asset because the risks associated with future house price movements cannot typically be reduced or offset using some financial instruments (Shiller 2003), and these risks are augmented by life shocks in later life that can significantly erode housing wealth (Wood et al. 2010).

Flatau and Wood (2000) also argue that the benefits of HEW may be limited by taxation and the impact on means-tested benefits in Australia. While a number of financial instruments currently exist to enable HEW, the tax-benefit consequences of HEW in later life are complicated and poorly understood. This can result in ill-informed decisions about the use of HEW mechanisms to support consumption in retirement. Indeed, Olsberg and Winters (2005) observe a disjuncture between, on the one hand, a willingness of older Australians to engage in HEW and, on the other hand, evidence of poor financial planning and lack of literacy regarding government benefits. Bridge et al. (2010) also highlight a need for more detailed evaluations of the impact of taxation on reverse mortgages to inform household decision-making on HEW. No previous study has modelled the risks of and barriers to alternative forms of HEW within the context of Australia's socio-economic and tax-benefit settings, which has contributed to a lack of literacy about the available options for using alternative forms of HEW in old age. The poor supports for decision-making about HEW have implications for policy because, potentially, they expose many older Australians to financial vulnerability in retirement, which in turn has ramifications for the viability of the income support system.

Figure 2: Percentage of home owners with a mortgage debt, by age group, 1982–2009



Source: 1982, 1990, 1996, 2002, 2007 and 2009 Surveys of Income and Housing from the ABS; reproduced from Figure 6 in Ong et al. 2013a

1.3 Report structure

This project will inform contemporary policy development by providing a comprehensive evidence base for programs aimed at maximising the availability and quality of information to support older Australians in their decision-making about housing wealth.

In Chapter 2, we outline the mixed methods approach that has been employed to conduct our investigations. We describe both the quantitative and qualitative arms of our approach, and how they are integrated to derive research findings. It is in this chapter that we explain the data we have used, clarify the measurement of alternative forms of HEW, and offer details on the samples we have designed as the basis for analyses.

Chapter 3 addresses the first research question by presenting a detailed empirical analysis of the uses of alternative HEW mechanisms employing detailed expenditure, socio-demographic, income, wealth and material deprivation indicators from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. It is supported by data on the uses of HEW as reported by older Australian home owners interviewed in the qualitative stage of our project.

Chapter 4 addresses our second research question by presenting analytical findings from various modelling exercises conducted to quantify the extent to which older Australians are exposed to various forms of risks because they draw down on their housing wealth. We also employ AHURI-3M, a housing market microsimulation model

that comprises tax-benefit parameters over the years 2001–10, to estimate the extent to which tax-benefit rules impede HEW by eating into proceeds from the sale of the primary home.

Chapter 5 complements Chapter 4 by reporting outcomes from semi-structured interviews conducted with two groups of research participants. The first group were older home owners while the second were professional service providers in various areas of policy and practice related to HEW. The qualitative findings in this chapter speak to the third research question of this project by giving us detailed insights into how older Australians think about the risks and barriers associated with alternative HEW mechanisms. This chapter serves to triangulate findings in Chapter 4 by confirming types of risks and barriers identified in the modelling exercises, while also uncovering others that older home owners and service providers disclose to interviewers though not detected from analyses of secondary data sources.

Chapter 6 addresses the final and fourth research question of this project by offering recommendations on mechanisms that can mitigate risks or overcome barriers to the judicious use of HEW mechanisms in later life.

Chapter 7 concludes by summarising the key findings and policy recommendations, as well as outlining priority areas warranting further investigation.

2 METHOD

We implement an embedded mixed methods framework of enquiry comprising complementary quantitative and qualitative analyses to generate findings and arrive at research conclusions. Section 2.1 describes the quantitative component of our research using secondary data. Here, we describe the key data features, describe the sample design, and elucidate how we have gone about measuring alternative forms of HEW given the data available to us. Section 2.2 follows on by describing our qualitative methodology, based mainly on interviews conducted with older home owners and service providers on their views regarding HEW in later life. In this section, we clarify the process of participant recruitment and data collection we have undertaken. Section 2.3 explains how the quantitative and qualitative findings are integrated within a mixed methods framework to uncover insights that would have been undetectable if the analysis had been only either quantitative or qualitative in nature.

2.1 Quantitative analysis

2.1.1 Data

The quantitative analysis is primarily based on statistical analysis of the 2001–10 HILDA Survey. The HILDA Survey is a nationally representative longitudinal survey that began in 2001 by interviewing 7682 households comprising almost 14 000 adult responding household members. These adult members were then re-interviewed annually, enabling data users to track changes in their life circumstances and personal characteristics over time.⁶

The HILDA Survey contains a comprehensive range of variables on the socio-demographic characteristics, labour market, income and family dynamics, housing outcomes, and subjective wellbeing of a nationally representative panel of Australians. Of particular importance to our HEW study is the myriad of variables that allow us to observe changes in self-assessed house values and outstanding mortgage debt secured against primary homes and whether people have moved between waves, allowing us to observe whether and what type of HEW mechanism a home owner uses from one year to the next.

2.1.2 Measurement of HEW

Traditionally HEW required the sale of the home. If a move was undesirable, refinancing one's existing mortgage meant having to take out a new or larger mortgage. Both forms of HEW are costly and time consuming methods of equity extraction. In more recent times, mortgage market deregulation and financial product innovation have spawned the emergence of a new breed of *in situ* MEW products that allow home owners to draw down on their housing wealth by adding to their mortgage debt without moving. The conceptual definitions of alternative forms of HEW have been thoroughly explained in Chapter 2 of this project's Positioning Paper and will therefore not be repeated here. Readers interested in the conceptual framework governing the definition of alternative HEW mechanisms should refer to the Positioning Paper (see Ong et al. 2013a). Here we focus on the way we have gone about implementing the measurement of alternative HEW styles given the data we have available to work with.

Firstly, *in situ* mortgage equity withdrawal (MEW) or equity borrowing entails increasing one's mortgage debt against one's primary home without moving. Data

⁶ For more details, refer to the HILDA Survey website <http://www.melbourneinstitute.com/hilda/>

application wise, we identify home owners engaged in *In situ* MEW as those home owners in wave $t-1$ who do not move between $t-1$ and t , but whose mortgage debt increases between these two adjacent time periods. Changes in house values between the two periods are ignored as home owners cannot typically tap into the financial benefits of capital gains for consumption without selling the home.

HEW via the sale of one's home can involve an intra-tenure move within the owner-occupied sector or an inter-tenure move to the rental sector. When a home is sold, the equity stored in the home, defined as the sale price of the home less the debt owed against it, is released.

Consider a sale of one's home followed by an intra-tenure move. In the data, we calculate changes in equity between $t-1$ and t to determine whether an intra-tenure move has resulted in a withdrawal of housing equity. Firstly, a home owner may trade 'down' into a less expensive dwelling and choose to hold less equity in the new home. A move to a less expensive dwelling is also called downsizing.⁷ A more complicated scenario ensues when the sale of the old home is followed by the purchase of a more expensive dwelling, that is, a home owner trading 'up'. HEW could still occur if over-mortgaging takes place, that is, the home owner takes out a larger loan on the more expensive home such that the home owner holds less housing equity after the move.

To distinguish between these two types of HEW, consider the following hypothetical example of a home owner who sells his/her primary home, valued at \$400 000. Suppose the debt secured against this home at the point of sale is \$150 000. The equity held in this home is therefore \$250 000, the difference between the value of the home and the debt secured against it.

Suppose this home owner buys a house at the lower price of \$320 000 and secures the same mortgage debt (\$150 000) against the purchased home. Housing equity after the move is thus \$170 000, which is less than the pre-move equity of \$250 000. The amount of equity withdrawn via trading down or downsizing is then \$80 000.

Now assume that this home owner instead buys a house for \$430 000 which is more expensive than the old home. Suppose a mortgage debt of \$200 000 is secured against the purchased home, that is, s/he takes out a debt that is greater than the debt secured against the old home. The net amount of equity withdrawn via over-mortgaging is therefore \$20 000, as post-move housing equity (\$230 000) is \$20 000 less than pre-move housing equity (\$250 000).

As mentioned above, the sale of one's primary home can also be followed by an inter-tenure move into the rental sector. This last form of HEW entails a 'sell and move' transaction that results in an exit from owner-occupation into the rental sector, the equity withdrawn being equal to the amount of housing equity held at sale.

Given the decade-long period over which the analysis is conducted, it is necessary to convert all nominal amounts of housing equity withdrawn (and other financial values) to real values. In this study, consumer price indices (CPIs) from the ABS (2012a) were used to inflate all financial values to 2010–11 price levels.

2.1.3 *Sample design*

We refer to older Australians as those aged 45 years or over. The ABS broadly classifies the adult population into four groups; youths aged 15–24 years, prime working aged from 25–44 years, those approaching retirement from 45–64 years, and

⁷ Note that this definition of downsizing does not take into account changes in the size of the dwelling. From the perspective of HEW, we are primarily concerned with moves from a higher value to a lower value dwelling that result in the release of equity.

finally those aged 65 years and over who are usually no longer part of the working age population (ABS 1995). Asset accumulation and divestment decisions therefore become more critical from age 45 onwards. Baby boomers are currently in their 40s, 50s and 60s; by focusing on those aged in their late 40s and over, we have an opportunity to gain some insight into the behaviours and expectations of baby boomers with respect to the use of housing equity in later life, as this group is likely to exert increasing influence on the direction of public policy making in Australia (and many other developed countries) in the near future.

We begin by restricting our sample to persons who are home owners aged 45 years and over in wave 1 of the HILDA Survey. The wave 1 data on these older home owners are then matched with their housing data in the adjacent wave 2, to identify whether or not each home owner has engaged in *in situ* MEW, downsized, traded up while over-mortgaging (hence withdrawing housing equity), or sold up and moved into the rental sector between these two waves. This sample-defining exercise is repeated for home owners aged 45 years and over in every wave and observing their subsequent housing circumstances in the next wave, up to wave 10 of the HILDA Survey.⁸

If a home owner couple was married or in a de facto relationship in wave $t-1$, but had separated or divorced by wave t , this can result in the departure of one partner while the other remains in the matrimonial home. As sale of the primary home has clearly not occurred, we assume that equity has not been withdrawn by the partner leaving the primary home. However, the outstanding mortgage debt reported by the couple before marital breakdown in wave $t-1$ is compared with that reported by the *in situ* partner in t to determine whether or not *in situ* MEW has occurred. If both partners leave the primary home between waves $t-1$ and t as a result of a relationship breakdown, we exclude them from our HEW sample as it is impossible to determine the amount of property division between the partners.⁹

Another complication arises in relation to the third form of HEW, which is selling up. It is not uncommon for those who own a primary home in a location to temporarily move into a rental property at another location for various reasons, for example, temporary job relocation, home renovation etc. The significance of such moves in the context of our study is that a sale has in fact not occurred, and therefore no equity has been withdrawn even though a person is observed to have exited home ownership and moved into the rental sector. We identify those who report that their move out of home ownership into the rental sector is a temporary one and assume that they have not sold their home and therefore have not withdrawn housing equity (following Ong et al. 2013b). In addition, those whose move out of the home ownership sector coincides with receipt of rental income are assumed to have retained their primary home and rented it out (rather than selling it).

The remaining observations are then pooled together, forming a dataset of person-period episodes that allows us to identify older home owners in wave $t-1$, who by t , have either engaged in some form of HEW or not withdrawn housing equity at all. We are mindful that in many instances, it is not appropriate to conduct our analysis based on person-periods. For example, when measuring the incidence and prevalence of HEW in the population, we would be over-estimating the scale of HEW if we were to count couple households twice by virtue of there being two persons represented in

⁸ If a home owner turned 45 years old in wave 5, that home owner would be added to the sample from wave 5 onwards.

⁹ However, the number of person-period cases that fall under this scenario is very small at 51 or 0.2 per cent of the person-period cases. Hence, the exclusion of these cases from any HEW group is statistically inconsequential.

each couple household. Hence, in these sorts of exercises, we use household-period episodes rather than person-period episodes by selecting a household reference person from each couple household when computing prevalence measures. We conduct this household reference person selection by choosing the partner with the highest gross income to represent the couple household. Where both partners have the same income, the older of the two members of the couple is selected to represent households.¹⁰

However, in other instances, it is more appropriate to base our analysis on person-periods. For example, when we wish to investigate the personal characteristics and experiences of home owners who have engaged in alternative forms of HEW, it would be more suitable to take into account the characteristics and experiences of all adult members of all households. Adopting a 'household head' approach to represent a household might mask diversity in the characteristics and experiences of the household head and his/her partner. For example, while one partner from a household that uses MEW might feel reasonably prosperous, the other partner might have divergent views on the state of the household's finances. At the beginning of each exercise within each chapter, we note clearly which sample design we are relying on.

2.2 Qualitative analysis

An embedded program of qualitative research data collection and analysis was included in the design of this research project. The purpose of the interview data and qualitative analysis was twofold. Firstly it provided some insights into experiences and perceptions of housing equity withdrawal, an issue not directly addressed by variables in the HILDA analysis, and secondly, it aided the interpretation of findings from the HILDA analysis.

Data was collected through semi-structured interviews with two different groups of research participants. The first group were older home owners while the second were professional service providers in various areas of policy and practice related to equity withdrawal from the primary home. The recruitment and selection of participants is outlined below.

2.2.1 Participant recruitment and data collection—older home owners

Home owners aged 45 and over were recruited to give a sample reflecting diversity with respect to the following characteristics: metropolitan city, age group, marital status and status of housing ownership. Participants were recruited through several different methods. An invitation to participate in the project was included in the electronic newsletter of National Seniors, a not-for-profit organisation representing the interests of older Australians. Thirty-five people responded to this invitation and 12 were selected to participate in an interview, largely based on their geographic location but also taking into account their age, marital and housing status. In addition, two separate batches of 50 hard copy interviews were distributed by another two community groups that promote the concerns of older Australians to government and other organisations, Council of the Ageing Western Australia (COTAWA) and Council of the Ageing New South Wales (COTANSW), and 23 people responded. Of these, 13 were selected for interview. An additional two participants were recruited via snowballing to increase the number of participants from Sydney, and in the younger age groups of 45–54 years and 55–64 years. In all cases, a pro forma for responding to invitations requested some initial information about the potential interview participant, including their age group, address, marital status and housing interview

¹⁰ For under 2 per cent of couple households, both partners have the same income and are of the same age. In such cases, one partner is randomly selected to represent the household.

status. The selection of interview participants ensured that participants were varied, and Table 1 below provides a summary of the characteristics of interview participants.

Table 1: Summary of 27 home owner interview participants

Characteristic	Sydney N	Adelaide N	Perth N	Melbourne N	All locations N
<i>Age group</i>					
45–54	2	2			4
55–64	2	2			4
65–74	2	4	3	2	11
75+	2		6		8
<i>Marital status</i>					
Partnered	6	8	7	2	23
Single	2		2		4
<i>Housing status</i>					
Outright owner	7	6	9		22
Mortgagor	1	2		2	5

Fourteen interviews were held individually with each partner of seven couple households, and four were held with just one person from a couple household. A further two interviews occurred in which, at their request, both partners were interviewed together rather than individually. Four interviews were undertaken with men and women living in single adult households. This meant that while there were 25 interviews (and transcripts) there were 27 interview participants. The interviews were undertaken at a location convenient to interview participants, with research team members travelling to the relevant location. In most cases interviews were held at participants' homes; however, one interview was held at a researcher's university office and another at an interview participant's workplace.

An interview schedule and prompts were developed drawing on previous literature relevant to HEW uses and risks, such as Smith et al. (2009). The interview schedule contains three main areas of enquiry. Firstly, interviewees are asked about their housing histories and their views regarding the advantages or disadvantages of home ownership and asset portfolios to provide some context for decisions surrounding the use of housing equity. Secondly, participants were questioned on their perceptions, experiences and intentions regarding the uses of housing equity through alternative channels in later life. Thirdly, questions were posed to the interviewees to uncover the extent to which they have access to appropriate information and advice regarding HEW. The questions were piloted and then refined following the first three interviews.

2.2.2 Participant recruitment and data collection—service providers

In addition to the home owner interviews, nine interviews were held with 11 participants involved in service or product provision to older Australians contemplating HEW. Sixteen invitations were sent directly to representatives from organisations seeking their participation in the project. These included representatives from government departments dealing with housing and social policy issues, community not-for-profit organisations who provide legal and information services for seniors, private and not-for-profit organisations with an interest in the financial products available for HEW, and private providers of advisory services for seniors seeking entry

to residential care facilities. Nine organisations offered to take part in an interview. Seven interviews were held with individual representatives and two interviews were held with two representatives participating jointly in an interview. The nine interviews therefore included a total of 11 participants. Table 2 below summarises the background of these 11 participants.

Table 2: Summary of 11 service provider interview participants

Service provider type	N
Community-based not-for-profit organisations	3
Government departments	3
Private financial services	2
Private advisory services	2
Peak industry body	1

The purpose of the second group of interviews was to obtain perspectives from people who deal with a broader range of HEW experiences than might be expected from individual home owners. The sample was purposefully designed to include professional service providers with a range of different roles and insights into the role that HEW can play in the lives of older Australians and the associated risks that may arise. Similar to the interview schedule for home owner participants, the schedule for service providers include questions regarding their perceptions on the uses and risks of HEW as experienced by older Australians, as well as questions that probed their views on the availability of appropriate information, advice and policy that support informed decision-making surrounding the use of housing equity in later life.

2.2.2 Data format and analysis

The data collection process was approved by the Human Research Ethics Committee at Curtin University (approval number E&F-01-12).

With participants' knowledge and written permission, the interviews were audio taped for later transcription by a professional transcription service. Transcripts were checked by the researchers and minor edits were made to ensure the anonymity of interview participants. All participants were offered a copy of their edited transcript and an opportunity to make amendments to the transcript if they wished to do so. Most interview participants accepted the offer of receiving a copy of their transcript and two requests were received for minor edits to the transcripts. The anonymised and edited transcripts are the key data source for this part of the project.

N*Vivo software was used to facilitate data management and the analysis of key categories and themes that emerged during interviews. All transcripts were analysed using a constant comparison approach to open coding. This allowed key concepts and constructs to emerge that were relevant to participants' recorded perceptions and experiences.

2.3 Integrating quantitative and qualitative analysis within a mixed methods framework

The quantitative and qualitative results were integrated during the findings interpretation process to exploit benefits typically offered by a mixed methods framework of enquiry.

The quantitative analyses on the prevalence, uses and risks of alternative HEW mechanisms have the advantage of being nationally generalisable and empirically

quantifiable. However, quantitative analysis is only able to offer insights into a limited set of uses and risks associated with alternative HEW mechanisms that are observable from the HILDA Survey.

Qualitative analysis therefore complements the quantitative analysis in three ways. Firstly, the qualitative data provide important detailed contextual information and insights into perceptions and experiences that influence decision-making processes surrounding HEW that are not available in large-scale data sets such as the HILDA Survey. The richness of qualitative data also allows us to observe the importance of household and community contexts for understanding current patterns of HEW. Secondly, findings are triangulated by detecting similarities between the quantitative and qualitative findings. This is particularly appropriate for providing insights into the possible causal factors that contribute to observed correlations in the quantitative analysis and also provides input into the development of possible policy recommendations. Thirdly, the qualitative data can be mined to uncover uses and risks that were not observable from secondary data, but which were revealed by our interview participants. This is an important method for identifying potential related and emerging issues that have been undetected in previous literature or analyses.z

3 THE PREVALENCE AND USES OF HOUSING EQUITY WITHDRAWAL IN LATER LIFE

This chapter addresses the first research question:

To what extent are older Australians tapping into their housing equity via alternative mechanisms, and what motivates HEW by older Australians?

An investigation of a nationally representative dataset spanning 10 years is conducted to estimate the prevalence of the key HEW mechanisms used by older Australian home owners aged 45 years or over during the period 2001–10. The likely uses of HEW in later life are then uncovered via an analysis of expenditure patterns following HEW. We also compare and contrast the characteristics of older home owners that dip into their housing wealth using alternative channels, with the aim of detecting the factors motivating HEW. For example, are older Australians who withdraw housing equity via MEW in more economically sound positions than those who cash out their housing equity by selling up? If so, this could indicate that the traditional sale approach to HEW is more likely to be motivated by financially precarious circumstances? Where possible, the quantitative estimates are triangulated by qualitative findings from in-depth interviews with older home owners.

Some previous Australian studies have studied the uses of specific HEW products; in particular, the Australian Securities and Investments Commission (2007) and Bridge et al. (2010) examined the uses of reverse mortgages by interviewing reverse mortgage borrowers. However, no study has attempted to examine the uses of MEW in a broader sense, which can be via either age-specific products such as reverse mortgages for elderly home owners in their 60s or over, or more general financial instruments such as flexible mortgages and refinancing (see Ong et al. 2013a). Furthermore, comparative evaluations of alternative HEW mechanisms using nationally representative data—in terms of their relative uses—are not currently available. This chapter offers a comprehensive overview and a deeper understanding of the different roles that alternative HEW mechanisms perform in later life.

3.1 The prevalence of alternative forms of HEW

We begin by giving a bird's eye view of the prevalence of HEW among older age groups in the last decade using household-period data pooled over the years 2001 to 2010. Population weighted estimates from Table 3 below indicate that, overall, the incidence of HEW peaked in 2006–07, at the height of the house price boom, then fell during the GFC. However, the frequency of HEW begins to rise again in 2009–10. Despite a dip in the proportion of older home owners cashing out some or all of their housing equity following the GFC, the incidence rate of 18 per cent was still higher at the end of the decade than at the start of the decade (13% in 2001–02). In 2009–10, 678 200 older home owners engaged in HEW, over 1.5 times the number releasing housing equity at the beginning of the decade.

Some age-related patterns and trends are evident in Table 3. Engagement in HEW falls as age increases (refer to the final row of Table 3). The incidence of HEW among those aged 45–54 years is more than five times those aged 65 years or over, perhaps reflecting much lower rates of economic participation beyond retirement age. Over the decade, the sharpest rise (9.8 percentage points) in the incidence of HEW has occurred among those aged 55–64 years. This is followed by a 5.8 percentage point rise in the incidence of HEW among those aged 45–54 years. Rates of withdrawal in age bands 65–74 years and 75 years and over remain relatively low. Clearly, home

owners under pension age (i.e. 45–64 years) are more likely to have increased their usage of HEW than those above pension age (i.e. 65 years and over).

Table 3: Incidence of HEW among older home owner households, by age band, 2001–10^a

Year		Age groups				All
		45–54 yrs	55–64 yrs	65–74 yrs	75+ yrs	
2001–02	Pop ('000)	271.5	91.2	27.0	37.9	427.5
	% within age band	23.0%	10.6%	4.1%	7.1%	13.2%
2002–03	Pop ('000)	376.8	120.6	51.1	19.6	568.1
	% within age band	30.5%	13.3%	7.6%	3.6%	16.9%
2003–04	Pop ('000)	313.8	139.6	26.0	20.8	500.2
	% within age band	26.5%	14.5%	3.9%	3.7%	14.8%
2004–05	Pop ('000)	357.9	176.7	29.4	28.5	592.6
	% within age band	30.1%	17.7%	4.3%	4.9%	17.2%
2005–06	Pop ('000)	324.5	141.3	58.2	27.6	551.6
	% within age band	26.6%	14.7%	8.4%	4.7%	15.9%
2006–07	Pop ('000)	402.1	182.6	33.1	30.0	647.8
	% within age band	32.8%	17.0%	4.9%	5.0%	18.1%
2007–08	Pop ('000)	329.3	186.8	49.1	29.2	594.4
	% within age band	25.7%	16.9%	7.0%	4.8%	16.1%
2008–09	Pop ('000)	308.6	193.1	55.1	34.1	590.9
	% within age band	24.8%	17.0%	7.8%	5.6%	16.0%
2009–10	Pop ('000)	355.8	238.1	54.4	30.0	678.2
	% within age band	28.8%	20.4%	7.5%	4.7%	18.0%
All	Pop ('000)	3,040.4	1,470.0	383.3	257.5	5,151.3
	% within age band	27.2%	15.6%	6.0%	5.1%	16.0%

Source: Authors' own calculations from the 2001–10 HILDA Survey

Note: a. Estimates are population weighted using cross-section population weights from every wave of the HILDA Survey.

Table 4 below reports estimates of the real amounts of equity withdrawn by older home owners who engaged in HEW during the last decade. Comparisons over the decade offer further confirmation of a burgeoning appetite for HEW, which has not abated despite the GFC. The mean amount of housing equity withdrawn is higher than the median, indicating that the distribution of equity withdrawn is skewed towards the upper end. Furthermore, the mean and median amounts of housing equity withdrawn are highest among those in the highest age group (even though the incidence of HEW is lowest among this group). This is probably linked to variation in the type of HEW that different age groups use, a hypothesis which is explored in Table 5 below.

Table 4: Mean and median amounts of housing equity withdrawn by older home owner households who engage in HEW at 2010 price levels, by age band, 2001–10, \$'000^a

Year		Age groups				All
		45–54 yrs	55–64 yrs	65–74 yrs ^b	75+ yrs ^b	
2001–02	Mean	93.1	87.1	59.2	191.2	98.4
	Median	38.7	25.8	22.4	228.3	40.0
2002–03	Mean	109.0	113.0	97.3	172.2	111.0
	Median	37.5	42.5	72.5	37.5	42.5
2003–04	Mean	123.8	114.9	112.7	154.1	122.0
	Median	43.9	40.3	108.6	122.0	46.4
2004–05	Mean	105.9	144.5	63.5	153.7	117.6
	Median	45.2	71.4	28.6	125.0	55.9
2005–06	Mean	112.5	174.9	160.2	126.6	134.2
	Median	46.4	34.8	148.5	46.4	46.4
2006–07	Mean	104.4	125.2	224.3	206.4	121.1
	Median	44.8	56.0	61.6	123.2	50.4
2007–08	Mean	121.4	152.2	233.3	222.7	145.3
	Median	39.2	54.5	98.0	119.9	54.5
2008–09	Mean	118.9	164.6	127.6	176.7	138.0
	Median	50.9	52.5	52.5	157.0	52.5
2009–10	Mean	113.9	125.6	131.5	202.3	123.3
	Median	30.9	61.8	61.8	103.0	42.2
All	Mean	111.5	136.6	140.2	180.4	124.2
	Median	42.0	54.5	61.8	119.9	49.1

Source: Authors' own calculations from the 2001–10 HILDA Survey

Notes: a. Estimates are population weighted using cross-section population weights from every wave of the HILDA Survey.

b. There are less than 30 cases in each cell under the 65–74 years group and 75 years and over group. Hence, estimates for these groups should be interpreted with caution.

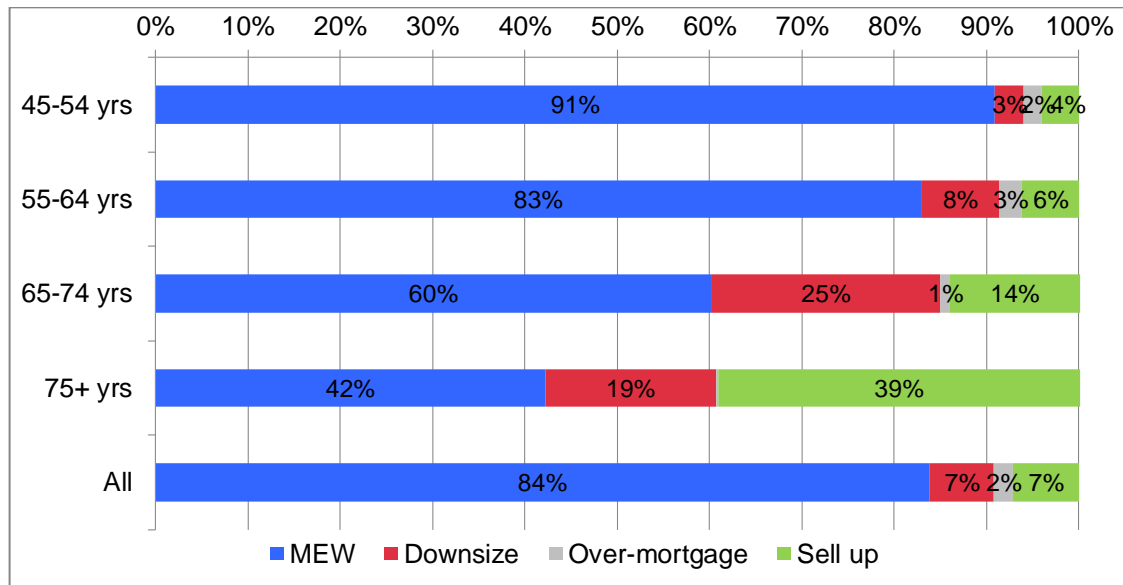
Figure 3 below provides an overview of the distribution of HEW mechanisms over the years 2001–10. Across the episodes of HEW by all older home owners, *in situ* MEW was the dominant form, while over-mortgaging appears to have been the least popular. However, there are some noticeable age-related differences in styles of HEW.

Those in pre-retirement age bands seem to view their housing wealth as a resource that can be regularly dipped into by simply adding to their mortgage without moving. Among those withdrawing housing equity, the incidence of *in situ* MEW falls from over 90 per cent among those aged 45–54 years to 42 per cent among those aged 75 years and over. It is likely that as remaining years in the workforce shrink home owners become more reluctant to add to their mortgages because they become less certain of their future ability to service mortgage debt.

On the other hand, downsizing and selling up are much more popular among those above pension age. Indeed, the propensity to sell up increases to almost 40 per cent

among the oldest age group. However, the reader should be cautioned that the number of HEW episodes decreases steeply as age increases, and so the results for those aged 75 years are less reliable. Over-mortgaging is clearly uncommon, but again small sample sizes preclude further meaningful analysis. Reflecting this, the focus in the remainder of this section will be on MEW, downsizing and selling up.

Figure 3: Distribution of HEW type among older home owner households who engaged in HEW during 2001–10, by age band, per cent by row^a



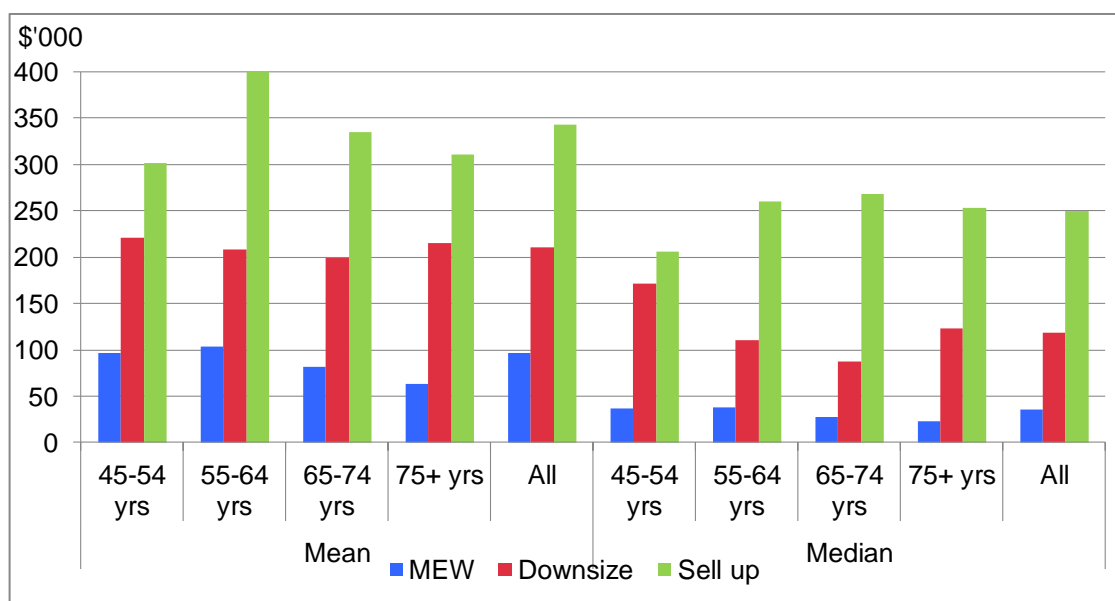
Source: Authors' own calculations from the 2001–10 HILDA Survey

Note: a. The percentages are calculated from 2561 episodes of 45–54-year olds, 1105 episodes of 55–64-year olds, 323 episodes of 65–74-year olds, and 221 episodes of 75-year and over olds.

Figure 4 below explores whether the typical amounts of housing equity that are cashed in differ across alternative styles of HEW. While *in situ* MEW is the most dominant form of HEW, it is the mechanism through which the smallest amount of equity is released. On average, \$92 200 was withdrawn by those involved in MEW during 2001–10. Selling up releases more than three times the amount released via MEW, as the former option is arguably the most drastic form of HEW, requiring a move from home ownership. Downsizing is a more modest option; trading down into a home of a lower value home while remaining in the owner-occupied sector. Downsizing releases a smaller amount of funds than selling up as some equity has to be folded back into the new owner-occupied home. This pattern is consistent across age bands, indicating that any age-based differences observed in HEW are mainly associated with the use of different types of HEW across age groups.

These trends are explained by the fact that MEW increases recurrent housing costs, but in contrast trading down and selling up will invariably lower recurrent housing costs, and are not therefore a constraint on the amount released. Moreover, selling up is an all or nothing mechanism—there are few (Australian) financial instruments that allow you to sell a part of your home (home reversion or equity loans), and shared ownership programs are scarce. Hence selling up invariably unlocks the largest amount of housing equity in these age groups.

Figure 4: Mean and median amounts of housing equity withdrawn by older home owner households who engaged in HEW during 2001–10, by age band



Source: Authors' own calculations from the 2001–10 HILDA Survey

3.2 Expenditure patterns by alternative HEW mechanisms in later life

In this part of the report, we exploit expenditure data from the 2006–10 HILDA Survey and qualitative data on the uses of HEW to analyse the spending and investment strategies that home owners choose when unlocking some or all of their housing wealth in later life. It is not possible to undertake this analysis over the entire decade as detailed expenditure items are only available in HILDA from 2006 onwards. We conduct the quantitative analysis of spending and expenditure strategies by pooling waves 6 to 10 of the HILDA Survey into household-period episodes, and then dividing those episodes into four categories: *in situ* MEW, downsizing, selling up, and no HEW. Hence, if a particular home owner was interviewed in all the waves between 2006 and 2010, then the home owner would appear in four episodes in the dataset, that is, episodes 2006–07, 2007–08, 2008–09 and 2009–10. Some of these episodes may fall under the MEW category, others under the downsizing, selling up or 'no HEW' categories, depending on the mode of housing wealth management in each episode. For each of the four categories, we then estimate the proportion of person-period episodes in which spending on a particular expenditure item increased. Episodes in which older home owners refrained from withdrawing housing equity are used as the benchmark or control category. Simple t-test statistics are applied to gauge whether or not the expenditure trends observed in each of the three HEW categories are significantly different from the benchmark group.

In order to ensure that expenditure patterns observed from the limited number of waves from the HILDA Survey and relatively small sample numbers are statistically robust, we divide home owners into two broad age groups that are either below or above 65 years of age, which is broadly speaking the minimum age for age pension eligibility in Australia. Those above pension age are likely to be eligible for age-specific HEW products such as reverse mortgages, while those aged under 65 years are typically ineligible. Age pension asset and income test rules provoke particular financial considerations and motivations that will help shape HEW strategies.

The expenditure items that we examine in the quantitative analysis are those measured in the HILDA Survey, namely:

- Home repairs, renovations and maintenance.
- Education fees.
- Medical expenses (health practitioner fees, medicines, prescriptions and pharmaceuticals).
- Private health insurance.
- Other insurance.
- Motor vehicle expenses (including repairs, maintenance and upgrades).
- Transport costs.
- Telephone and internet charges.
- Computer and related devices.
- Audiovisual equipment.
- White goods.
- Furniture.
- Holidays.
- Groceries.
- Meals eaten out.
- Utilities (electricity, gas and other heating fuel).
- Clothing and footwear.
- Alcohol, cigarettes and tobacco.

It is interesting to note that some of the items on this list relate to expenditure on services that the government commonly takes some responsibility for, such as medical expenses, health insurance and education fees. Furthermore, items such as transport, vehicles, computers and telephone and internet services are vital to 'connectivity' with the wider community (social inclusion). By examining this data we can, therefore, offer some insights to important debates around home ownership societies and the 'new' welfare role of owner-occupied housing described in Chapter 1.

Qualitative analysis is used in this section to address the fact that the HILDA data does not allow us to directly establish whether particular forms of HEW were causally relevant to the observed expenditures that were associated with it.¹¹ Qualitative data on the uses of HEW were collected from semi-structured interviews conducted with home owners (who have engaged in HEW or have thought about doing so), and service providers who offer advice and support to home owners making decisions about their finances in later life. A primary motivation for exploring the uses of HEW through qualitative interview data was to gain insights into the causal processes and decision-making contexts described by home owners aged 45 years and over. Indeed, analysis of semi-structured interview data confirm that HEW decisions or intentions are motivated by perceived needs to increase expenditure on particular items. That is, the qualitative data suggests a causal link where consumption needs motivate HEW decisions rather than increased consumption being an 'unintended' outcome of

¹¹ There are no questions in the HILDA Survey which ask directly about the uses of equity withdrawn by households.

greater access to equity (with the possible exception of downsizing, as explained below). The qualitative analysis also allows us to 'dig down' into the motivations behind spending one's housing equity and is a more reliable source of information on whether particular spending types are discretionary or essential from households' perspectives.

Table 5 below shows expenditure patterns observed in the HILDA data. In the paragraphs that follow, the data in this table is discussed together with the findings of the analysis of the interview data.

Table 5: Incidence of an increase in household expenditure, by age band, HEW mechanism and expenditure type, household-period data 2006–10

Expenditure item	45–64 years				65+ years			
	MEW	Down size	Sell up	No HEW	MEW	Down size	Sell up	No HEW
Home repairs, renovations and maintenance	41.1	48.0	21.1***	39.4	37.1	54.4***	23.8**	36.6
Education fees	24.0***	16.0	12.3	17.9	3.0	8.8	6.3	3.2
Medical expenses	50.8	45.3	47.4	50.0	50.0	40.4	52.4	49.7
Private health insurance	42.5***	32.0	31.6	37.7	28.0	31.6	22.2**	34.1
Other insurance	48.5	45.3	38.6	48.8	50.8	36.8**	34.9**	50.6
Motor vehicle repairs or upgrades	56.5***	58.7	47.4	52.5	46.2	40.4	31.7**	45.0
Transport costs	44.1	36.0	40.4	45.4	43.2	28.1**	28.6**	41.9
Telephone and internet charges	46.9	45.3	40.4	46.6	35.6***	50.9	34.9**	46.9
Computer and related devices	38.6***	30.7	26.3	34.6	25.0*	24.6	12.7	18.6
Audiovisual equipment	30.1	40.0*	21.1	29.5	25.0	36.8*	38.1**	25.2
Whitegoods	27.3	37.3**	19.3	25.8	18.2	49.1***	23.8	22.9
Furniture	26.6**	46.7***	24.6	23.9	16.7	52.6***	27.0*	17.2
Holidays	41.6	38.7	28.1**	41.4	38.6*	36.8	20.6**	30.8
Groceries	42.5	38.7	43.9	41.3	34.8**	29.8**	46.0	44.2
Meals eaten out	41.0	44.0	35.1	41.5	34.1	38.6	34.9	34.7
Utilities	51.6	42.7	49.1	51.2	43.2**	47.4	50.8	52.0
Clothing and footwear	43.8	40.0	33.3*	44.0	34.1*	47.4	54.0**	41.3
Alcohol, cigarettes and tobacco	40.3**	36.0	43.9	37.0	34.1	42.1**	25.4	28.2
Sample	1,418	75	57	5,382	134	57	63	3,939

Source: Authors' own calculations from the 2006–10 HILDA Survey

*** Significantly different from 'No HEW' at the 1 per cent level.

** Significantly different from 'No HEW' at the 5 per cent level.

* Significantly different from 'No HEW' at the 10 per cent level.

Where no asterisks reported, the results are insignificant.

3.2.1 Home owners aged 45–64 years

The data in Table 5 above indicate that home owners under pension age increased their spending on a broad range of items during MEW episodes. The incidence of increased private health insurance payments was higher during episodes of MEW than when home owners refrain from MEW. This finding is both interesting and significant because it suggests that housing equity is playing an insurance role with respect to potentially unexpected (in this case health) expenditures. Participants of our semi-structured interviews also mentioned that they may engage in HEW in order to access medical or care services in older age:

... so what it means is you'll end up drawing down on your equity in your houses or other investments—you'd draw those down to live. And then it's really going to come down to how long you live and the other cost is health—we're finding the health costs are substantial, and we've experienced it in the last two years just ourselves, my wife and I—quite substantial amounts of money on some health issues (Sam, Sydney home owner, 55–64)

But the role of the home would be if I needed to go into a nursing home or some kind of residential care and it had to provide, you know, capital had to be provided for that. (Olivia, Sydney home owner, 45–54)

Also noteworthy in the data in Table 5 is the association between increases in education expenditure and MEW episodes in this age band. This finding complements Parkinson et al.'s (2009) conclusion that MEW in Australia (and the UK) is associated with spending related to children's needs. Health and education expenditures are both core areas of welfare systems. Hence, these findings suggest that MEW is increasingly being exploited as a mechanism via which housing wealth can be drawn upon to perform a welfare role.

The data in Table 5 suggests that MEW by home owners under age pension age may also have been used to purchase goods or services that promote one's ability to connect with the wider community, such as computers and motor vehicles. Supporting estimates from the 2009–10 Household Expenditure Survey confirm that, of loans secured against one's property that are not being used to directly finance the said property, 21 per cent are being used to finance the purchase of motor vehicles. Furthermore, car repairs or upgrades were larger expenses that were commonly mentioned by interview participants in the qualitative segment of the project who had used MEW or were considering using MEW as a future option:

But just at the moment we've had an incredibly bad run of bills and we had repairs to the car and then our cat got sick and it was just good to have it [housing equity] there so that we could draw the money from it. (James, Adelaide home owner, 55–64)

The HILDA data shows that the incidence of increased spending on home repairs, renovations and maintenance during MEW episodes by home owners under age pension age is higher than episodes during which home owners refrained from HEW, though this difference is not statistically significant. The 2007–08 Survey of Income and Housing (SIH), which contains information on the reasons behind mortgage refinancing decisions, does show that among home owners aged 45–64 years who have refinanced their mortgage over the last two years, one in five did so to finance home renovations.

Turning to the data on downsizing, Table 5 above indicates that episodes of this type of HEW (in this age group) are accompanied by a rise in spending on durable goods for their homes. It is reasonable to conclude that in the case of downsizing, these

home-related expenditures have been motivated by a move into a new owner-occupied home, rather than being the motivation behind the decision to downsize. Indeed, older home owners interviewed in the qualitative stage of the project who had downsized, discussed a range of expenses associated with moving to their new premises. Purchases included curtains, blinds, air-conditioning, garage doors and new furniture. These purchases appeared largely motivated by the need to upgrade existing fittings to an appropriate standard, or to meet the requirements of moving to smaller premises that could not accommodate the furniture that was suitable to a previous larger house. The direction of causation was relatively clear in interviews as the furniture sales and purchases associated with downsizing were not discussed with particular pleasure by those involved.

While insignificant in our quantitative analysis, several participants interviewed in the qualitative stage of the project mentioned travel expenses as a possible use of funds they had released through HEW or future motivation for HEW. The types of travel discussed by participants generally related to their wish to visit children or grandchildren who live at an interstate or international location. The single participant who laughingly suggested that she sell her house and travel on a 'world trip or something' also mentioned that the costs of health insurance associated with international travel would preclude her from taking this option. In short, travel plans discussed by home owners could not be characterised as 'champagne moments' but were instead prompted by plans to maintain close contact with distant family members:

And we live simply, we're vegetarian, we don't drink, we very rarely go out to entertainment things, so we could live on a small amount of money we think. The only problem is we've got a son in Europe, so that involves travelling to see him. (Kerry, Adelaide, 55–64)

It is significant that those selling up are less inclined to increase spending on almost all the items listed in Table 5 than all other comparison groups. This finding may well reflect the serious adverse circumstances that precipitate a move out of home ownership. HEW via the sale of one's home (particularly selling up) may be precipitated by financial distress and, thus, used to reduce expenditures on upkeep and/or reduce the extent of material deprivation associated with an inability to keep up with mortgage repayments or utility payments. Indeed, Wood et al. (2010) have found that adverse life events such as marital separation can precipitate the loss of home ownership among older Australians aged 50 years and over. These hypotheses are all tested in Section 3.3, where the socio-demographic characteristics and material deprivation experiences of older home owners who use HEW via different channels are compared and contrasted.

3.2.2 Home owners aged 65 years or over

A contrasting pattern in the relationship between HEW and household expenditures is evident when we turn to home owners 65 years and over. Here we find that there are few significant differences in expenditures (as measured in the HILDA data) between those who use MEW and those who do not engage in any form of HEW. More importantly, the majority of statistically significant differences in expenditures are associated with episodes of downsizing or selling, but in these cases the effect of HEW on expenditure appears to be negative (see Table 5 above). An important reason for this pattern in the HILDA data seems to be the relatively low level of resources of the HEW group. For example, households dipping into their housing wealth during 2001–10 are twice as likely as those not engaging in HEW to report being unable to raise funds in the event of emergencies. Twenty-seven per cent of the former are unable to save, compared to 19 per cent of the latter. Moreover, in

comparison to those who do not use HEW, the mean household incomes of those engaging in downsizing and selling up are 15 per cent and 25 per cent lower respectively. As elaborated on in the next section, home owners who sell up are also much more likely to be exposed to adverse life events such as ill health or marital breakdown than those who do not use HEW.

Our qualitative analysis supports the hypotheses that HEW is used by many elderly Australians to maintain (rather than increase) spending; and that it is most commonly used when levels of other economic resources are not sufficient to finance needs in times of adversity. Health and physical frailty considerations are clearly increasingly important in decision-making surrounding the use of housing equity beyond pension age. For example, accessing care and meeting health insurance expenses were mentioned by over-65s as possible reasons for engaging in HEW, once again highlighting the insurance role that housing equity performs in later life:

I had thought that if I had to go in to some form of care that I've got that equity here. (Carol, regional centre outside Perth, 75 years and over)

I'm concerned, however that, as we get older with health and whatever, we may have to consume our assets. (Martin, Sydney, 75 years and over)

The types of home maintenance identified as motivating factors for HEW by interview participants were also linked to concerns about health or physical frailty. The first was to purchase services that would make ageing in place a more viable option. That is, housing equity would be used to purchase regular gardening or other routine services that may be beyond the physical capacities of an older home owner. A second type of 'maintenance' was associated with modifications to a home such as the fitting of solar panels, to reduce costs and make the home more comfortable.

I put solar panels on my roof which is a great help, I'm thinking because they're a lot cheaper now I might add a few more, I'm thinking of getting a quote 'cause that would probably eliminate it all and help me pay the gas bills 'cause I need to get [that] particularly ... And the gopher plugs into the solar power so that's carbon neutral. (Carol, regional centre outside of Perth, 75 years and over)

3.3 The profile of older home owners using alternative HEW mechanisms

In this section we identify the type of older home owners that dip into their housing equity. We also explore the use of different HEW mechanisms and describe the kinds of older home owner that are apt to HEW rather than cash in housing equity by trading on or even selling up. Examination of personal characteristics that include demographics as well as socio-economic metrics helps to paint a more detailed picture of the circumstances that motivate equity withdrawal. We are particularly interested in whether all or some HEW instruments are used as coping mechanisms to buffer financial hardship or other adverse life events.

The analysis is based on person-period episodes pooled from the 2001–10 HILDA dataset. Characteristics of older home owners who use HEW are measured at the beginning of each HEW episode that takes place between $t-1$ and t , that is, the characteristics are measured at wave $t-1$, ensuring that we correlate prior characteristics and experiences with subsequent HEW. There is a total sample of 25 366 (13 191) person-periods belonging to home owners aged 45–64 years (65 years and over).

3.3.1 Socio-demographic characteristics

Table 6 below suggests that management styles with respect to housing wealth differ as owners progress through to later stages of the life course. From the socio-economic metrics there is a clear sense that those engaging in the three forms of HEW (*in situ* MEW, downsizing and selling up) are distinctly different groups. Younger owners are more inclined to use *in situ* equity borrowing and indeed they are younger than those owners conserving or accumulating housing wealth (equity savers). The typical *in situ* mortgage equity borrower is male and partnered with children. He enjoys better health than all other groups, including those who do not draw down their housing equity. He is also likely to possess a tertiary qualification and is in full-time, permanent employment. Downsizing and selling up, on the other hand, are options taken up by older women with no children; they are also liable to have no tertiary qualifications and be disengaged from the labour market or, if in work, employed in precarious jobs as evidenced by casual contracts.

The correlation between adverse life events and both downsizing and selling up is an important finding in both age bands, which supports evidence in the existing literature regarding negative shocks as being typical triggers for moves in later life (see, e.g. Judd et al. 2012). Among those under pension age, 29 per cent of downsizing episodes, and 15 per cent of selling up episodes, occur when separated or divorced as compared to 9 per cent of MEW episodes. Moreover, one in three downsizing and selling up episodes occur during periods of ill-health, as compared to one in five MEW episodes; above pension age, over 25 per cent of selling up episodes, and 40 per cent of downsizing episodes, are associated with bereavement compared with 14 per cent of equity borrowing episodes. Furthermore, the incidence of ill-health is acute among those who sell up; two out of every three selling up episodes occur during periods of ill-health, compared to under half of equity borrowing and downsizing episodes.

Table 6: Socio-demographic characteristics of older home owners, by HEW mechanism, person-period data 2001–10, per cent by column unless stated otherwise

Characteristic		45–64 years				65+ years ^a			
		MEW	Downsize	Sell up	No HEW	MEW	Downsize	Sell up	No HEW
Age (years)	Mean	51.5	55.3	53.6	54.3	71.1	72.8	76.5	73.4
	Median	50.0	56.0	53.0	54.0	70.0	72.0	75.5	72.0
Gender	Men	51.4	44.8	47.3	46.7	54.1	42.5	43.7	46.0
	Women	48.6	55.2	52.7	53.3	45.9	57.5	56.3	54.0
Marital status	Legally married or de facto	86.0	76.4	62.9	81.5	72.8	65.3	43.7	65.7
	Separated or divorced	9.4	15.3	28.6	10.1	8.9	7.2	9.9	6.8
	Widow	1.6	4.5	4.0	3.5	14.0	26.9	40.1	24.4
	Single never married	2.9	3.8	4.5	4.9	4.3	0.6	6.3	3.2
Dependent children	None	53.1	83.7	72.8	70.6	98.5	98.2	98.6	99.3
	At least one	46.9	16.3	27.2	29.4	1.5	1.8	1.4	0.7
Long-term health or disability	Yes	20.8	35.1	30.8	25.5	49.0	45.5	62.0	48.6
	No	79.2	64.9	69.2	74.5	51.0	54.5	38.0	51.4
Highest qualification	Tertiary	26.8	24.0	20.5	23.3	16.5	7.8	7.7	10.8
	Other post-secondary	35.5	38.9	37.9	32.9	30.2	28.7	25.4	28.2
	Secondary	37.6	37.2	41.5	43.8	53.3	63.5	66.9	61.0
Labour force status	Employed full-time	63.3	40.6	44.6	47.7	12.4	2.4	2.8	3.7
	Employed part-time	21.3	22.2	17.4	21.4	11.9	6.0	4.2	6.3
	Unemployed	1.7	0.7	5.4	1.5	0.5		0.7	0.1
	Not in the labour force	13.7	36.5	32.6	29.4	75.1	91.6	92.3	89.9
Job contract (employed persons only)	Fixed-term	9.6	8.8	8.3	8.9				
	Casual	12.8	19.2	20.8	15.9				
	Permanent	77.6	72.0	70.8	75.1				
Number of person-period cases		4,910	288	224	19,805	394	167	142	12,483

Source: Authors' own calculations from the 2001–10 HILDA Survey

Note: a. Job contract estimates are not presented for those aged 65 years or over because most home owners in this age band are not employed.

3.3.2 Income and wealth profiles

Next we explore whether there are distinct differences between the income and wealth profiles of equity extractors and equity savers. Income profiles are once again created from pooled 2001–10 person-period episodes, where income is measured at the beginning of each wave ($t-1$) of each HEW episode that occurs between $t-1$ and t to ensure that the income profiles of equity extractors are measured prior to their decision to engage in HEW.

In Table 7 below we once again get confirmation that MEW is typically backed by a relatively strong economic position. Indeed *in situ* equity borrowers have higher average incomes than their *in situ* counterparts who are conserving or adding to their housing equity. On the other hand, older home owners who downsize or sell up have much lower incomes than the rest, with those selling up being especially ‘income poor’. These findings add to a growing set of evidence that suggests that when older owners downsize or sell up it is due to tightening constraints rather than preferred choices.

Table 7: Real equivalised gross household income of older home owners, by HEW mechanism, person-period data 2001–10, \$’000 at 2010 price level

Income measure	45–64 yrs				65+ yrs			
	MEW	Down size	Sell up	No HEW	MEW	Down size	Sell up	No HEW
Mean	59.4	54.1	46.9	56.4	40.3	25.7	24.5	30.8
Median	52.5	47.8	42.0	47.8	24.9	18.9	18.7	21.7

Source: Authors’ own calculations from the 2001–10 HILDA Survey

Next, we examine the wealth profile of older home owners who engage in HEW. As asset and debt estimates are only available in intermittent waves of the HILDA Survey (i.e. 2002, 2006 and 2010), we pool together the 2002 and 2006 asset and debt estimates of older home owners by their HEW activities during 2002–03 and 2006–07 respectively. By measuring wealth at 2002 (2006) instead of 2003 (2007), we are ensuring that wealth portfolios could not be influenced by recent HEW activity.

Overall, it is notable from Table 8 below that primary home equity dominates the wealth portfolio of all three equity extraction groups, and much more so than those conserving or adding to housing equity. This is not surprising; where wealth portfolios are dominated by primary home equity, the propensity to withdraw equity can logically be expected to increase. Among home owners under pension age, the primary home equity of those who sell up is around two-thirds of total equity, compared to around 45 per cent of those using MEW or downsizing and less than 40 per cent among those who refrain from HEW (see second last row of Table 8). Similarly, among those above pension age, the primary home equity of those who sell up approaches 70 per cent of their total equity. Other groups have wealth portfolios that are less dominated by their primary home equity.

Table 8 also shows that the selling up group is relatively asset poor, whether it is in comparison with the group approaching retirement pension age or with those post-pension age. As pension age approaches, downsizers have the healthiest asset position, though at post-pension age, this position is held by owners that use MEW. Outstanding debt is only 18 per cent of total assets among *in situ* equity borrowers under pension age, and gearing is even lower for all other groups and age bands. But the outstanding debt in dollars of *in situ* borrowers is \$183 000, which is over three

times average real equivalised gross household income (see Table 7 above) and of some concern because remaining years in the workforce typically shrink as retirement pension age approaches. Because their incomes are smaller, the outstanding debts of similarly aged downsizers are almost four times equivalised gross household income. There is some indication in these income and wealth figures that downsizers are 'asset rich' but 'income poor'.

Superannuation ('super') is the second most important asset after the primary home and seems to have an important bearing on housing wealth management. Owners selling up have relatively small amounts of 'super'; indeed those beyond retirement pension age hold average balances of only \$23 000. The equity they release from their homes is over \$260 000, a massive boost to potential retirement income. Among the group of owners approaching retirement age, households selling up again have relatively low amounts of 'super': on average, \$106 000 has been accumulated. The *in situ* equity borrowers and downsizers hold average 'super' balances of \$200 000 and \$300 000 respectively. Thus, these assets could be encouraging MEW and downsizing rather than selling up, though industry specialists suggest that annual incomes need to reach \$41 000 (\$56 000) to ensure a comfortable retirement for singles (couples) (Association of Superannuation Funds of Australia 2013). At 65 years of age, a superannuation balance of \$300 000 would only fund comfortable retirement for another six to eight years while life expectancy estimates from the ABS (2012b) show that men and women aged 65 years old in 2010 could expect to live for another 19 and 22 years respectively.

Table 8: Mean wealth profile of older home owners, person-period data from 2002 and 2006, by HEW mechanism and age group, \$'000 at 2010 price level

Asset / debt category	45–64 yrs				65+ yrs			
	MEW	Down size	Sell up	No HEW	MEW	Down size	Sell up	No HEW
<i>Asset</i>								
Primary home	490.9	713.4	408.0	482.6	646.7	533.7	262.6	421.2
Other property	134.8	151.4	12.2	146.2	114.5	86.3	32.2	73.4
Superannuation	194.4	323.0	105.7	247.7	88.6	52.2	22.7	107.8
Business	85.3	101.2	12.0	96.9	220.6	0.0	0.0	38.9
Bank accounts	21.7	88.9	12.7	50.4	19.7	41.4	44.6	59.4
Financial instruments	58.0	120.9	41.9	135.1	179.7	69.0	6.5	124.9
Vehicles	31.9	71.7	30.4	36.5	17.7	22.9	8.5	20.0
Other assets	4.2	32.5	0.5	7.7	6.9	3.9	0.7	4.5
Total assets	1,018.6	1,587.9	619.3	1,212.2	1,192.2	809.5	377.8	848.6
<i>Debt</i>								
Primary home	105.0	79.4	60.7	55.0	33.0	6.5	1.8	2.6
Other property	34.3	33.3	3.0	26.6	8.0	0.0	0.0	3.6
Business	13.6	14.8	4.8	10.8	40.5	0.0	0.0	2.7
Credit card	2.8	2.8	3.7	1.3	1.2	0.1	0.1	0.3
Other debt	23.4	55.1	15.6	16.3	5.4	7.6	0.2	1.7
Total debt	183.0	185.4	88.1	110.0	88.2	14.2	2.1	10.9
<i>Equity</i>								
Primary home	385.9	634.0	347.3	427.6	613.7	527.2	260.8	418.6
Non-primary home	449.6	768.5	183.9	674.5	490.4	268.1	114.8	419.2
Total	835.5	1,402.5	531.2	1,102.2	1,104.0	795.3	375.6	837.7
<i>Sample</i>								
	656	34	21	2,403	49	31	14	1,675

Source: Authors' own calculations based on the 2002–03 and 2006–07 HILDA Survey

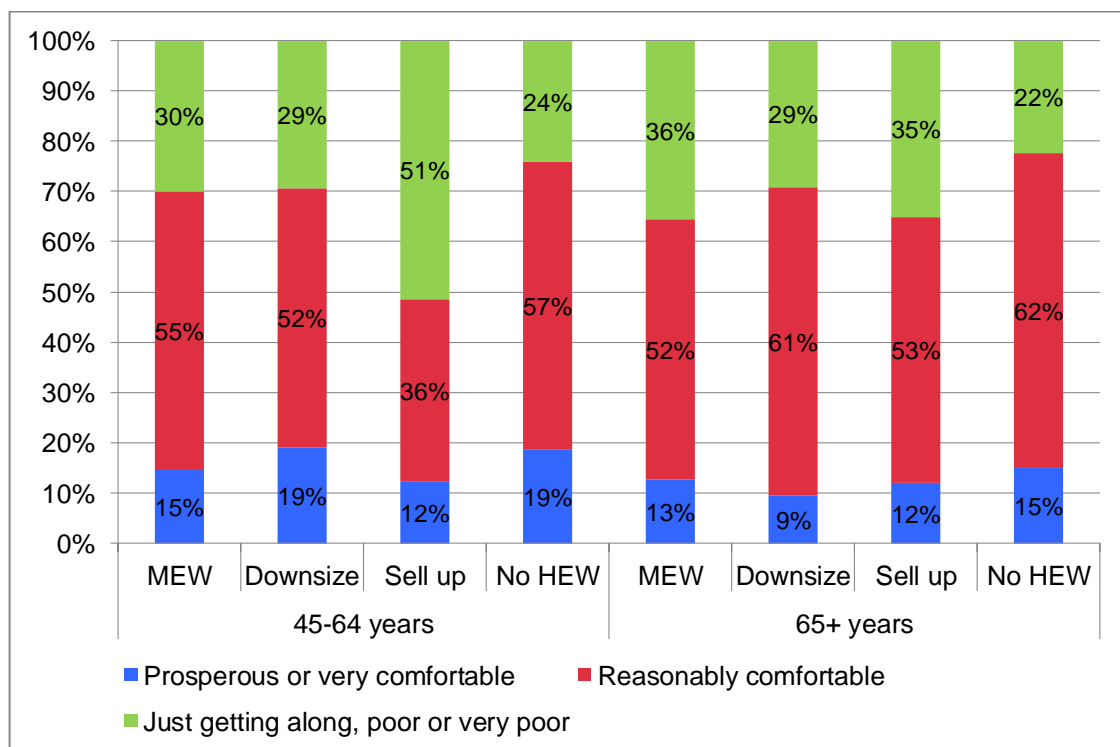
3.3.3 Financial wellbeing and material deprivation

The hypothesis that those who withdraw housing equity by selling up are precariously perched on the edges of home ownership is investigated more thoroughly in this section. We exploit financial wellbeing and material deprivation indicators in the HILDA Survey that capture self-assessed financial prosperity (Figure 5 below), experiences of financial deprivation (Table 9 below), one's ability to save (Figure 6 below) and the ease or difficulty one would face raising funds if faced with an emergency (Figure 7 below). The indicators are once again measured at the beginning of each wave ($t-1$) of each HEW episode that occurs between $t-1$ and t , hence ensuring that the patterns being observed are not due to HEW contributing to or alleviating material hardship.

Overall, it is clear that older equity extractors tend to be in a more stressed financial position than those who do not engage in HEW. Regardless of age group, those who withdraw housing equity through any of the three channels are associated with a more pronounced sense of feeling poor or very poor, deeper material deprivation, and a weaker ability to save than those who abstain from HEW. The picture that is emerging, therefore, is one in which older home owners who are financially vulnerable rely on their housing equity to sustain their economic positions or to act as a buffer against adverse life events, and this is glaringly evident in the case of selling up.

The material deprivation indicators offer further confirmation of the acute financial stress that often precedes selling up. In fact, among those under pension age, selling up episodes are generally at least twice as likely to be preceded by material deprivation as other groups, indicated by all the deprivation measures in Table 9. Among owners under pension age, those who sell up are the very ones who have the least resources at their disposal when faced with emergency events; they are less likely to save regularly and more likely to have to do something drastic to raise emergency funds than other groups (see Figures 4 and 5). Among those above pension age, home owners who sell up once again stand out as the most financially vulnerable group; they are least able to raise funds during emergencies. Hence, it is no surprise that these home owners would resort to selling up when hit with adverse life events such as bereavement or ill-health (see Section 3.3.1 above).

Figure 5: Self-assessed financial prosperity of older home owners, by HEW mechanism, person-period data 2001–10, per cent



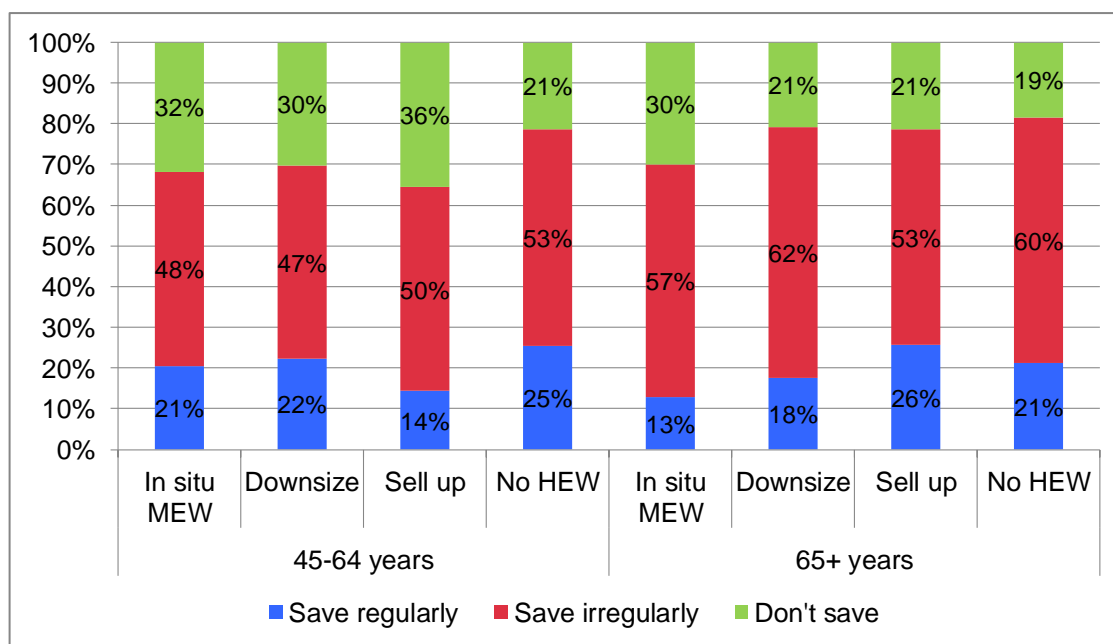
Source: Authors' own calculations from the 2001–10 HILDA Survey

Table 9: Material deprivation experiences of older home owners, by HEW mechanism, person-period data 2001–10, per cent by column

Material deprivation indicator	45–64 years				65+ years			
	MEW	Down size	Sell up	No HEW	MEW	Down size	Sell up	No HEW
Could not pay electricity, gas or telephone bills on time	11.7	11.2	22.3	6.5	11.5	9.3	16.5	5.9
Could not pay the mortgage or rent on time	4.9	4.7	11.9	2.8	4.8	4.0	8.9	2.5
Pawned or sold something	2.9	5.8	8.4	2.0	2.8	4.9	6.3	1.6
Went without meals	1.9	1.1	4.4	1.3	1.8	1.9	3.2	1.1
Was unable to heat home	1.6	2.5	6.9	1.3	1.7	2.8	6.0	1.4
Asked for financial help from friends or family	6.6	9.7	16.2	4.4	6.5	7.7	11.6	3.4
Asked for help from welfare/community organisations	1.6	1.8	4.9	1.2	1.5	2.1	3.8	1.2

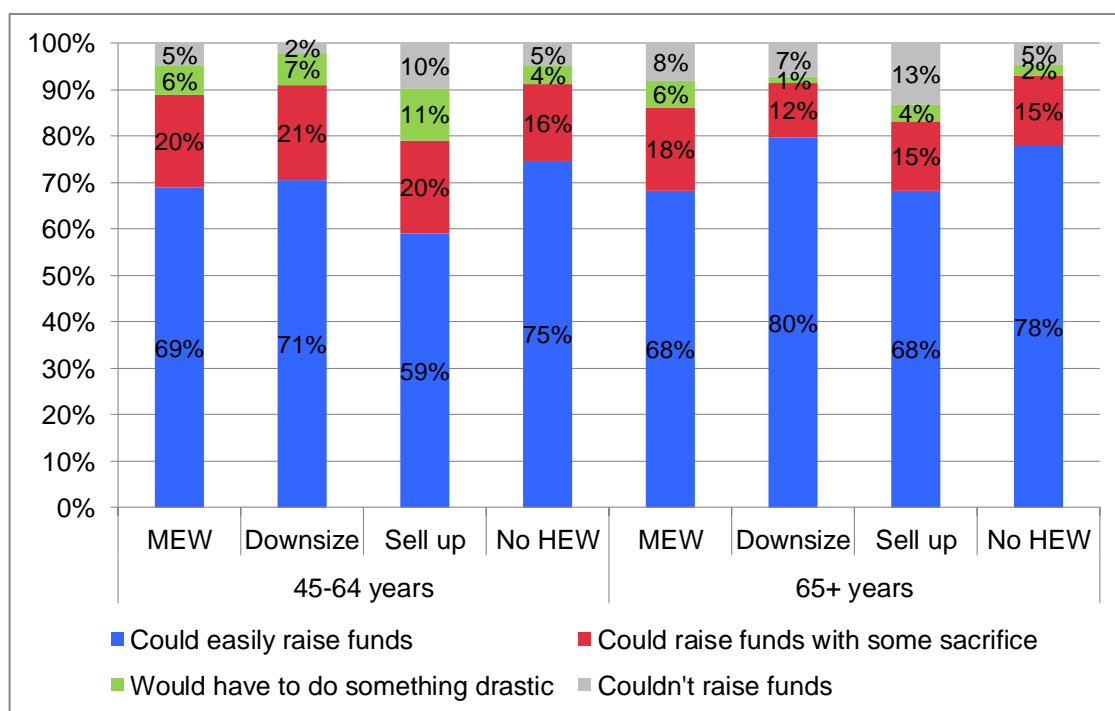
Source: Authors' own calculations from the 2001–10 HILDA Survey

Figure 6: Savings habit, by HEW mechanism, person-period data 2001–10, per cent by column



Source: Authors' own calculations from the 2001–10 HILDA Survey

Figure 7: Difficulty raising emergency funds, older home owners, by HEW mechanism, person-period data from 2001–10, per cent



Source: Authors' own calculations from the 2001–10 HILDA Survey

3.4 Summary and concluding comments

The incidence of HEW has generally increased over the decade, and older home owners' appetite for HEW has not abated despite a GFC and its aftermath. The proportion of older home owners cashing out some or all of their housing equity was 18 per cent in 2010, an incidence that remained higher than at the start of the decade (13% in 2001–02). In 2009–10, 678 200 older home owners engaged in HEW, over 1.5 times the number releasing housing equity at the beginning of the decade. The HEW mechanisms used by older home owners vary greatly across stages in later life; *in situ* equity borrowing is the dominant form of HEW among those under pension age, while there is a shift towards the more traditional forms of HEW—downsizing or selling up—among those above pension age. Home owners making HEWs are more likely to suffer from material deprivation than those who refrain from HEW. The former also have more housing-oriented wealth profiles. Unsurprisingly, income poor-housing asset-rich groups feature prominently among groups cashing in housing equity.

The quantitative and qualitative analyses combined to offer important evidence of the health insurance role played by housing equity later in the life course. Decision-making surrounding the use of housing equity among those above pension age is increasingly dominated by concerns about health or physical frailty, confirming our proposition that housing wealth is increasingly viewed as a means of achieving private provision of certain functions that are traditionally publicly provided, such as health care.

However, those under pension age use MEW to increase spending on a wider range of items; this includes holiday spending, home maintenance, car repairs or upgrades and the education costs of children. A contrasting pattern is evident when we turn to home owners 65 years and over. We find little in the way of significant differences in

expenditures between *in situ* mortgage equity borrowers and those who refrain from withdrawing housing equity. More importantly, the majority of statistically significant differences stem from those releasing housing equity via downsizing or quitting ownership, but they are less inclined to increase spending than equity savers. It is possible that while *in situ* MEW is being used by pre-retirement age home owners to purchase ordinarily unaffordable items, HEW via the sale of one's home (particularly selling up) is precipitated by financial distress and, thus, used to reduce expenditures on upkeep and/or reduce the material deprivation associated with an inability to keep up with mortgage repayments or utility payments.

Home owners adding to their mortgages have sounder economic positions than downsizers or sellers. Older owners that sell up and move into rental tenures (or residential care), tend to have very little income or assets to fall back on when hit by adverse life events. Their wealth portfolios are almost entirely centred on their primary home, and they are the least able to raise emergency funds among all the groups investigated.

These findings are significant because they confirm ideas about the tactics that different home owners choose as they manage housing wealth in the years approaching and beyond pension age (Parkinson et al. 2009; Ong et al. 2013b; Wood et al. 2013). While *in situ* equity release by adding to mortgages is common, particularly in the group approaching retirement, and is associated with pressing spending needs, the typical *in situ* equity borrower has a relatively strong financial and employment context. These owners are becoming more indebted, but their borrowing is not reckless. If they *avoid serious misfortune* repayments will be met;¹² but if life takes an unexpected and harmful turn, financial stress could be 'round the corner'. Indeed those cashing in housing equity by downsizing and selling up are likely to have suffered unfavourable circumstances such as ill health, separation, divorce and bereavement prior to the sale of their primary home. One senses that amidst older downsizers and sellers, *in situ* MEW is no longer an option to cushion living standards in the face of adversity. Selling up are 'last resort' options. Importantly, they appear to be options that older female, single-person households are prone to fall back on.

¹² This applies to both MEW and non-MEW financial loans.

4 MODELLING THE FINANCIAL RISKS OF AND BARRIERS TO HOUSING EQUITY WITHDRAWAL IN LATER LIFE

The previous chapter has shown that the ownership of housing wealth can clearly facilitate choices for Australians as they age. In particular, the dominant form of HEW, that is *in situ* equity borrowing, is used to meet a range of spending needs by older home owners under pension age. Downsizing and selling up are options that older home owners turn to in order to preserve their financial welfare during crisis events in life. However, as noted in Chapter 1, the move towards housing asset-based welfare has been predicated on the assumption that investment in 'bricks and mortar' will yield significant returns as house prices continue to rise. But recent economic events have highlighted the riskiness of housing as a vehicle for funding retirement as evidence points to greater house price volatility in contemporary housing markets than ever before. Housing wealth is also a unique asset in that the risks associated with future house price movements cannot be hedged (Shiller 2003).

The hazards associated with certain styles of HEW are heightened by uncertainty about how equity roll outs are treated by the tax-benefit system. In particular, taxes applied to HEW transactions can eat into housing equity, and the amount of funds released via any HEW instrument can influence age pension eligibility. Indeed, Olsberg and Winters (2005) observe a disjuncture between, on the one hand, a willingness of older Australians to engage in HEW and, on the other hand, evidence of poor financial planning and lack of literacy regarding government benefits.

In response to these concerns, this chapter undertakes quantitative modelling techniques to address research question 2 of this project:

What impedes HEW, and what are the risks associated with use of HEW mechanisms in later life? How do these vary across the older population according to socio-economic groups and across scenarios relating to asset price changes and tax-benefit settings?

Risks relate to events that cannot be anticipated with certainty. In principle, they are more applicable to MEW than the sale of the primary home, as the former is typically facilitated through mortgage loans that have to be repaid at some point in the future. During the loan tenure, housing and mortgage market conditions may fluctuate, introducing an element of riskiness into any MEW venture. There are two key types of risks attached to MEW that are readily identifiable from the HILDA data:

1. Repayment risk that may stem from an inability to meet mortgage loan repayments when interest rates climb unexpectedly (also known as interest rate risk); this exposure risk is increased by higher debt burdens.
2. Negative equity risk that may arise when slumps in house prices result in outstanding mortgage debt outstripping housing asset values, leaving MEW users in negative equity territory. We would also argue here that limited equity risk can also be inflicted upon older MEW users when weakening house prices leave them with less housing equity than they prefer to retain for other purposes such as bequest.

On the other hand, older home owners that release housing equity on quitting home ownership or downsizing, typically incur costs associated with the operation of the tax-benefit system that eat into the economic returns from the sale of the primary home. In principle, the financial costs of selling one's home can be determined ex-ante with some certainty. These costs, which include increases in tax and reductions in benefits

that eat into sale proceeds, are therefore classified as financial impediments or barriers (rather than risks) to HEW. In particular:

1. Though the sale of one's primary home is exempt from Capital Gains Tax (CGT), in Australia a downsizer would face transaction taxes in the form of stamp duties upon purchase of a new dwelling, which in turn would erode the amount of housing equity released from the previous home.
2. Means tests apply to proceeds from the sale of the primary home, and can reduce the income support program (ISP) entitlements of older home owners on downsizing or selling up. Poor understanding of the interactions between HEW and the ISP system can leave some older low-income home owners vulnerable to loss of ISP entitlements.

This chapter proceeds as follows. Section 4.1 empirically estimates the extent to which older *in situ* equity borrowers experience repayment risk as well as negative and limited equity risks. In addition, the Productivity Commission (2011) has recommended that an Aged Care Equity Release Scheme be introduced to allow older home owners to draw down on their housing equity in order to fund aged care costs. We conduct scenario modelling to examine the potential impact of this policy recommendation on the amount of housing equity that older home owners have left, after meeting their aged care costs. In Section 4.2, we quantify the tax-benefit consequences of cashing in housing equity on downsizing or selling up. Furthermore, we analyse the extent to which gifting of the primary home by an elderly home owner to others (e.g. adult children) may have the undesirable effect of reducing the elderly home owner's own ISP entitlements because of the operation of the assets test.

4.1 Risks of *in situ* MEW

4.1.1 Repayment risk

We begin by estimating the incidence of repayment risk among older MEW users. We use Chapter 3's pooled panel sample of households that added to their mortgage between waves $t-1$ and t while residing at the same address. Repayment risk is measured using the HILDA Survey question asking respondents whether they have had difficulty making mortgage (or rent) payments on time since January of the year of the interview. The responses define an indicator variable that tells us whether or not a home owner has suffered from repayment risk in wave t . To gauge whether repayment risk is elevated among those adding to their mortgage between $t-1$ and t , we compare them to a control group of older mortgagors that injected equity by paying down outstanding mortgage debt, or maintaining an unchanged outstanding debt over the same waves.

Table 10 below contains population-weighted estimates on the percentage of older MEW users and other older mortgagors who report repayment risk, that is, difficulty meeting mortgage repayments. The variable is available in every year of our study timeframe except 2010 (wave 10). The population numbers in the table tells us whether there are growing numbers of MEW users reporting repayment risk, and how this compares with other older mortgagors in the same year. Somewhat unexpectedly, the number of older MEW users who experienced repayment risk slid from 36 200 to 20 100 households between 2002 and 2009. Over the same timeframe, the number of other mortgagor households reporting repayment risk ranged between 19 000 and 37 000, before shooting up to 68 000 in the final year 2009.

Furthermore, the proportion of MEW users who are prone to repayment risk appears to have fallen from 11.6 per cent to 4.5 per cent over the decade. On the other hand,

the incidence of repayment risk among other older mortgagors has risen from 7.5 per cent to 10 per cent.

Table 10: Number and percentage of older MEW users and other older mortgagors who are exposed to repayment risk by year, household-period data 2001–09^a

Year	MEW users		Other mortgagors	
	N'(000)	%	N'(000)	%
2002	36.2	11.6%	33.8	7.5%
2003	16.7	3.9%	18.7	4.3%
2004	23.8	6.2%	25.8	5.1%
2005	30.7	7.2%	25.7	5.3%
2006	30.9	7.9%	30.6	5.2%
2007	17.0	3.5%	37.3	6.5%
2008	35.7	8.6%	28.2	4.8%
2009	20.1	4.5%	67.5	10.1%
All	211.0	6.4%	267.6	6.2%

Source: Authors' own calculations from the 2001–09 HILDA Survey

Note: a. Estimates are population-weighted.

We delve further into this phenomenon by modelling the impact of MEW on the probability that older mortgagors testify to repayment risk after controlling for other potentially confounding factors that may influence exposure to repayment risk, such as unemployment or ill health. As described in Chapter 2, once we start investigating personal characteristics, it is more appropriate to switch to person-period data. Using a person-period sample of older mortgagors who may or may not have added to their mortgages between $t-1$ and t , we estimate a random effects logit regression where the dependent variable is a binary indicator of whether or not a person reports difficulty making mortgage repayment in wave t . The standard approach to regression modelling is the ordinary least squares estimation technique. But in the present case, where the outcome we are seeking to explain is dichotomous (the person is either facing repayment risk, or not), ordinary least squares is inappropriate. A technically more robust maximum likelihood estimation method—the logit model—is used.¹³

The regression specification is as follows:

$$P(RR_t) = f(MEW_{t-1;t}, X_t, Y_t)$$

where

$P(RR_t)$ = probability of exposure to repayment risk in wave t

$MEW_{t-1;t}$ = binary indicator of whether MEW occurred in the year leading up to t

X_t = a series of socio-demographic characteristics in wave $t-1$ including age, marital status, presence of dependent children, health status, labour force status and income

Y_t = calendar year indicators during wave t to reflect the prevailing economic condition during the wave of interview.

The regression findings are presented in Table 11 below. A standard approach to interpreting logit regression coefficients is to convert them into their exponential form, which gives us odds ratios that are more easily interpretable than coefficients. For

¹³ See Pindyck and Rubinfeld (1998) for an accessible account of logit modelling.

binary variables, the odds ratio is the odds for the group defined when the predictor takes the value 1 as a ratio to the odds for the group defined when the predictor takes the value 0. Consider the 'divorced' variable in Table 11 below where its estimated coefficient is 1.181. Converting it into an exponential form, we find $e^{(1.181)} = 3.256$. This means that in every person-period episode, the odds of experiencing repayment risk is over three times as high for a divorced person than for marrieds (the omitted category). Income (expressed in thousands) is a continuous variable and its coefficient is -0.009. Its exponential is $e^{(-0.009)} = 0.992$, meaning that an increase of \$1000 in income lowers the odds of experiencing repayment risk by 0.8 per cent.¹⁴

The findings indicate that repayment risk is strongly correlated with adverse life events. Marital breakdown in the form of separation or divorce is very important; as mentioned above divorcees' odds of experiencing repayment risk are 3.3 times the odds experienced by marrieds.¹⁵ Also crucial is the observation that older home owners in fair to poor health have odds of repayment risk which are twice the odds recounted by those in good to excellent health. Unemployment is also significant, lifting the odds of repayment risk to 2.2 times the repayment risk faced by full-timers. Not surprisingly, there is an inverse relationship between income and repayment risk.

¹⁴ 0.992 is evaluated with reference to a benchmark of 1. As 1 less 0.992 is 0.008, this converts to a reduction in odds of 0.8 per cent.

¹⁵ Similarly, repayment risk is a more common phenomenon among those in de facto relationships rather than those who are married.

Table 11: Random effects logit of odds of exposure to repayment risk among older mortgagors, person-period data 2001–09^a

Explanatory variables	Coef.	Std. Err.	Sig.	Odds ratio
Engaged in MEW between waves $t-1$ and t	0.154	0.126	0.222	1.167
Age	0.057	0.137	0.679	1.058
Age squared	-0.001	0.001	0.512	0.999
De facto	0.831	0.266	0.002	2.296
Separated	0.480	0.386	0.214	1.616
Divorced	1.181	0.262	0.000	3.256
Widow	0.490	0.583	0.401	1.632
Single never married	0.235	0.432	0.586	1.265
Have dependent children	0.162	0.185	0.381	1.176
Fair to poor health	0.724	0.178	0.000	2.063
Non-tertiary post-school qualifications	0.473	0.244	0.053	1.605
No post-school qualifications	0.673	0.243	0.006	1.961
Employed part-time	-0.204	0.194	0.292	0.815
Unemployed	0.809	0.430	0.060	2.245
Not in the labour force	0.168	0.227	0.458	1.183
Real equivalised gross household income ^b (\$'000)	-0.009	0.003	0.001	0.992
2003 ^c	-0.936	0.244	0.000	0.392
2004	-0.823	0.241	0.001	0.439
2005	-0.749	0.237	0.002	0.473
2006	-0.811	0.240	0.001	0.444
2007	-0.616	0.232	0.008	0.540
2008	-0.531	0.233	0.023	0.588
2009	-0.533	0.233	0.022	0.587
Constant	-5.345	3.889	0.169	
Rho	0.588	0.035		
Number of episodes	9,132			
Number of older home owners	2,827			
Wald Chi-sq(23)	103.15		0.000	
Likelihood ratio test of rho=0: Chibar-sq(01)	317.46		0.000	

Source: Authors' own calculations from the 2001–09 HILDA Survey

Notes: a. All the explanatory variables are binary indicators with the exception of age, age squared and income. The omitted binary indicators are married, no dependent children, good to excellent health, tertiary qualifications, employed full-time and calendar year 2002.

b. Gross household income is equivalised by dividing unequivalised income by the OECD modified equivalence scale, where a weight of 1 is assigned to the first adult member, 0.5 to the second adult, and 0.3 to each dependent child in the household (see OECD, n.d.).

c. As the dataset begins in 2001, the earliest possible observation of MEW is between 2001 and 2002 (or the year leading up to 2002). Hence, the earliest repayment risk observation is 2002, the omitted calendar year category.

However, the variable that is of greatest interest in this context is the MEW variable. The estimated odds ratio indicates that MEW increases the odds of repayment risk by 17 per cent relative to no equity borrowing. However, this impact is not statistically significant. As observed in the previous chapter, MEW is most likely among owners who have sound economic circumstances; provided nothing goes 'wrong' in their lives, there will be no difficulty in meeting higher mortgage payments. In short, older Australian home owners are not reckless borrowers. However, if there is unexpected divorce, ill health or unemployment, then repayment risk becomes a reality, and the consequences for those who have added to their mortgages could be more severe. It is this hypothesis that we investigate next by comparing the socio-demographic characteristics of MEW users exposed to repayment risk to those MEW users reporting no repayment problems.

Table 12 below shows that older MEW users who report repayment risk do indeed possess traits that increase their likelihood of experiencing repayment risk. Those admitting to repayment risk are twice as likely to be separated or divorced, and are also clearly more likely to cite to ill-health and unemployment as adverse life events. Also of importance is the fact that repayment risk is much more common among those with relatively low incomes and primary home values. Tellingly, those reporting repayment problems owe roughly 1.5 times the amounts borrowed by those steering clear of repayment problems.

Table 12: Personal characteristics and exposure to repayment risk among older MEW users, person-period data 2001–09, per cent by column unless stated otherwise

Characteristic		Exposed to repayment risk	Not exposed to repayment risk
Gender	Men	52.5	51.7
	Women	47.5	48.3
Age band	45–54 years	75.4	67.1
	55–64 years	20.3	25.7
	65–74 years	3.8	5.4
	75+ years	0.4	1.8
Marital status	Married or de facto	78.4	85.8
	Separated or divorced	16.1	8.9
	Widow	2.5	2.4
	Single never married	3.0	3.0
Presence of dependent children	No children	58.1	57.2
	At least one child	41.9	42.8
Self-assessed health	Good to excellent	71.3	84.6
	Fair to poor	28.7	15.4
Qualification	Tertiary	19.9	26.3
	Other post-secondary	36.0	34.7
	Secondary	44.1	39.0
Labour force status	Employed full-time	58.5	59.7
	Employed part-time	16.5	21.3
	Unemployed	5.1	1.4
	Not in the labour force	19.9	17.7
Mean real equivalised gross household income (\$'000 at 2010 price level)		43.5	56.9
Mean real primary home value in wave t (\$'000 at 2010 price level)		460.0	532.5
Mean real mortgage debt in wave t (\$'000 at 2010 price level)		152.2	104.7
Person-period episodes		236	4,018

Source: Authors' own calculations from the 2001–09 HILDA Survey

4.1.2 Negative or limited equity risk

Next we assess the extent to which MEW might eat into housing equity, resulting in negative or limited equity risk among older Australian home owners. Specifically, we ask whether MEW between waves $t-1$ and t lifts negative equity or limited equity risk in wave t should house prices suddenly fall in wave t . Recent economic events have provided evidence that housing markets are increasingly more volatile than ever before.

First, we provide estimates of the number of older MEW users facing negative or limited equity in their primary homes if house prices were to suddenly slump by 5 and 10 per cent nationwide. As its name implies, 'negative equity' is a situation when the value of one's primary home falls below the outstanding secured mortgage debt. We define 'limited equity' as when the loan-to-value ratio (LVR) that MEW users face rises to more than 60 per cent. As a reference point, the typical LVR of older mortgagors in the HILDA Survey was only around 30 per cent in 2009–10.¹⁶ Hence, an LVR of more than 60 per cent would be twice the typical LVR of older mortgagors. Furthermore, previous work by Ong (2010) showed that most elderly Australians with reverse mortgages wish to retain at least 50 per cent of their housing equity at the end of their loan. The 60 per cent benchmark would therefore cause anxiety among ageing Australian home owners as it would indicate that they no longer hold a majority equity stake in their homes. We exploit all waves of the 2001–10 HILDA Survey for this analysis, once again using older mortgagors that refrain from MEW as a comparison group.

The final row of Table 13 below illustrates the much greater exposure to negative equity risk borne by older MEW users in comparison to our comparison group. The pattern is consistent under both the actual house price scenario and as house prices are simulated to fall by increasingly larger percentages. In general, exposure to negative equity risk dipped at the peak of the house price boom in 2006, but shot up to above pre-2006 levels during the GFC phase, before declining again in 2010. The incidence of negative equity risk would rise very slightly from 4.7 per cent to 6.4 per cent among MEW users should house prices plunge by 10 per cent, while it remains very low among other older mortgagors. Overall, it is therefore clear that even if house prices were to plunge by 10 per cent, older owners who have dipped into their housing equity by borrowing more are unlikely to end up with negative housing equity.

¹⁶ In 2009–10, older mortgagors had a mean outstanding mortgage debt and house value of \$183 428 and \$552 104 respectively, resulting in an LVR of 33 per cent. Their median mortgage debt and house value were \$130 000 and \$450 000 respectively, giving an LVR of 29 per cent

Table 13: Percentage of episodes in which older MEW users and other older mortgagors face negative equity risk under alternative house price scenarios^a

Year	House prices in wave <i>t</i>						
	Actual		Fall by 5%		Fall by 10%		
	MEW users	Other mortgagors	MEW users	Other mortgagors	MEW users	Other mortgagors	
2002	N('000)	18.3	3.2	19.3	5.6	19.3	5.6
	%	5.3%	0.7%	5.6%	1.1%	5.6%	1.1%
2003	N('000)	22.0	0.0	25.5	0.7	30.8	1.7
	%	4.8%	0.0%	5.5%	0.2%	6.7%	0.4%
2004	N('000)	16.2	0.0	22.5	2.0	26.3	2.0
	%	3.9%	0.0%	5.4%	0.4%	6.3%	0.4%
2005	N('000)	20.9	0.0	28.9	5.6	35.6	7.8
	%	4.2%	0.0%	5.8%	1.0%	7.1%	1.4%
2006	N('000)	16.7	0.0	16.7	8.6	22.8	9.4
	%	3.7%	0.0%	3.7%	1.3%	5.1%	1.4%
2007	N('000)	26.1	1.2	33.5	4.2	40.1	7.6
	%	4.7%	0.2%	6.0%	0.7%	7.2%	1.2%
2008	N('000)	31.7	0.9	37.7	4.2	40.4	15.9
	%	6.2%	0.1%	7.3%	0.6%	7.9%	2.2%
2009	N('000)	31.8	0.5	33.2	2.8	35.4	5.3
	%	6.3%	0.1%	6.6%	0.4%	7.0%	0.7%
2010	N('000)	21.2	1.1	25.5	4.8	25.5	4.8
	%	3.6%	0.2%	4.4%	0.7%	4.4%	0.7%
All	N('000)	204.8	7.0	242.9	38.6	276.3	60.1
	%	4.7%	0.1%	5.6%	0.7%	6.4%	1.1%

Source: Authors' own calculations from the 2001–10 HILDA Survey

Note: a. Estimates are population-weighted.

It is safe, therefore, to conclude that the possibility of negative equity is remote, even among *in situ* equity borrowers. The prospect of limited equity, however, is a much more real risk among those who use MEW. Table 14 below shows the incidence of limited equity risk under actual and simulated house price scenarios. Worryingly, on average, one in five older owners releasing housing equity by borrowing more against their homes now have housing equity that is less than 40 per cent of the value of their homes, compared to one in 10 other older mortgagors. Thus a substantial proportion of MEW users in the later stages of the life course no longer have a majority equity stake in their homes. This limited equity risk rises to 26 per cent among MEW users should house prices plunge by 10 per cent; under this scenario the incidence of limited equity risk among our comparison group still trails that of MEW users at under 15 per cent.

Table 14: Percentage of episodes in which older mortgagors face limited equity risk under alternative house price scenarios^a

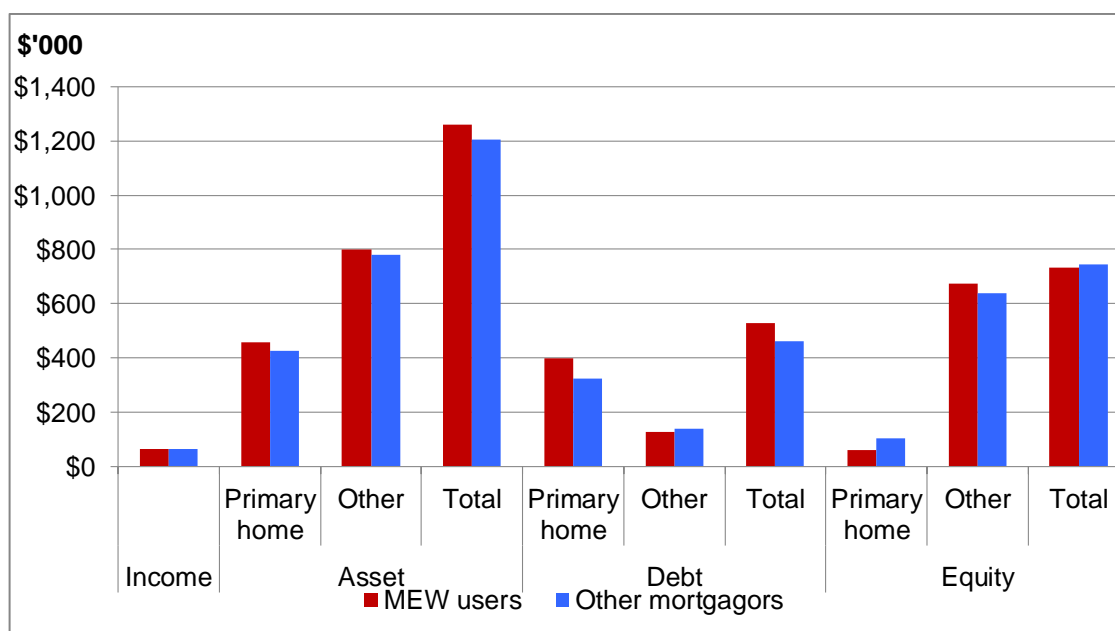
Year		House prices in wave $t+1$					
		Actual		Fall by 5%		Fall by 10%	
		MEW users	Other mortgagors	MEW users	Other mortgagors	MEW users	Other mortgagors
2002	N('000)	61.8	59.0	73.7	67.2	86.6	75.8
	%	18.0%	12.1%	21.5%	13.8%	25.3%	15.6%
2003	N('000)	86.6	28.7	102.0	38.4	108.9	44.2
	%	18.7%	6.1%	22.0%	8.2%	23.5%	9.5%
2004	N('000)	79.2	32.6	93.1	38.5	98.4	39.7
	%	18.9%	5.8%	22.2%	6.8%	23.4%	7.1%
2005	N('000)	76.7	44.2	88.3	54.6	109.2	58.8
	%	15.3%	8.1%	17.6%	9.9%	21.8%	10.7%
2006	N('000)	94.2	72.9	108.8	86.2	115.5	102.8
	%	20.9%	11.1%	24.1%	13.1%	25.6%	15.6%
2007	N('000)	133.0	74.5	149.3	86.7	159.0	104.7
	%	24.0%	11.8%	26.9%	13.8%	28.7%	16.6%
2008	N('000)	137.6	106.2	158.0	119.5	169.4	130.1
	%	26.7%	14.7%	30.7%	16.5%	32.9%	18.0%
2009	N('000)	126.9	95.2	143.0	105.0	150.6	132.5
	%	25.3%	12.6%	28.5%	13.9%	30.0%	17.6%
2010	N('000)	104.0	86.7	118.2	104.2	143.0	123.8
	%	17.7%	12.1%	20.2%	14.5%	24.4%	17.2%
All	N('000)	900.0	600.0	1034.3	700.1	1140.6	812.4
	%	20.8%	10.8%	23.9%	12.6%	26.3%	14.6%

Source: Authors' own calculations from the 2001–10 HILDA Survey

Note: a. Estimates are population-weighted.

Figure 8 below takes a sample of all older home owners already facing limited equity risk under actual house prices, and examines whether the group adding to their mortgages between waves $t-1$ and t are compromising their future financial position as judged relative to their income and wealth at time t . The financial position of MEW users and other mortgagors facing limited equity risk appear to be more or less equal. Both have similar income levels of around \$65 000. While MEW users have greater asset holdings than other mortgagors, the former also have higher debt levels. In equity terms, MEW users with limited equity trail other mortgagors with limited equity by \$10 000. The figure suggests that among mortgagors with limited equity, those adding to their mortgages in order to release cash in housing equity are in no worse financial position than those steering clear of MEW.

Figure 8: Mean income and wealth of older home owners facing limited equity risk, by MEW status, person-period data 2001–10, \$'000 at 2010 price level^a



Source: Authors' own income calculations from the 2001–10 HILDA Survey and wealth calculations from the 2002, 2006 and 2010 HILDA Survey

Note: a. Income estimates are derived from a sample of 1078 (696) MEW users (other mortgagors). Wealth estimates are derived from a sample of 371 (261) MEW users (other mortgagors) as they are only available in 2002, 2006 and 2010 within the study timeframe of 2001–10.

Overall, it is safe to conclude that if current trends in MEW continue, those adding to their mortgages are unlikely to be compromising their future financial position compared to those who do not add to their mortgages, *as long as* misfortunes that affect mortgage repayment ability, such as divorce, ill health or unemployment, do not befall them, and repayment risk becomes a reality.

The next section presents an analysis of a proposed government reform designed to increase the use of MEW among older home owners to fund aged care costs. The analysis sheds some insights into whether such a policy might increase the limited equity risk faced by older home owners.

4.1.3 Case study: Limited equity risk associated with the Australian Aged Care Equity Release Scheme

The Productivity Commission's (2011) Aged Care Equity Release scheme recommends that elderly home owners draw down against their housing equity to meet aged care costs up to a specified limit. The Productivity Commission (2011, p.108) recommends a government-backed scheme that will allow an older home owner to use 'a maximum amount, say 40 to 60 per cent,' of their housing equity to help finance their accommodation and care costs, with no or limited repayments until the ownership of the home is transferred to another individual. The scheme would be broadly comparable to an income contingent loan (p.102), and the Commission refers to Australia's existing Higher Education Contribution Scheme (HECS) as an example of this loan type.

To estimate the effects of the Productivity Commission proposal on housing equity, we use the 2010 HILDA data on a group of elderly home owners aged 75 years and

over¹⁷ to estimate the proportion of elderly home owners' housing equity that would need to be diverted towards meeting average aged care costs until their death should a move be made into residential care. Among 699 elderly home owners in our sample, 28 or 4 per cent still have outstanding mortgage debt secured against their property. We exclude these 28 home owners so that our sample comprises only those whose homes are not acting as collateral for other existing forms of debt.

The residential aged care cost is projected as follows. First, we estimate the remaining life expectancies of elderly home owners in 2010 based on life expectancy estimates from the ABS (2012b). There are clear patterns in life expectancy by gender and age. For both genders, expected remaining life expectancy naturally declines with present age. Women generally have a longer life expectancy than equivalently-aged men, although this gap declines as they grow older. Among those aged 75, the gender gap in remaining life expectancy is around 1.5–2.5 years, narrowing to under 0.5 years for those aged 100 years or more.¹⁸

We then derive the current typical cost of providing residential aged care to elderly home owners from information obtained from the Department of Health and Ageing (2013e) website. There are two types of costs that the aged care homes usually incur and pass on, either in full or in part, to elderly aged care residents, depending on the elderly person's income and asset levels. Firstly, day-to-day living costs such as meals, laundry, heating and cooling are passed on to elderly residents in the form of basic daily fees. An additional daily fee is payable if a resident has income above a certain threshold, that is, the amount of subsidy the government offers declines as the resident's income rises.¹⁹ Secondly, accommodation charges are incurred in the provision of residential aged care; these are passed on to elderly residents in the form of accommodation bonds if they are in low-level care, or in the form of accommodation charges if they are in high-level care.²⁰ We focus on the high-level residential care scenario as being one that is significantly more costly.²¹ The amount of accommodation charges payable are subject to an assets test, that is, the government sets the minimum assets that a resident must retain such that if one's assets are less than the threshold levels, they would not need to pay an accommodation charge (Department of Health and Ageing 2013a).

In this simulation, we calculate the maximum amount of aged care fees and charges payable by non-pensioner aged care residents based on the rates provided by the Department of Health and Ageing (2013e). A range of subsidies are offered to residents depending on their income and asset levels. However, we calculate the maximum fees and charges to provide upper bound estimates under an ultimate 'user pays' model where the cost burden of aged care is shifted fully on to elderly residents receiving care.

¹⁷ Individuals in this group can be assumed to have above-average prospects of having to move into a high-level residential care facility within the next few years.

¹⁸ Estimates of remaining life expectancies for the period 2009–11 are available from ABS (2012b). In our analysis, we round off the estimates to the nearest year.

¹⁹ However, certain groups such as full age pensions, ex-prisoners of war, those in permanent residential care since before 1 March 1998 and those with dependent children are exempt from income-tested fees.

²⁰ Low-level residential care offers a supported living environment for those who are still mobile but require additional help with everyday activities such as cooking, laundry and cleaning (Department of Health and Ageing 2013d). On the other hand, high-level residential care provides an elderly resident with 24-hour care and assistance for most day-to-day living activities (Department of Health and Ageing 2013c).

²¹ Accommodation bonds are retained by the aged care home for only the first five years, after which the balance is repaid to the elderly resident or their estate when they leave the aged care facility, whereas accommodation charges are not reimbursed to the elderly.

Table 15 below reports the standard maximum daily aged care fees and accommodation charges that elderly residents faced in 2010 (the latest year of our study timeframe) as reported in schedules published by the Australian Government Department of Health and Ageing. We sum up the total real²² annualised values of the fees and charges over the remainder of each elderly person's life expectancy. This is compared with the housing equity position of each elderly home owner at the end of their life. To arrive at the 'end of life' housing equity position of the home owners in our sample, we increase house values in 2010 by a real house price appreciation rate of 4.8 per cent. This percentage is a compounding annual growth rate derived by comparing the mean real house values of the elderly home owners in our sample in 2001 and 2010.²³ We assume that house prices will continue to appreciate at the same rate beyond 2010. By comparing the sum of real aged care costs and real housing equity at the end of an elderly home owner's life, we are able to gauge whether the elderly home owner would have sufficient equity for bequest purposes at the end of his/her lifetime after paying for aged care according to the cost parameters defined above.

Table 15: Maximum fees of residential aged cared residents, September 2010

Fee	Basic daily rate	Annualised rate
Basic fee	\$39.50	\$14,417.50
Income-tested fee	\$63.48	\$23,170.20
Accommodation charge for high-level care	\$28.72	\$10,482.80

Source: Department of Health and Ageing 2013e

We assume that the Aged Care Equity Release scheme would operate like a reverse mortgage that is interest-free. Once the aged care provider and elderly resident agree on the total cost of the latter's aged care needs until the end of his/her life, a loan is taken out against the latter's home that exactly meets the total cost via a stream of annual payments that matches the schedule of annualised fees and charges reported in Table 15 above.²⁴ The assumption of an interest-free loan is predicated on the fact that the Productivity Commission has compared the Aged Care Equity Release scheme to HECS, another government-backed loan that is interest-free (Study Assist n.d.).

Table 16 below reports that the average housing equity of home owners aged 75 years or over is \$773 000 by the end of their life expectancy. The simulation output indicates that, overall, high-level residential aged care for the expected remaining lives of these home owners would eat into over 58 per cent of their housing equity. The Productivity Commission's (2011, p.108) estimate that elderly home owners should borrow 'a maximum amount, say 40 to 60 per cent' from their housing equity to finance their aged care costs appear to therefore be more or less in the right ball park. However, this scheme would plunge a significant proportion of elderly home owners

²² According to the Department of Health and Ageing (2013b), the basic daily fees are kept in line with changes in the Age Pension which in turn is indexed to reflect changes in cost of living (FaHCSIA 2012). Hence, it is logical to keep aged care fees and charges constant in real terms.

²³ In our sample of elderly home owners aged 75 years or over, their mean real house value in 2001 $H_{2001} = \$332\,716$ and mean real house value in 2010 $H_{2010} = \$507\,860$. Using a compounding annual growth rate formula where $H_{2010} = H_{2001} (1 + r)^t$ where r is the annual growth rate and t represents the number of years between 2001 and 2010, we arrived at a rate of $r = 0.048$.

²⁴ It is assumed that if the elderly person lives beyond his/her life expectancy then the aged care provider bears the extra cost of providing the required care beyond the remaining life expectancy of the elderly resident. However, if the elderly resident passes away before his/her life expectancy, then the aged care provider gains a profit.

(61%) into a situation of limited equity risk. There are therefore important implications for bequest motives as well as the security of tenure of those still remaining in the family home from which the equity is drawn, for example, one's surviving spouse, that need to be considered upon take up of such a scheme to fund one's aged care needs.

It is of course important to acknowledge that the outcomes reported in Table 16 are upper bound estimates that apply only to a very restricted scenario of high-level residential care where no government subsidy is available to mitigate the care costs faced by elderly home owners. It is reasonable to expect that in reality some subsidy would be available to those in greatest need. Indeed, a proposal has recently been announced by the UK Government, where a cap on care costs of £72 000 will be applied from 2016 onwards for those with less than £118 000 in assets (McCardle 2013). Moreover, some elderly home owners may require low-level care only, in which case the cost of care would be lower than where high-level care is needed.

Table 16: Housing equity, aged care costs and limited equity risk at the end of life expectancy

Mean housing equity at the end of life (\$ at 2010 price level)	\$773,127.73
Mean sum of real aged care costs at the end of life (\$ at 2010 price level)	\$449,684.84
Mean aged care cost as a per cent of mean housing equity	58.2%
Per cent of elderly home owners facing limited equity risk	61.3%
Sample	671 persons

Source: Authors' own calculations from the 2010 HILDA Survey

4.2 Barriers to downsizing and selling up

As mentioned at the beginning of this chapter, the financial costs of selling one's home can usually be determined ex-ante with some certainty. These increases in tax and reductions in benefits are therefore classified as financial impediments or barriers (rather than risks) to HEW. Studies such as Olsberg and Winters' (2005) and Bridge et al. (2010) have highlighted a need for older home owners to be better informed regarding the tax and benefit consequences of releasing housing equity.

This section aims to offer a detailed evaluation of these tax-benefit implications via a series of simulation exercises conducted using AHURI-3M, a comprehensive housing market microsimulation model that contains the key tax and transfer parameters affecting housing consumers. The model parameters currently cover tax-benefit settings in every year from 2001 to 2010. It is operationalised using the HILDA Survey. One of the key features of the model, which is particularly suited to the objectives of this project, is its capacity to predict tax-benefit outcomes under simulated conditions. It has been used extensively to investigate the impacts of housing policies and tax-benefit programs, such as the computation of Commonwealth Rent Assistance entitlements in a housing affordability study by Wood and Ong (2009), modelling of the after-tax economic returns to rental housing investments (Wood and Ong 2010) and measurement of the impacts of the Henry Review recommendations in relation to negative gearing (see Wood et al. 2011).²⁵ In the following subsections, we exploit AHURI-3M tax-benefit and policy simulation capabilities to model the key tax-benefit implications of HEW via downsizing and selling up.

²⁵ For more details regarding the capabilities of the model, refer to Wood and Ong (2008).

4.2.1 *Erosion of equity due to transaction costs*

Stamp duty is a transaction tax levied by Australian state governments on the transfer of property. It has a progressive schedule and is applied to the market price of a property as a lump sum transaction cost at the point of purchase. Most existing studies have focused on the role of stamp duty in exacerbating growing accessibility problems among younger homebuyers (see, for example, Yates 1999; Productivity Commission 2004; Wood et al. 2006). However, more recently, Wood et al. (2012) highlighted the disincentives that stamp duty can create for older home owners (e.g. 'empty nesters') who wish to downsize into lower value homes. This section empirically investigates whether stamp duty might deter downsizing by older home owners.

Using AHURI-3M, we model the stamp duty rates that apply to residential property in each state and territory over the period 2001–10. The stamp duty rates are the ones that apply to the principal place of residence only. First homebuyer discounts are not applicable as our group of interest comprise those who already own their homes and are downsizing into a new home. Overall, we have a sample of 287 older home owner households that downsized between $t-1$ and t during our study timeframe. It therefore excludes those moving into a higher value home but nevertheless release housing equity by over-mortgaging. However, as noted in Figure 3 of Chapter 3, among those who withdraw equity, 7 per cent do so via downsizing while only 2 per cent go down the route of over-mortgaging. Hence, the majority of those who withdraw equity via trading on from one owner-occupied home into another do so by downsizing. We use a household-period dataset here because transaction costs are charged on the purchase of a property, regardless of how many adult members are living in the property.

Table 17 below shows that the typical older downsizer released roughly \$200 000 (\$114 000) during the last decade in mean (median) terms. The real median estimates show that the amounts released were above \$110 000 during the periods of strong house price growth up to 2009–10, when the housing market entered a post-GFC era. On average, they gave up nearly 8–10 per cent of the housing equity released because of stamp duty. Though the amount of housing equity that stamp duty ate into was low in 2002, the erosion of housing equity grew to significantly higher shares after 2002. When legal costs and moving costs are added into the equation the average owner will meet costs that eat into over 10 per cent of the equity they roll out on downsizing.

Recall from Chapter 3 that downsizing becomes increasingly prevalent as owners age, and downsizing is often associated with adverse life events such as separation, divorce, bereavement and ill health. This empirical analysis suggests that costs associated with selling and purchasing properties are large and may therefore deter downsizing. But some will be forced to downsize anyway in response to crisis events and must forego a sizeable proportion of their housing equity.

Table 17: Stamp duty and housing equity released via downsizing, household-period data 2001–10

Year		Stamp duty on new home (\$'000 at 2010 price level)	Housing equity released via downsizing (\$'000 at 2010 price level)	Stamp duty as percentage of housing equity released
2002	Mean	7.7	180.7	4.3
	Median	5.8	83.8	7.0
2003	Mean	13.1	195.8	6.7
	Median	11.0	122.0	9.0
2004	Mean	20.3	237.9	8.5
	Median	10.3	119.0	8.6
2005	Mean	11.8	147.3	8.0
	Median	10.4	114.8	9.0
2006	Mean	14.1	168.2	8.4
	Median	10.5	123.2	8.5
2007	Mean	18.2	221.0	8.2
	Median	17.4	119.9	14.5
2008	Mean	21.5	281.5	7.6
	Median	14.6	129.2	11.3
2009	Mean	14.1	157.7	9.0
	Median	13.0	92.7	14.0
2010	Mean	13.6	186.0	7.3
	Median	12.1	100.0	12.1
All	Mean	15.1	198.3	7.6
	Median	11.2	114.8	9.8

Source: Authors' own calculations from the 2001–10 HILDA Survey

4.2.2 Reduction in income support program entitlements

As pointed out in Chapter 2, earnings cycles peak when people reach their 40s. After that, earned income typically tails off as individuals approach retirement and then grow increasingly frail as they age. Hence, it is not surprising that individuals tend to become more and more reliant on ISPs as they age. According to estimates from AHURI-3M, roughly one in four adults aged under 35 years received an ISP in 2010, but among those aged 75 years or over, the incidence of ISP receipt is almost 87 per cent. It is therefore crucial that older home owners considering HEW to supplement low incomes in retirement understand the reduction in ISP entitlements that may occur through the operation of both assets and income tests.

Proceeds from the sale of the primary home generally become an assessable asset that may reduce ISP entitlement, with the exception of the portion of the proceeds that are designated for purchase of a new home (FaHCSIA 2013d). Hence, for a downsizer who released, say, \$400 000 in equity from the sale of his/her primary home and injected \$250 000 in equity into the purchase of another (say, smaller) home, the amount of equity that becomes assessable as an asset for ISP entitlement

determination is \$150 000. For an older person who sells up, releasing \$400 000 in equity, the entire \$400 000 becomes assessable as an asset.

In addition, if the equity released from downsizing or selling up were held in the form of a financial investment, it may reduce an older home owner's ISP entitlement via the application of two income test rules. Firstly, the equity released becomes subject to income test deeming rules (FaHCSIA 2013c). Under Australia's deeming rules, it is assumed that financial assets earn a certain rate of return regardless of what is actually earned. These rules reduce the extent to which ISP entitlements may vary as a result of changes in actual income earned. Hence, they are designed to encourage investors to earn as much income as possible from financial investments rather than targeting investments with low rates of return to avoid having their ISP entitlements reduced. The total financial investment value held by an individual is 'deemed' to fall below or above a certain threshold. Financial investment values below the threshold are assumed to earn a lower rate of return than investments that exceed the threshold. In July 2010, if the sum of one's financial investments fell below the threshold, the investments were deemed to be earning income at 3 per cent per annum. The rate of return applicable to investments above the threshold was deemed to be 4 per cent. For a single person the threshold was \$43 200. For couples where at least one partner is receiving a pension, the relevant threshold for the two partners combined was \$72 000; and for those couples where no partner is a pensioner but at least one receives an allowance, the threshold for each partner was \$36 000 (FaHCSIA 2013b). Secondly, when invested as a financial asset, the equity released from downsizing or selling up earns a stream of interest income which is taxable.²⁶ The increase in taxable income may affect Family Tax Benefit (FTB) entitlements via FTB income tests, though only a small minority of those aged 45 years or over are in receipt of FTB.²⁷

We select the sample of older home owners who downsized or sold up between waves $t-1$ and t , and compare their ISP entitlements at t when means tests do not apply to the proceeds from the sale of the primary home, versus when they do apply. This allows us to estimate the impact of the sale of the primary home on ISP entitlements. We assume that at t , the realised housing equity is re-invested in a financial asset for 12 months and is therefore subject to deeming rules.

Our sample comprises 382 person-period episodes during which downsizing occurred between $t-1$ and t ; in 180 (47%) episodes the downsizing occurred among ISP recipients. There were an additional 289 selling up person-period episodes, and 162 episodes (over half) occurred among ISP recipients. We are mindful that the estimated impacts may be biased upwards for those who choose to consume a large part of their withdrawn equity. However, it is still insightful to be able to observe these upper bound estimates as being indicative of the maximum amount of loss of ISP entitlements that a seller of a primary home may experience. Furthermore, as noted in Chapter 3, the amount of equity released is significantly higher during the sale of a primary home than during *in situ* MEW. Hence, it is reasonable to assume that a

²⁶ Deeming rules do not apply to financial investments in the calculation of family taxable income that influence FTB entitlements. As it is not possible to observe from the HILDA Survey what the actual rate of return would be if the housing equity released were invested in a financial asset, we assume for the purposes of estimating FTB that after downsizing or selling up, the funds released are deposited into banks' term deposit accounts and utilise the annual rates earned on one-year term deposits from the Reserve Bank of Australia (2013a) to estimate the amount of interest earned. During 2001–10, these rates ranged from a low of 3.92 per cent in the early part of the decade to 6.55 per cent during the middle of the decade.

²⁷ For example, in 2010, only 6 per cent of those aged 45 years or over received FTB, compared to almost 20 per cent of those aged under 45 years.

substantial portion of the equity would have to be re-invested as a financial asset, and that drawdown of the equity will take place more gradually as time passes.

Table 18 below shows that in 60 per cent of downsizing episodes, ISP recipients would suffer from a cutback in their ISP entitlements under the 2001–10 tax-benefit parameters. The estimated reduction in real ISP payments experienced on downsizing would be \$2000 or almost one-fifth.

The potential loss in ISP payments that comes about as a result of selling up is even greater. We find that four out of five selling up episodes would result in a reduction in ISP payments to the sellers during 2001–10. Those suffering a cutback upon selling up can expect to lose one-third of their ISP entitlements. This amounts to over \$4800 per year, although it does not entail a loss of all entitlements.

It should be noted, of course, that the reduction in ISP payments are often countered by the interest or dividends earned when the sale proceeds are invested in other assets that yield positive returns. Where all proceeds are spent immediately, for example, to meet medical expenses instead of being re-invested, no reduction in ISP payments would ensue. Nonetheless, we already know from Chapter 3 that older home owners who engage in selling up typically have very little income or assets to rely on. Hence, it is imperative that those who decide to sell their primary home to withdraw housing equity be aware of the consequences of such forms of HEW for social security income levels.

Table 18: Impact of means tests on ISP entitlements, by HEW type, 2001–10

	Downsizing	Selling up
Percentage of ISP recipients at <i>t</i> -1 who would find their ISP payments lowered by <i>t</i> due to means test rules	61%	80%
Reduction in entitlements of those whose ISP payments are lowered by means test rules		
Mean ISP entitlement when means tests do not apply, \$ at 2010 price level [A]	\$11,660.6	\$14,323.4
Mean reduction in ISP entitlement when means tests apply, \$ at 2010 price level [B]	\$2,023.1	\$4,843.9
Percentage reduction [B/A x 100%]	17.3%	33.8%

Source: Authors' own calculations from the 2001–10 HILDA Survey

The next subsection examines gifting as a case study examining the potential implications of intergenerational wealth transfers on ISP entitlements. However, before we move on, it is apt to mention that the equity released via MEW is also assessed under means tests for determining ISP eligibility. The first \$40 000 of any unspent funds released via MEW is exempt from the assets test for 90 days, after which any unspent amount becomes an assessable asset. Any amount which exceeds \$40 000 is an assessable asset from the date of receipt of the mortgage loan. Deeming provisions also apply from the date of receipt of the loan if the funds are held in a financial investment asset (FaHCSIA 2013e). However, several of the service providers that we interviewed for our project indicated that income and assets tests are unlikely to apply in practice, as home owners are more likely than not to gauge what their financial needs are and only withdraw amounts that would allow them to preserve their ISP entitlements. As such, the tax-benefit implications of *in situ* equity borrowing are not modelled in this chapter.

4.2.3 Case study: Impact of intergenerational transfer of housing wealth (gifting) on income support program entitlements

A decision that might be especially pertinent to elderly home owners in the later stages of their life course and facing increasing frailty is the decision on whether to gift their primary home to adult children or grandchildren. The need for such a decision might arise when an elderly person decides to move into an adult son or daughter's home (see Section 5.3.3), or into an aged care facility that can meet their care needs. From the perspective of the young adult attempting to break into the home ownership market, the prospect of receiving a primary home as a gift is an attractive one, given growing evidence of home purchase difficulties as the gap between house prices and incomes widens (Phillips 2011). Hence, gifting is a potentially important means of facilitating inter-generational transfers in an increasingly unaffordable housing environment.

However, given the government's policy stance that as much as possible individuals should rely on their own financial resources to support themselves in retirement, it is not surprising to find that the decision to transfer away one's primary home for less than the market value before death may reduce an elderly home owner's ISP entitlement. This reduction in ISP entitlement occurs if the market value of the asset is worth more than the allowable gifting amount or allowable disposal free area. For both singles and couples, the free area is \$10 000 in a single financial year²⁸ (FaHCSIA 2013a). For example, suppose an elderly outright owner decides to gift away his/her primary home, which has a market value of \$500 000. Given that the elderly home owner has decided to forego the proceeds from sale by gifting instead of selling the home, the value of the home in excess of \$10 000, that is, \$490 000, will become assessable as an asset to determine the level of ISP payment the elderly home owner is entitled to receive. These gifting rules will not apply if an elderly home owner chooses to transfer the primary home to others in the form of a bequest, that is, through a will after death.

We select elderly home owners aged 75 years and over who sold up between $t-1$ and t over the period 2001–10, and assume that they had in fact gifted their property. We then proceed to simulate the impact of gifting on ISP entitlements by comparing their ISP entitlements at time t when gifting rules do not apply with when they do apply. For the elderly home owner in the above example, we would be comparing his/her ISP entitlements under a scenario when the \$490 000 is an assessable asset versus another scenario when this amount is not counted as an assessable asset.

While the sample size is limited to only 67 person-period episodes, the simulation still offers some insights into the extent to which gifting can impact on ISP entitlements. We find that out of potential 'gifting' episodes, 42 per cent are accompanied by a reduction in ISP entitlements as a result of gifting rules. ISP entitlements are reduced by about one-half, so the reductions are important.

²⁸ For assets disposed after 1 July 2002, the free area is either \$10 000 per year or \$30 000 over a five-year rolling period. However, in the case of the gifting of the primary home, it is a one-off transaction and therefore would be subject to the \$10 000 threshold rather than the \$30 000 threshold.

Table 19: Impact of gifting rules on ISP entitlements, 2001–10

Percentage of ISP recipients at $t-1$ who would find their ISP payments reduced by t due to gifting rules	41.8%
Reduction in entitlements of those whose ISP payments are lowered by gifting rules	
Mean entitlements when gifting rules do not apply, \$ at 2010 price level [A]	\$14,960.2
Mean reduction in entitlements when gifting rules apply, \$ at 2010 price level [B]	\$7,269.7
Percentage reduction [B/A x 100%]	48.6%

Source: Authors' own calculations from the 2001–10 HILDA Survey

4.3 Summary and concluding comments

This chapter has applied empirical analysis to estimate the risks of and barriers to alternative forms of HEW in later life. Risks relate to events that cannot be anticipated with certainty. In principle, they are more applicable to MEW than the sale of the primary home, as the former is typically facilitated through mortgage loans that have to be repaid at some point in the future. During the loan tenure, housing and mortgage market conditions may fluctuate, introducing an element of riskiness into any MEW venture. In this chapter, we modelled the repayment risk, negative equity risk and limited equity risk faced by older *in situ* equity borrowers. On the other hand, older home owners who release housing equity on quitting home ownership or downsizing, typically incur costs associated with the operation of the tax-benefit system that eat into the economic returns from the sale of the primary home. In principle, the financial costs of selling one's home can be determined *ex-ante* with some certainty. These costs, which include increases in tax and reductions in benefits that eat into sale proceeds, are therefore classified as financial impediments or barriers (rather than risks) to HEW. We have therefore modelled the impact of transaction costs on proceeds from downsizing, as well as the estimated reduction in ISP entitlements that older Australian home owners have to cope with should they decide to downsize or sell up.

We find that older *in situ* equity borrowers do not necessarily face greater exposure to repayment risk than other older mortgagors who steer clear of MEW. Indeed, when we control for potential confounding influences via a regression approach, we find the independent effect of MEW on repayment risk is insignificant. However, repayment risk does appear to be highly correlated with adverse life events such as marital breakdown, ill health and unemployment. Hence, while MEW in itself does not raise repayment risk, unexpected divorce, ill health or unemployment will more severely impact MEW users because they have added to their mortgages. It is therefore important to note that older owners that have withdrawn equity in this way have average mortgage indebtedness levels that are roughly 1.5 times the level owed by other mortgagors. If those adding to mortgages steer a course avoiding seriously adverse events, equity borrowing will not expose owners to undue repayment risk. But it turns out that older MEW users who are exposed to repayment risk are also more likely to be facing adverse life events than MEW users not reporting repayment risk.

Negative equity risk is negligible among older MEW users. Exposure to limited equity risk, as defined by an LVR of greater than 60 per cent, is much more likely. On average, one in five older owners releasing housing equity via MEW borrowing now

have housing equity that is less than 40 per cent of the value of their homes, compared to one in 10 other older mortgagors. However, the financial position of MEW users exposed to limited equity risk does not appear to be any less sound than that of other older mortgagors exposed to limited equity risk. Hence, it is safe to conclude that if current trends in MEW continue, those adding to their mortgages are unlikely to compromise their future financial position provided adverse life events do not tip them into situations where they fall behind on mortgage repayments, and repayment risk becomes a reality. However, policies designed to encourage older home owners to tap into their housing wealth beyond current average amounts of HEW may plunge many into limited equity risk. For example, upper bound estimates from a scenario modelling exercise we conducted shows that the Productivity Commission's (2011) recommended Aged Care Equity Release scheme may increase the incidence of limited equity risk among elderly home owners aged 75 years or over from zero to over 60 per cent (assuming a restrictive scenario in which housing equity is drawn on to fully fund care needs in a high-level aged care residential facility setting). There are implications for bequest motives as well as the security of tenure of those still remaining in the family home, for example, a surviving spouse, that require careful consideration should such a policy be implemented.

Tax-benefit simulation exercises are conducted using AHURI-3M, a housing market microsimulation model that contains the key tax and transfer parameters impacting on housing consumers. We find that stamp duty on downsizing eats into 8–10 per cent of the housing equity that older home owners release. When legal costs and moving costs are added into the equation, the average owner forgoes over 10 per cent of the equity they hope to roll out by downsizing.

Proceeds from the sale of the primary home also become assessed as an asset, and if the equity released is re-invested in a financial investment, it may reduce an older home owner's ISP entitlement via the application of income test rules. We find that 60 per cent of downsizing and 80 per cent of selling up episodes by older home owners result in a cutback in ISP entitlements. Affected downsizers are likely to experience a one-fifth reduction in their ISP entitlements on average, while those who sell up can expect to lose over one-third of their ISP entitlements.

We already know from Chapter 3 that older home owners who engage in selling up typically have very little income or assets to rely on. Hence, it is imperative that those who decide to sell their primary home to withdraw housing equity be aware of the consequences of such forms of HEW for social security income levels. The 'penalty' associated with gifting one's primary home in old age is also severe. Gifting rules may reduce ISP entitlements for over 40 per cent of elderly home owners; those who find their ISP payments lowered are likely to suffer an average loss of half their ISP entitlements.

5 PERCEPTIONS OF RISKS OF AND BARRIERS TO HOUSING EQUITY WITHDRAWAL IN LATER LIFE

This chapter complements the modelling exercises in the previous chapter by exploiting qualitative techniques to address research question 3 of this project:

How do older Australians perceive the different mechanisms for HEW and how do these perceptions influence decisions about the use of HEW?

The qualitative findings will complement insights gained from quantitative analysis of HILDA Survey data in the preceding chapter. The qualitative data provide important detailed contextual information and insights into perceptions, experiences and decision-making processes that are not available in large-scale data sets. They are a particularly important source of data for understanding issues of trust, motivation and inter-relationships which can have important effects on HEW decisions and their outcomes. The richness of these data emphasise the importance of household and community contexts for understanding current patterns of HEW and the possible implications of future policy directions. By comparing perceptions of the risks of and barriers impeding use of various HEW options with the results of the previous chapter's quantitative modelling, we are able to identify some of the ways in which attitudes to HEW are shaped by an understanding of the financial risks of and barriers to available options quantified in the previous section. Our qualitative analysis can also uncover forms of risks and barriers, in particular non-financial ones, not modelled in the previous chapter.

It is important to note here that the qualitative analysis does not claim to offer propositions that can be generalised across the population. Rather, its role is to enrich the quantitative findings by allowing key concepts and constructs relevant to HEW decisions to emerge and enable identification of additional risks and barriers not uncovered by the quantitative analysis.

As outlined in Chapter 2, our qualitative data is collected from 25 interviews with 27 home owners and nine interviews with 11 people²⁹ who work in a wide range of roles providing services to older home owners who may engage in HEW. We commence our discussion by providing an overview of home owner housing histories and the importance they have attached to home ownership as part of their financial, social and emotional well-being. This forms important background information upon which we then outline a range of the perceived risks and barriers that home owners associated with various forms of HEW during interview discussions. Perceptions of home owners are supplemented with insights from service providers who, for some categories of risk and barriers, provide insights that are not readily accessible from individual interviews with home owners. Some of these categories of risk were identified because of the larger number of cases or experiences that service providers could recall during their discussions. It is possible that some specific risks and barriers may have been considered by home owners but that they were unwilling to discuss them in an interview. For example, issues of intergenerational transfers or bequests may be a sensitive issue that individual home owners might choose not to discuss in detail. We cannot know whether this occurred, but our interviews with service providers gave us an opportunity to capture insights into specific risks and barriers that may not have been identified by individual home owners.

²⁹ Some interviews are conducted with groups of two people.

5.1 The context for HEW decisions in later life

5.1.1 History of home ownership

All home owner participants in this study either owned (22) or were paying a mortgage (5). One participant was an exception to this 'rule' as he does not personally own a home but his wife has outright ownership of a home in her own name and she is leasing the house to a tenant. This participant and his wife rent their home due to frequent relocations linked with employment commitments. We have included this participant, Sam, as an outright owner for the purposes of this study.

The housing histories of home owner participants provide an important part of the context in which perceptions about the uses and risks of HEW were discussed. Participants were asked to give a brief account of their history as home owners and how they came to be living in their current home. A common thread through many of these discussions was the 'circumstantial' nature of their housing histories. In general terms, the decision to buy a house was connected with other life events such as getting married or relocating to be close to employment. Participants did not speak of their decisions to buy a home as part of a long-term strategy to secure financial security or accumulate assets. Harry gave one of the most succinct accounts of the way in which circumstances and the social expectations of the time dictated his entry into home ownership:

I'm from the property owning middle class, and that's what you did. You bought your home, you never really questioned it, it was a bit like a white wedding, of course if it's a wedding it's white. And that's changed. I didn't really see it as security or not security, that sort of never came into it, but that's what you did. (Harry, Adelaide, 75 years and over)

While for most participants the decision to buy a house was determined by particular social circumstances, Ingrid expressed the view that home owning was one of the defining reasons for her parents' immigration to Australia. This added a further imperative to the decision to gain home ownership:

Well it's always been the Australian dream to have your own home. I come from migrant parents and my parents came to Australia to have their own home and so it's instilled in your mindset and your parents always had a house and owned a home. (Ingrid, Adelaide, 65–74)

5.1.2 Perceived benefits of home ownership

The perceived benefits of home ownership are also important factors that frame the discussion of HEW that follows. Many home owner participants associated the financial benefits of owning a home with not having to pay rent and capital appreciation over time. However, while participants acknowledged that home ownership provided a significant financial asset, it was relatively rare for housing decisions to be discussed as a predominantly financial issue. The financial aspects of home ownership were instead typically linked with perceived social and emotional issues.

A particularly common and rich area of discussion among participants was the strong sense of social and financial security they derived from home ownership. Discussions of the benefits of home ownership were closely associated with ideas of 'stability' and 'security'. Alan (Perth, 75 years and over) commented that home ownership '*was the rock that we needed*' for establishing his and his wife's preferred approach to raising their family. The sense of security associated with home ownership was echoed regularly in home owner's comments:

I think there's a lot of pluses to being able to feel settled and rooted in one place... (Olivia, Sydney, 45–54)

We won't be borrowing anything because we both believe it's very important to have your secure home. You've got a roof over your head, you can survive. That's our philosophy. (Des, Perth, 75 years and over)

Jenny was particularly proud to be a 'first generation' home owner in her family and her partner James felt that home ownership conveyed social status that is not accorded to people who rent:

... it's amazing how once we said we own the house or we were buying the house, it was suddenly—there was also this conception then, conception from people we knew that we'd almost made it ... there is still that thing in Australia, I think, that if you own your own home then you're someone. You're accepted into society. (James, Adelaide, 55–64)

The financial security of home ownership was also strongly associated with being debt-free. Many home owner participants took pride in the fact that they had given a high priority to paying off their mortgages and were free of debt. The idea of engaging in HEW was therefore, for some, associated with 'owing money' and a dilution of their financial independence:

I guess it's my father's model, he owned his own home when he died, he didn't owe anything, he had money in the bank. Yeah, it's just the idea of being self-reliant, I like it. (Kerry, Adelaide, 45–54)

Hence, while home owner participants generally acknowledged that home ownership provided a significant financial asset, it was relatively rare for housing decisions to be discussed as a predominantly financial issue.

We asked participants about the proportion of their wealth that was tied up in their home. Answers varied considerably, from approximately 30 per cent to 100 per cent. When prompted, only a few expressed views that the particular proportion of wealth held in their home represented an overweighting in this type of asset, or that they had considered and would prefer to hold different types of assets. A notable exception was a view expressed by Harry, who estimated that his current home is worth about 40 per cent of his asset holdings. He felt this was too high and represented a risk that was associated with retaining his current home:

But to have 40 per cent of your assets in the one class is not clever, not over the long term, and it's more because we've got commercial property in the superannuation funds. (Harry, Adelaide, 75 years and over)

This participant also linked home ownership with reduced liquidity in his asset portfolio, expressing a wish that housing assets could be as liquid as listed shares. He could see little reason why instruments could not be developed to allow relatively quick access to housing equity:

It seems such a good idea to release the value of bricks and mortar. If I want a thousand bucks tomorrow, I sell 50 shares and I get the money in three days. If I want \$300 I go to the ATM and I get it then. So other asset classes are liquid to a certain ... varying degree. Why shouldn't the house be liquid when we've got safeguards in place about ownership and on mortgages (Harry, Adelaide, 75 years and over)³⁰

³⁰ Harry's views link with the risks identified by one of the service providers, who discussed the extent to which self-managed superannuation funds were investing in residential and other real estate. The service

Emotional ties to one's home were important. Hence, tied in with a general preference for home ownership is a strong desire to age in place:

Anyway, so the thing is, I just said to [my partner] 'We ought to downsize and go somewhere else'. But he's got a real attachment to this house, lots of memories, lots of parties, we did special ones with the band and stuff and he doesn't want to sell it, and my son said 'Oh you can't sell the old homestead'.
(Jenny, Adelaide, 55–64)

5.1.3 HEW experiences and preferences

Table 20 below describes a profile of the participants in terms of their HEW experience and dominant preferences for alternative forms of HEW. While all participants are home owners, they varied in terms of their experiences with HEW. Some owners have released housing equity as modelled in previous chapters, while others have yet to draw down their housing equity but are likely to do so in later life (see first and second rows of Table 20).

Participants also differed markedly in their overall perceptions of HEW and each participant has been categorised once according to the most dominant view they expressed (refer to leftmost column of Table 20). The categories reflect whether a participant expressed: (1) a preparedness to consider all forms of HEW before making any future decisions; (2) a strong preference for or aversion to particular forms of HEW; and (3) a strong aversion to any form of HEW.

With interviewee recruitment drawn exclusively from current home owners, none of our participants are renters who have cashed in housing equity by selling up, though some participants did offer comments that reflected a degree of aversion towards selling up.

Table 20: Summary of home owner participants' HEW experience and preferences

Dominant HEW preference	HEW experience		
	Has used MEW	Has downsized	No HEW experience
Favours MEW		Martin	Alan
Favours downsizing	Brian, Ken, Kerry		Ian, Ingrid
Will consider all HEW options in the future	Frank, Fiona		Harry, Hilda, Nick, Sam
Averse to MEW		Des, Diane, Ed, Elaine	
Averse to downsizing			
Prefer to avoid HEW in future	James, Jenny	Carol, Glenda, Graham, Tara	Les, Olivia, Oscar, Peter

Seven participants had engaged with some form of MEW. Four of these engagements involved the participants' use of mortgage redraw facilities to either finance home improvements or meet immediate spending needs that exceeded current income. Three mortgage equity borrowers expressed a willingness to downsize. Brian had taken out a reverse mortgage on his current home and is considering downsizing in

provider felt that there are important liquidity risks if portfolios are overweighted in property when the availability and range of MEW products is relatively restricted. The key risk he envisages is that when self-managed superannuation fund holders retire, they will have difficulty structuring their assets in a way that enables them to access a regular income from their investments. This is a type of MEW risk not mentioned by any other participants and is outside the scope of the current study but appears worthy of further investigation.

the future. The experience has made him somewhat critical of reverse mortgage products. One couple, Frank and Fiona, appear to have entered into a home reversion loan with the Bendigo Bank, although it is difficult to be certain of the exact arrangements as the interviewee's description lacked clarity. While they are not critical of the Bendigo product, it is likely that their future options will be limited to downsizing or selling up. The remaining four MEW participants are equally divided between a willingness to consider all HEW options and an aversion to HEW in the future.

Among those who had already downsized, there was a strong antipathy towards any form of HEW in the future. The exception was Martin who has both downsized and made provision for funds to be available through MEW should the need arise. However, at the time of the interview he had not accessed these funds.

A diversity of preferences was elicited from those who have so far refrained from cashing out housing equity. Some participants were prepared to consider at least one form of HEW, while others displayed a general distaste to any method of housing equity release.

In summary, the context of home owner discussions took place within a broad context of a preference for home ownership, which was perceived as being closely aligned with important financial and non-financial benefits.³¹ Closely associated with a preference for home ownership was a preference for ageing in place. The following analysis of perceived risks and barriers to HEW uses data that in most cases was embedded within a preference for home ownership.

5.2 Perceived risks of and barriers to alternative HEW mechanisms: an overview

The following discussion is divided into two sections: firstly, risks associated with HEW; secondly, barriers or impediments that impede HEW. As might be expected interviewees' attitudes and knowledge of risks and barriers extend into areas that were not identified in quantitative analysis of large secondary datasets in the preceding chapter. Furthermore, our interview participants also raised a raft of concerns in relation to the risks and barriers associated with financial decision-making in later life that have an indirect effect on the appeal or otherwise of HEW.

But a note of caution is warranted; the views and interpretations offered by interviewees will not necessarily accurately reflect the contractual terms at which equity release products are offered. For example, if an interview participant reported that a reverse mortgage might leave them homeless, this is the perception that is reported, regardless of whether such an event could actually occur. Table 21 below lists the key categories of data by theme and provides an overview of risk and types of impediments that are identified by participants.

³¹ Note, however, that this was tempered by the identification by some participants of specific risks associated with retaining their current home such as maintenance risk and risks associated with coping with the physical characteristics of one's home (e.g. stairs and steep driveways).

Table 21: Main themes and data categories relevant to perceptions of risk and barriers, based on interviews with home owners and service providers

Themes	Key categories of perceived risks and barriers	
	Risks	Barriers
MEW	<ul style="list-style-type: none"> → Repayment risk * → Limited equity risk * → Inappropriate information and advice 	Stigma attached to reverse mortgage products—heard/read of bad experiences
Downsizing ^	<ul style="list-style-type: none"> → Crisis events in later life → Relative volatility of non-housing assets 	<ul style="list-style-type: none"> → Erosion of equity through transaction and other costs * → Reduction in income support program entitlements * → Social isolation
Selling up ^	See note ^	<ul style="list-style-type: none"> → See note ^ → Reduction in income support program entitlements → Rents are expensive and can increase at a faster rate than fixed incomes → Home maintenance issues → Tenure insecurity
Age-related financial risks and pressures	<ul style="list-style-type: none"> → Longevity risk → Sequencing risk → Financial age-related vulnerabilities → Intra-family relationships and informal housing and care arrangements 	Intergenerational transfers and pressures

Notes:

* These types of financial risks and barriers were also modelled in the previous chapter.

^ The recruited sample excludes those who have sold up. However, with the exception of erosion of equity through transaction costs, all other factors mentioned by interview participants in relation to downsizing can apply to selling up as well.

5.3 Perceived risks of HEW

5.3.1 MEW

We first consider the risks associated with *in situ* additions to outstanding mortgage debt. Many participants' knowledge was restricted to reverse mortgages, although some participants were able to distinguish between different MEW products. Four study participants expressed views that were highly critical of MEW, and a further 10 expressed reservations about releasing housing equity regardless of the method of extraction. However, some interviewees are prepared to engage in MEW 'down the track' despite an awareness of risk exposure.

Repayment risk

Security of tenure and a steady income are key priorities for most participants. While MEW was equated with an increase in debt, and was therefore seen as undesirable, possible increases in interest rates was a further concern. This type of concern was reported by those participants who had used MEW products, such as Brian and

Frank, as well as participants who had no experience of MEW. But Brian and Frank faced their financial future with some trepidation because they feared repayment risk, mortgage distress and the prospect of eventually having to sell up.

Brian's housing history was chequered by serial (13) housing transactions precipitated by job related moves. Before the purchase of his current house in 1996 he had accumulated little in the way of housing equity. Prior to fully paying off his mortgage he took out an 'equity mortgage'. He described his current situation as one where his combined income from investments and age pension allowed him to meet the interest payments on his equity mortgage, but no repayments of principal. Brian felt vulnerable in the event of interest rate increases:

I'm in the position where I would say within two or three years I'm going to have to sell and move into rented accommodation because the old age pension and investments don't cover the payment. So it's one of those things. As long as interest rates stay low that's fine. If we get around to the state where they are moving up again then I'm going to have to sell and hope that the equity will get me out of it in the end; judiciously invest[ed] it will pay the rents and give me a little bit of income [to] spare. (Brian, Equity or reverse mortgage, Perth, 75 years and over)

Compared with Brian, Frank's housing history was relatively straightforward. However, financial arrangements with respect to his current home were unclear. Frank's description of arrangements appears consistent with a home equity loan, but some aspects of his narrative were consistent with a shared equity arrangement. Frank depicted a situation where he probably needs to sell his house in order to discharge the loan. He was understandably keen for this to happen after his children left home. Frank distinguished between his current method of MEW and the option of a reverse mortgage in the following way:

With a reverse mortgage you've got no idea. It just varies dramatically with interest rates. So I just, no I didn't look at it very seriously. (Frank, Equity loan, Melbourne, 65-74)

Perceptions among those who were less familiar with HEW products were more general in nature. However, there were some strong views that deferral and compounding of interest payments would cause reverse mortgages to balloon out to levels close to home value, and leave owners with no home equity to fall back on. Elaine was concerned that high and compounding interest payments could result in homelessness:

I think that there's high interest rates and even though you don't have to pay it now. You can spend the money and it comes out of your thing, but you have heard of people that have lost the houses by taking them out and they are still living out on the street. I just don't think they are a good idea. (Elaine, Perth, 75 years and over)

But you can pay so much there's nowhere to go, there is nowhere else you can buy because you have used so much of your capital up and that means there is no option to downsize any more. (Graham, Perth, 75 years and over)

Service providers, too, are raising similar concerns about repayment risk:

... we were concerned that there seems to be an alarming rate of older people who are losing their home ownership because of the sort of system of I suppose asset-based welfare ... that people are taking out and more at later stages in life and then not being able to keep up with the mortgage

repayments and slipping out of home ownership. (Service provider 4, government department)

Limited equity risk

Home owner participants were asked about their bequest motives and only a few mentioned this as an important motivation for their financial decisions. However, owners planning a bequest thought that MEW products posed a threat to these plans. Elaine expressed a wish to leave a bequest to her children, specifically in the form of her current house. She was strongly averse to MEW products that would reduce the amount of her bequest. In contrast, Sam spoke of MEW products in generally favourable terms but was nonetheless aware of a potentially negative relationship between MEW and bequests:

No way Nellie, and I have talked my friends out of it too, because you've got to pay interest on that. We worked hard for what we've got and if there's anything left my kids can have it, not the bank. (Elaine, Perth, 75 years and over)

My view is that they're good, but not everyone's using them ... I thought when they came out that ... more people would use them, but I think that there's this sense that you're watering down your security, you're watering down what you're going to pass on to your children ... (Sam, Sydney, 55–64)

Some service providers expressed similar concerns about reverse mortgages. They emphasise how consumers can find it difficult to understand the effects of compounding interest on outstanding debt obligations, and the significance of exit fees when there is early termination:

So the seniors that I talk to tell me that they are paying—the cheapest one I've heard is 7.76 per cent on their reverse mortgage, but they have been there four to five years and through their statements they can see that their debt is increasing. In most of those cases the debt has increased by 50 per cent. When you work it back, the effective rate of interest is closer to 9-1/2 or 9.2 or 9.3 [than] what they think they're paying, because they're paying interest on interest and they go, well, that's pretty bad news. And you say, well, do you want the really bad news because in another four to five years you will get the double effect ... interest rate will be getting on past 11 per cent, well into double digits. Now that's all okay. It just means the equity in their property is running out rapidly; depending on how long they live there will be far less there for their estate, for their beneficiaries, for their children, their grandchildren, what have you. (Service provider 1, private finance provider)

...there's one particular lender not very far from here, their reverse mortgage product I've seen has been very good compared to what I see from other lenders. But they can often have very high fees relating to early termination, because they fixed the interest rate for life. And it also has the compounding effect, so somebody may have a loan for \$40 000, just to travel around, buy a campervan, and their home might be worth say \$500 000, before long, that loan is up to \$80–\$90 000. And the exit fees, if they want to sell their home and change their minds about living in the house forever, might be \$40–50 000. (Service provider 2, community based not-for-profit organisation)

As acknowledged in Chapter 4, the amount of equity released via MEW products may be reduced if it triggers a reduction in ISP entitlements. However, as observed by one service provider, this sort of scenario is unlikely:

... we rarely see these sorts of cases. And if I can explain, under the means tests, withdrawals from reverse mortgage products or home equity products

are only assessed if the person takes out or has got a balance of more than ... [\$40 000]³² outstanding, and if that balance is outstanding for more than three months. Now my—the anecdotal evidence I've got is that ... because the nature of how people use these products is they take out the money and spend it fairly quickly and therefore it doesn't impact on their pension. It would only impact on their pension if they took a large amount of money out and held onto it and reinvested it in another financial product. ... But of course, that's not—I guess that wouldn't be very rational behaviour because you'd be borrowing money from the home equity product at a higher interest rate than you're likely to be able to get in a retail investment product. (Service provider 5, government department)

Inappropriate information and advice

Home owner participants generally did not recount substantial difficulties obtaining information about MEW products. Further, some participants explicitly stated that they would not rely on 'hearsay, sort of thing'. However, a key finding is that some participants found the terms and operation of MEW products to be complex, and conducted their own search for information as well as seeking advice from trusted family and friends, rather than specialist professionals with the relevant expertise:

I've just got one brother alive and he's a millionaire many times over and his whole life is money and investments. (Carol, major regional centre outside Perth, 75 years and over)

Well I think that's quite important—your circle of friends—if you want to ask a specific question, well you go and ask the friends and they will say 'Oh yeah, so and so has done that or found information about that'. So I think if you've got a good circle I think that's also very helpful. (Ian, Adelaide, 65–74)

In contrast, other home owner participants reported a more financially sophisticated background and were among the most willing to seek professional advice on MEW products. For example, Nick had sought professional guidance and his view was that a team of advisers were required in order to make an appropriate decision:

Because you get mortgage broker, you get mortgage broker selling equity release, they don't understand the tax ramifications of getting lump sum payments and then how that has effects on the pensions, Centrelink and that stuff. They need to have a mortgage broker; they need to have an accountant and possibly a lawyer as well as part of that team to give assistance ... (Nick, Sydney, 55–64)

While most owners did not necessarily recognise inaccurate and inadequate information and advice as a source of risk, there were some who did feel exposed to risk in this context. Importantly, the subject of appropriate information and advice was a major concern recorded in all interviews with service providers. They believed that current information on HEW was not always easy to find.

For instance, some service providers questioned whether the information that home owners access is current, unbiased and accurate:

... it's a danger for people who are trying to do this on their own because they're reading maybe material that's out-of-date or not completely accurate. So they're being misinformed. (Service provider 8, private advisory service)

³² The interviewee had actually cited \$45 000 but reverted to \$40 000 later. Australia's social security legislation also states it should be \$40 000 (FaHCSIA 2013e).

I think there is an overload of information. The question is whether that information is a form that is useful, and I think when you look at the asset guide on reverse mortgages, I think it runs for some 79 pages, you might be able to argue that you have covered the territory, but all the facts that are in there, but a criticism that I often hear is that consumers find it hard to find unbiased information. Sure, there is a lot of information about the warning about risks, but there is very little that gives an unbiased view of the advantages and disadvantages, and at the end of the day that's the sort of information people need in order to make decisions. (Service provider 9, private finance provider)

A number of service providers were concerned about the complexity of information that confronted home owners when considering MEW. One service provider felt that the complexity of products had increased over time and that this had increased the need for services to assist with HEW decisions:

Yes, for a long time I was a believer in—excuse my Latin—caveat emptor 'Buyer Beware', however, these days we live in such a complicated world it's hard to become fully informed and aware of what ... financial products do and the pitfalls of them. (Service provider 6, community based not-for-profit organisation)

Some concerns with financial literacy were also expressed. For example, Service provider 7 felt that some clients did not fully understand the meaning or implications of compounding interest:

One of the biggest things is that ... they don't appreciate perhaps the compounding of interest, that the interest does compound unless they make repayments, which they can do at their option. (Service provider 7, peak industry body)

5.3.2 Downsizing

Crisis events in later life

As indicated in Chapter 3, events such as bereavement or illness can precipitate major financial decisions. Glenda raised this as an important age-related risk relevant to downsizing:

... goodness, if your husband dies, your life long mate, you know, is this, you've got to now not only sell the house, you've got to downsize and then move to a whole new environment, I think, how did you manage that? (Glenda, Perth, 75 years and over)

Service provider 8 also noted that downsizing and related decisions about accessing age care services were sometimes precipitated by adverse health events, or bereavements. In some cases these decisions were made quickly as time pressures prevented information gathering and considered planning. These circumstances are key factors raising risks:

And that's the problem we get mainly, coming [to us] under crisis, and then they have to make a quick decision because it's not [in] the planning. (Service provider 8, private advisory service)

Relative volatility of non-housing assets

Discussions about the security of housing as an asset often drew on comparisons with the relative volatility of other assets, particularly listed stocks. This was because participants understood that releasing equity through downsizing involved a related

decision about the form in which the released equity can be held. Interviewees argued that housing values were less volatile than other assets making housing a more desirable asset class. Thus, downsizing exposed owners to risk because the released equity could be reinvested in assets that are more volatile than housing. While interest-bearing deposits are regarded as 'safe', owners rarely mentioned them as a desirable option. The stability of housing values is an attribute that respondents trust and to a degree felt was not replicated for other assets. The possibility of higher capital growth from investment in other assets was not typically considered. For some participants this was closely linked with recent capital losses on non-housing assets due to the global financial crisis which commenced in 2008:

So I think, you could have thousands of dollars tied up in shares but at the whim of some stock broker or say what happens on Wall Street, you could suddenly lose most of it. Whereas with a property, the values in housing fluctuate, but usually I think you end up pretty well breaking even. (James, Adelaide, 55–64)

'So suddenly you've only got about \$50 000 ... you can invest in the stock market and lose some more if you like, or we can invest it into fixed deposits and get kind of 4 or 5 per cent per year, but it's a very hard—almost a no win situation. (Graham, Perth, 75 years and over)

5.3.3 Age-related financial risks

Longevity risk

Longevity risk is the prospect of living longer than expected (e.g. beyond average life expectancy). This risk will affect the adequacy of savings and income in old age. The key elements of longevity risk were well understood by many participants. It deterred some interviewees from engaging with MEW, and Carol's comment below represents one example of this. However, other respondents linked longevity risk to a more general view of asset accumulation and divestment with no apparent bearing on their attitudes toward particular types of HEW. Hilda's comment below represents this type of risk identification:

A lot of people end up in trouble, financial trouble, through—if you borrow on your house too early an age—no one knows how long they're going to live and we don't know, there's so many unknown quantities... (Carol, regional centre outside of Perth, 75 years and over)

The difficulty is, isn't it you know, you see that wonderful curve when you do your superannuation, and your super's going to run out about there, but you don't quite know when you're going to run out, whether it's going to be before or after that. (Hilda, Adelaide, 75 years and over)

Data on this issue was particularly rich, with most owners expressing some awareness of the challenges posed by trying to make important longer-term financial decisions in the face of fundamental uncertainty.

Sequencing risk

Sequencing risk refers to an unfavourable sequence of returns on investment (Doran et al. 2012, p.6). An example of sequencing risk is a period of low or negative returns immediately prior to the planned liquidation of assets. Sequencing risk was particularly relevant to participants who had retired or who were close to requirement and were recounting large reductions in the value of their asset portfolios following the GFC. Recognition of this type of risk extended beyond the observation that publicly listed shares might be more volatile than other asset classes. Discussions of sequencing

risk linked changes in asset values to specific life cycle issues, such as remaining in the workforce for longer than intended, or an inability to compensate for financial losses once retired from the workforce:

I'm supposed to be [retired] right, but how can you tell? It's hard. I like to think I am, but the way, the ups and downs of the market, one minute you're good and the next minute you're not so good. So I did intend to leave work just before the global financial crisis hit.... I don't want to give up [work] and be sorry that I have given up and can't live on what we've got, it's hard. Les, Sydney, 65–74)

One of the things we were able to do when I was gainfully employed was to build up our assets, and which we particularly did in investments; shares and other financial investments. So, we live on that income; income from those, have done now, for a few years. However, what with appreciation of the money, oh and particularly the Global Financial Crisis of 2008, the value of our assets went down by about 30 per cent, would you believe... (Martin, Sydney, 75 years and over)

Age-related financial vulnerabilities

This risk was identified by one service provider who felt that older home owners were sometimes targeted by particular HEW providers because they are 'asset rich' and, in some cases, unaware of the value of their house and the costs of releasing equity. For these reasons older people are prepared to take on expensive and inappropriate HEW products:

People who made various financial arrangements for these people weren't always looking out for the interests of the older Australians, who were basically putting their home on the line. ... the main thing is, they often have [a] home and large assets, so they're really the prime target for people and it's because of that, they often find themselves in these sort of financial arrangements that are really quite onerous and detrimental and eat into the value of their homes. With the younger Australians, they have so little equity in their homes, that nobody is interested in them really. (Service provider 2, community based not-for-profit organisation)

Intra-family relationships and informal housing and care arrangements

Service providers engaged in community based organisations commented at length on intra-family relationships and informal arrangements that pose financial and non-financial risks for housing and care.

Service provider 3 works in a community based organisation which provides legal advice to a wide range of clients, including older home owners. She has encountered a number of older people who have put their own financial resources and independence at risk in order to provide financial assistance to younger family members. This is a type of risk not discussed in detail by any other participants. People find it emotionally painful to recall and speak about these matters, and few service providers are in roles where they would hear of such cases. The potential for 'elder abuse', including financial abuse, can be an important source of risk for some older home owners. Elder abuse is defined as 'a single, or repeated act, or lack of appropriate action, occurring within any relationship where there is an expectation of trust which causes harm or distress to an older person' (World Health Organisation 2013). Financial forms of abuse can take a number of forms but could involve circumstances, for example, of using a power of attorney to withhold money or misuse finances (DVRCV 2013).

Service provider 3 gave details of several cases that had important differences but particular features in common. In general terms, they involved agreements within families for an older person or couple to sell their home and move into a son's or daughter's home. The release of equity would assist their son or daughter to pay for their home, and in return the son or daughter would provide ongoing care to their parent/s. Sometimes a part of the released equity would be used to extend the son's or daughter's house, or build a 'granny flat'. The Service provider acknowledged that in many cases these types of arrangement worked quite well and to the satisfaction of all parties. However, occasionally informal arrangements such as these failed to work in the interests of the older parents.

There were several particular types of risk that precipitated potential conflicts. Firstly, the burden of providing care to older parents may have been under-estimated by the son or daughter, and little equity may remain to finance professional care:

... the daughter, the son, the carer, whoever, takes a bigger bite than what they can chew and they find that caring as time goes on is quite a stressful and onerous job and they're not prepared and they're looking for ways out (Service provider 3, community based not-for-profit organisation)

The negotiation was well it's so broken down that they've got to move but they don't have sufficient funds to reset themselves up somewhere else with the care that they were promised. (Service Provider 3, community based not-for-profit organisation)

A second source of risk is changing family dynamics in the son's or daughter's household. Service provider 3 referred to the son's or daughter's partner as the 'other party to the other party' and becomes unwilling to continue with previously agreed care and accommodation arrangements. Again, the previous use of equity released through downsizing can mean that future options for the older person are limited:

... often it is also that ... the daughter/son might well have that good intention, but there's always another party to the other party and the breakdown often comes because of the other party to the other party. (Service provider 3, community based not-for-profit organisation)

A third source of complicated financial and emotional risk is divorce between an ageing home owner requiring care, and his/her partner. Service provider 3 spoke of an 80-year-old home owner married to a partner 39 years younger. The home owner is now frail and requires considerable care, but due to marital difficulties, he and his wife are divorcing. The divorce settlement is unlikely to leave him with enough in the way of assets to purchase adequate future care. This was not the only such case that she had seen in her role as a service provider:

... and it's the males that come then because they've remarried a much younger woman and I mean a much younger woman, sometimes 30 or 40 years younger, and they have married for the reason of care and accommodation for life.... And the whole thing, the relationship, breaks down and where do I go now? (Service provider 3, community based not-for-profit organisation)

Service provider 3 provided some of the most complex and emotionally fraught examples of these risks. Other community based organisations also mentioned siblings as a source of conflicting advice and differential support that caused emotional stress. For those working outside this immediate area of service provision, it is perhaps heartening to hear that this type of situation appears to be relatively rare:

And there's a promise that there's a granny flat and then one morning, mamma wakes up and there's a 'For Sale' sign and there's no protection. But we haven't actually got many of those situations really. (Service provider 2, community based not-for-profit organisation)

In response to a discussion about issues that policy-makers could/should address, one participant raised the issue of elder financial abuse as a particular risk. The issue was mentioned in very general terms, and seemed unrelated to personal experiences or expectations:

I think that for some older people that there needs to be actually more protections in terms of who can buy and sell their home on their behalf, because I mean I just hear stories and circumstance[s] where children have sold up properties on behalf of the parents and moved them out of homes and used their assets and things like that. And that financial abuse is very difficult, and I think there should be more checks and balances over that, that sort of thing. (Olivia, Sydney, 45–54)

5.4 Perceived barriers to HEW

5.4.1 MEW

Stigma attached to reverse mortgage products

A number of owners were averse to reverse mortgages but expressed their concerns in very general terms. These participants perceive reverse mortgages to be an inherently risky product; there is a stigma attached to the use of reverse mortgages. For some owners fears about risk was based on knowledge of others' views of the product. Nick provides an example of this type of response:

And I work with a lot of accountants because I sell to them, and generally speaking if you ask accountants about a reverse mortgage 99.9 per cent would turn their nose up and say they stink. (Nick, Sydney 55–64)

In contrast, other participants were apprehensive about reverse mortgage products because they were suspicious of the motivations of those selling reverse mortgage products, or a general opinion that reverse mortgages were in some way undesirable. Elaine and Les lack trust or confidence in these financial products and their providers for these reasons:

I just don't think they are a good idea. I think there are a lot of sharks out there—a lot of risks. ([Elaine, Perth, 75 years and over])

In our own mind, it's something we wouldn't touch. (Les, Sydney, 64–75)

Service providers tended to take a more pragmatic view of reverse mortgages, but perceived that consumers need to be very aware of the quality and suitability of the product that they are considering:

... the reverse mortgages ... they can be a very good product, I think for some people perhaps, but you really have to go into it with open eyes. And the product varies, so some products might be very good and some products might be just awful. (Service provider 2, community based not-for-profit organisation)

5.4.2 Downsizing

Erosion of equity through transaction and other costs

A common anxiety that impede decisions to downsize is that transaction costs will eat into housing equity and leave insufficient funds to buy an appropriate, smaller home.

These discussions were typically framed in terms of selling a current home and moving into a retirement village. Ed lives in a large home in an outer Perth suburb that he acknowledged as possibly larger than he needs and offering poor access to public transport; but he was doubtful that downsizing would release sufficient equity to move into a retirement village:

I don't think we could sell this place and get into a retirement village ... it wouldn't be viable. (Ed, Perth, 75 years and over)

On the other hand, Des and Diane appeared happy because their decision to downsize had improved access to transport and other facilities, even though it released very little equity:

One of the advantages of buying in a less expensive area is that we could afford to pay cash for this without any problems and do things like blinds without any out-of-pocket expenses. So we walked into it ... owing nothing and having it as we wanted it. (Des, Perth, 75 years and over)

Advertising, stamp duty, sales commissions and removal were all mentioned by service providers as having an important effect on the amount of equity that might be released on selling up. One service provider also mentioned the cost of furniture as an important consideration when moving to a smaller home:

There are selling costs associated with advertising and agent's commissions and then stamp duty when you rebuy, and you know even if it's half a million dollar problem you can still spend \$35–40–50 000 in that process with the combination of stamp duty and so on ... (Service Provider 1, private financial services)

... you are paying moving costs and associated costs—new furniture in some instances because the old furniture doesn't fit, and then you've got stamp duty that you don't seem to get anything for. Service provider 6, community based not-for-profit organisation)

Service providers' worries about moving costs were confirmed by a number of owner respondents again from the retirement home perspective. Brian, who had engaged in MEW and was now considering relocating to a retirement village, feared the transaction cost burden if he later decided to move out:

I've looked into retirement villages. I think they're an absolute rip off. They're very nice and they appear to be good value on face value but I've also met another lady who lives in a retirement village. Her property is worth, according to their figures, \$380 000. They're the only ones that are allowed to sell it for you. Her costs to get out of it are around \$90 000 because of the time she has been in it. (Brian, Perth, 75 years and over)

Elaine was also uneasy about the costs of buying into a retirement village, but her biggest fear was the loss of capital on acquiring a leasehold rather than freehold title. She believes that a leasehold arrangement meant forgoing capital gains that could result in unaffordable residential care arrangements at a later date:

... because of course whatever you put into a retirement village is all you get back, you can never be placed in care because retirement villages you only leasehold... if you pay \$400 000 to go into there for 20 years and in 20 years your building is worth \$400 000 and they take all the equity, so I am not interested in retirement villages. (Elaine, Perth, 75 years and over)

Glenda and Graham downsized to a 'lifestyle village', but soaring ongoing costs to cover communal facility and maintenance costs was an *unanticipated* risk. In Glenda's

village these costs were met from a sinking fund and both she and Graham discussed concerns that the costs associated with their recently-purchased accommodation had risen three times in six months.

... we've been here six months, well not even. The quarterly rate, the fortnightly rates, have gone up three times. (Glenda, Perth, 75 years and over)

Service providers remarked on how retirement villages' marketing appeals to older people thinking about downsizing but warned that downsizing to a retirement village can release little equity, particularly for those with limited resources. Service providers also reiterated Glenda and Graham's worries about ongoing fees and expenses; this is clearly an important risk that needs to be considered by those contemplating a move into retirement villages. On the other hand it will appeal to those wishing to reduce maintenance and housekeeping commitments as opposed to realising housing equity:

... they're not cheap and you've got to be monied to both buy into them which means selling your property and to stay there as well—they were talking about \$63 a week charges and probably justified charges—you know garden maintenance, council rates and some other things—I have forgotten what it was, but they are not cheap places to live. (Service provider 6, community not for profit)

And people—it's a marketing thing, it's a lifestyle thing, and so that's the problem as people get sucked into this. You know it's probably the main reason they move into retirement villages is either because their garden's too hard to maintain or they want to just lock up and leave and go on holidays. But they might have huge deferred management fees or like [Alice]'s saying if they both move in but then one spouse needs care, how can they access equity or how are they going to afford it. They might not be able—and depending on what the title—you know, do they own it or do they just rent it? So it's—retirement villages are a huge problem I think. (Service provider 8, private advisory service)

Reduction in income support program entitlements

Graham downsized three times and spoke about his experience with links between releasing equity through downsizing and reductions in age pension entitlements:

Under the income and assets test they are deeming. They say, 'okay, you've got \$100 000; \$70 000 we're going to take 3 per cent and \$30 000, 4.5 per cent', or whatever. So suddenly you think 'oh no', this is over a year, we are going to lose, so the \$100 000 might be \$85 000 but then think, well, you know in 10 years' time, \$100 000 is only going to be worth \$60 000 anyway, if you're lucky. (Graham, Perth, 75 years and over)

Other home owners did not speak about this aspect of HEW in as much detail as Graham, although there was general recognition that decisions needed to take the potential effects on ISP entitlements into account:

So they need to be Centrelink friendly, they need to be flexible... (Harry, Adelaide, 75 years and over)

Social isolation

Downsizing was associated with particular forms of social isolation, such as loss of familiar and friendly neighbours or a lack of accommodation for visiting children and grandchildren. These qualms can deter downsizing or steer downsizing to particular areas or houses. Alan's current home is large enough to accommodate visiting

daughters and grandchildren who live interstate. This was an important reason for his interest in MEW, despite being unfamiliar with financial products:

We've got two daughters living in the eastern states and they visit when they can, and grandchildren, so it's nice to have a nice house to come to. And that was sort of one of the arguments against downsizing. They can still come to home, [it's] for them as much as it is for us ... Oh yes we've got a good relationship with our neighbours and it's the only way to be in the city isn't it? (Alan, Perth, 75 years and over)

Glenda fears social isolation as an outcome in some of the houses and areas that she and her husband could afford to buy if they downsized. This type of concern was relevant to participants who perceived that there was a lack of suitable housing in familiar suburbs with well-known facilities:

Well, you know, we were looking at this, we [started] about four years ago, thinking we have to do something. And we started looking and some of the places are awful, and I thought I couldn't get up in the morning, in that place, it would be deadly. (Glenda, Perth, 75 years and over)

Glenda's concerns are echoed by a service provider, who noted that:

... there is very clear evidence ... [that] there is a strong desire to stay in place. That relates mostly to the way in which senior Australians respond to their community rather than necessarily their property asset—the family home ... the ability to sell your home and then downsize within the same area that you wish to live results in very limited equity release ... (Service provider 9, private finance provider)

5.4.3 *Selling up*

All interviewees were selected because they owned their home so we have no examples of selling up and moving into rental accommodation, a tactic that will cash in all of an owner's housing equity. While some participants recognised this as a potential option, no one mentioned it as a preferred form of HEW. Home ownership was generally thought of as providing benefits above and beyond the type of accommodation benefits that are available from rental homes. Many interview participants had lived in rented accommodation when they were younger, though few expressed negative experiences of renting beyond their view that it was relatively expensive compared with purchasing a house. However, we recorded a number of negative opinions about respondents' prospects if they were to move into rental housing 'down the track'.

The risk that rents will turn out to be expensive and increase at a faster rate than the age pension is a very important fear:

No, we're just working at paying it off and being financially secure with it, not have to pay for rent or anything in old age (Kerry, Adelaide, 55–64)

... if I'm no longer working then it's one thing to have a low income, it's disastrous to not have your own home and be on the rental market with a fixed income. (Olivia, Sydney, 45–54)

Having responsibility for and control over home maintenance, the security of tenure guaranteed by home ownership were also important issues for some participants, as demonstrated by Graham and Frank:

You get all these landlords and you need a plumber. Nobody comes for a couple of weeks. You need something doing and nothing gets done and then

suddenly they turn around and say I will give you three months' notice, all that kind of thing. (Graham, Perth, 75 years and over)

I know my parents rented all their life. ... And the owner at the time decided that he wanted to pull them down and build something else so they were out. And that was after, geez how old was I? I was 20, I was probably—yeah, I would've been 25. And my parents had probably, my mother particularly, had lived in that house since before the war years. So it was probably 35 years that they'd lived in the same house. ... No permanency. So I never even contemplated renting. Never. (Frank, Melbourne, 65–74)

As with downsizing, there was an awareness that selling up could adversely impact ISP entitlements:

Yeah selling and renting was, Centrelink would take a large—because then you would have a lot of capital and they would take a large amount out of that. So that wasn't really viable ... (Graham, Perth, 75 years and over)

5.4.4 Age-related financial pressures

Individual home owners rarely mentioned intergenerational issues as a source of tension in their decisions about HEW. To the extent that this issue did arise, it was generally discussed in terms of wishing to leave a bequest to children that was in some way tied to the equity tied up in the family home.

Interviews with service providers offer a different perspective on intergenerational issues within families and their effects on HEW decisions. The issues raised were diverse. Service provider 1 noted that children who might benefit from the bequest of their parent's home tended to voice concerns with negative or limited equity risks associated with MEW products. He attributed the children's motivations to the wish to inherit their parents' house:

The people obviously are hoping to inherit I guess. I mean I have met people around—in their 50s—who have discovered to their horror that 'my parents have taken out a reverse mortgage' and one guy said to me 'I made them sell the house and repay the debt and we took whatever was left and we bought them something cheaper'. And another chap who was an accountant who said he was horrified when he found out his parents had a reverse mortgage. He said 'it was \$150 000 and between my siblings and myself he said we raised enough money and paid it off'. (Service provider 1, private financial services)

However service provider 1 felt that appropriate MEW products can allow older people to remain in their home and retain financial independence, a potentially important benefit. He expressed the view that parents' access to their housing equity through MEW products brought them 'self-respect'.

Home owner participants did not favour the release of housing equity in order to provide financial assistance for their children. However, some service providers were aware of MEW being used for this purpose with the home owner's child making repayments. The risks are twofold. Firstly, the child might experience events, such as a loss of job or business failure, that make repayment difficult and exposes parent to default risk. Secondly, tensions between siblings are frequently exacerbated when one learns that the other has received financial assistance from a parent:

... the ones that we might see, is where the loan, there's some difficulty with the person, unexpected, loss of job income, business goes down and then they can't make the payment. So that's when all these things would come to light. (Service provider 2, community based not-for-profit organisation)

As noted previously, service providers generally think that inadequate information and poor advice are the key areas of risk associated with older owners' use of MEW. These issues aside, however, most service providers cautiously support the view that suitable MEW products play a positive role in promoting financial well-being. Intergenerational pressure is, however, an impediment that only came to light as a result of interviews with service providers, and is an important reservation:

Apparently it's getting more common where children are putting pressure onto ... senior parents to release money early much to the detriment of them, so that's probably an aspect of using equity in a negative way. (Service provider 6, community based not-for-profit organisation)

5.5 Summary and concluding comments

This chapter has examined the perceptions of risks of and barriers to alternative styles of HEW by older Australian home owners. This home owner interview data has been supplemented with insights from service providers who, for some categories of risks and barriers, provide insights that are not readily accessible from individual interviews with home owners. We found that perceptions associated with HEW are formed within a broad context of a preference for home ownership as being tied in with important financial and non-financial benefits and for ageing in place. However, these are also specifically informed by a diverse range of HEW experiences and preferences.

5.5.1 Perceived risks of alternative HEW mechanisms

In general, the interviewees confirm that they are aware of the financial risks and barriers modelled in the previous chapter that are directly associated with specific HEW styles. In addition, they voiced a raft of other concerns, mostly relating to non-financial aspects of HEW that are not quantifiable from secondary data as well as more generally age-related concerns.

There were two key types of risk perceived as associated with MEW—repayment risk and limited equity risk. These were confirmed in the preceding chapter as potential sources of risks if adverse life events such as marital breakdown, ill health and unemployment were to befall *in situ* equity borrowers. It is therefore important to re-state here that older owners that have withdrawn equity via MEW have average mortgage indebtedness levels that are roughly 1.5 times the level owed by other older mortgagors, and the former older MEW users are also more at risk of adverse life events than other older mortgagors. Furthermore, on average, one in five older owners releasing housing equity via MEW borrowing now have housing equity that is less than 40 per cent of the value of their homes, compared to one in 10 other older mortgagors. Hence, concerns regarding repayment and limited equity risks that were voiced by our home owner interviewees are not unfounded. Furthermore, interview participants also tied in concerns of limited equity with a potential loss of capacity to leave a bequest. In a context where MEW products were perceived as risky and/or complex, the role of information and advice appears to provide a particular area of risk which was not always identified as such by interview participants. It was however a key area of risk identified by service providers who linked issues of repayment risk with either a lack of adequate information or understanding on the part of consumers.

In accordance with the quantitative findings in Chapter 3, adverse life events were identified as potential triggers for downsizing through the interviews. In some cases financial decisions had to be made quickly due to time pressures, preventing information gathering and considered planning, and hence elevating the risks of making unsound financial judgments during crisis events. A decision to downsize and

invest equity in listed shares was also perceived as risky due to perceptions of stock market volatility.

Some areas of age-related concerns of financial decision-making are straightforward in terms of their causes and effects on the risks associated with HEW. Issues such as individual longevity risk and sequencing risk, for example, were readily perceived as sources of risk by home owners, even if they did not use the words 'longevity' or 'sequencing' in their discussions. A more complex area of age-related risk is the challenges associated with the family and social relationships which may provide the context for HEW decisions. Service providers discussed a wide range of risks associated with informal family arrangements that involved varying forms of HEW. Downsizing was sometimes combined with family arrangements to provide care for older parents and despite the best of intentions could result in considerable risks to parents that they would have little remaining equity and constrained access to professional care services.

5.5.2 Perceived barriers to alternative HEW mechanisms

Home owner participants expressed a general perception that MEW, or reverse mortgages in particular, were inherently risky products. These perceptions were not necessarily linked with a detailed knowledge of the products available but sometimes expressed a general aversion to MEW.

For older home owners, the barriers to downsizing related to particular key areas confirmed as impediments in the preceding chapter's modelling exercises. Firstly, there was a perception that transaction costs and other costs would erode the equity released from HEW, reducing the incentive to downsize. A related concern was associated with the uncertain costs increases that might be associated with leasehold arrangements in retirement villages and the loss of potential to benefit from the value of an appreciating asset. Home owners were aware that the application of income and assets tests could reduce ISP eligibility. Downsizing was also associated with potential social isolation, such as moving to unfamiliar communities or losing accommodation space for visiting family members.

While some home owner participants recognised selling up as a potential HEW option, no one mentioned it as a preferred form of HEW. However, many did express negative perceptions about renting, associated with rents being both expensive and having the potential to increase at a faster rate than fixed incomes such as the age pension, principal-agent problems where landlords fail to respond to home maintenance issues promptly, and a general sense of tenure insecurity. One interviewee was aware there would be potentially negative implications on ISP entitlements upon selling up, as confirmed in the previous chapter.

In general, intergenerational issues could potentially act as a source of tension in older home owners' decisions about HEW. To the extent that this issue did arise, it was generally discussed in terms of wishing to leave a bequest to children (or children's expectation that they would receive a bequest) that was in some way tied to the equity tied up in the family home.

6 HOUSING EQUITY WITHDRAWAL IN LATER LIFE: MITIGATING RISKS AND OVERCOMING BARRIERS

The previous two chapters provided an analytical analysis of the risks of and barriers to using alternative HEW mechanisms in later life via a two-pronged approach—quantitative modelling in Chapter 4, and qualitative analysis in Chapter 5. We now proceed to address the final research question of this project:

What mechanisms can mitigate the risks of and barriers to alternative HEW mechanisms in later life?

It is important to address this research question because the preceding two chapters confirm that HEW can lift some home owners' risk exposure to uncomfortable levels, while other owners, who might benefit, confront barriers that impede their use of HEW. There is a preference among older Australians to age in place (see Section 5.1 and Olsberg & Winters 2005) and our findings in Sections 3.3.1 and 5.3.2 suggest that crisis events, such as bereavement or illness, can therefore tip owners into hasty decisions to cash in housing equity. There can be profound financial ramifications when older home owners make such decisions at a time of emotional stress. This can be true in the case of downsizing, but is even more pronounced in the case of selling up. Even MEW, which appears to be typically used by older home owners with greater financial security than those using other forms of HEW, has enhanced risks attached to it. For example, it is typically associated with greater mortgage indebtedness than those mortgagors who do not use MEW (see Section 4.1.1).

Table 21 in the previous chapter contains a comprehensive array of risks and barriers identified in the quantitative modelling and/or interviews. The wide range of risks and barriers reflects, in part, the semi-structured nature of the interviews through which qualitative data was collected. In this chapter, we offer key recommendations that address the more important forms of risks and barriers listed in Table 21 that can be addressed by reforms in the HEW market or housing policy more generally. We do not make recommendations that speak to more general issues such as age-related financial risks and pressures. These age-related risks and pressures are critically important within the context of both housing and ageing policies. However, they raise a raft of housing and non-housing policy concerns that have not been investigated in earlier chapters, given the focus of this project on alternative HEW mechanisms. Nuanced policy recommendations that address the concerns surrounding age-related financial risks and pressures in decision-making about housing wealth will have to be informed by further investigations, which we hope to pursue as a research direction in the future.

Our recommendations are based on a combination of three sources. Firstly, service provider participants in the study offered thoughts on how to lower risk exposure given their experience and knowledge in this emerging area of financial management. Secondly, we draw on existing literature in Australia and other countries to inform our recommendations. Thirdly, we rely on our team's combined expertise in dealing with international policy concerns at the intersection of housing and ageing policies to critically assess the pros and cons of these recommendations.

6.1 Mitigating the risks of HEW

6.1.1 MEW

Mitigating repayment risk

The positive aspects of MEW were often acknowledged in interviews with the service providers. MEW products allow home owners to tap into their housing wealth for consumption in retirement while being able to age in their own home. However, it is also clear that repayment risk is heightened when adverse life events befall MEW borrowers who are otherwise typically in economically sound positions (see Section 4.1.1). Unanticipated interest rate increases can reduce MEW borrowers' capacity to repay loans, especially when incomes are fixed. Repayment risk can be moderated by opting for fixed interest rate loans. It is well-known that fixed interest rates incorporate a risk compensation element to the lender. Because of the lender's risk surcharge a fixed interest mortgage can be more costly than one with a flexible interest rate. On the other hand, the former may prove less expensive in the event that mortgage interest rates rise sharply, as they did during the 1980s when home loan interest rates almost doubled from 9.13 per cent in January 1980 to 17 per cent in January 1990 (Reserve Bank of Australia 2013b). However, one of our service provider interviewees noted that fixing the interest rate for the life of the loan may result in high termination fees.

A service provider participant offering private financial services indicated that the structure of debt-based MEW products does not appeal to consumers, citing the low market penetration rate of 'less than 2 per cent of its potential market' as evidence supporting the unattractiveness of debt finance to consumers. In recent years we have witnessed the emergence of some innovative solutions that aim to make equity release products more attractive. Geltner et al. (1995), Shiller (2008) and Smith (2009, 2010) have mooted the idea of separating the investment value of the primary home from its consumption value, creating a form of equity finance which in essence allows the 'owner' to spend housing wealth, without increasing mortgage debt.

In Australia, a similar concept called Fractionalised Property Investment (FPI) has been promoted by equity release provider DomaCom (2013, p.1). It 'enables property owners to separate their 'Right to Occupy' from the 'Right to Capital Value' interest in their property; and provides investors with the opportunity to purchase a fractional interest in property, rather than 100 per cent acquisition. It has also been suggested in the literature that the investment component of the primary home could potentially be made an independent tradable product in financial markets via the use of housing derivatives whose value reflects underlying house price movements (Smith 2010). Such a financial product would aim to ease home owner investment risks by diversifying investment on the one hand, and separate the investment risk from the consumption of housing services, on the other. The extent to which risk diversification can be achieved in practice remains to be seen, however.

Another new Australian equity-oriented product, Property Options for Pensioners and Investors (or POPI), allows an older home owner to grant an investor the right to purchase his/her home in the future at an agreed price today, in exchange for an income stream. As with a reverse mortgage, this product allows the home owner to stay in his/her home while drawing income from it in retirement. No interest is incurred as POPI does not constitute a loan (Popi Australia 2011). However, the question then arises as to whether investors would be willing to enter in such an arrangement where the option to buy in the future is bound to an agreed price today.

Mitigating limited equity risk

The second financial risk of using MEW that was mentioned by our home owner interview participants and confirmed as non-negligible in the quantitative modelling was limited equity risk. Recall from Section 4.1.2 that a substantial proportion of MEW users (one in five) in the later stages of the life course no longer have a majority equity stake in their homes. Reverse mortgage lenders generally attempt to cap risk burdens by putting restrictions on maximum loan advances, and geographic locations where products are offered. The maximum loan advance ranges from 15 per cent to 40 per cent of housing equity, increasing to the upper range with the age of the borrower (Hickey et al. 2007). One service provider familiar with the reverse mortgage industry explained that 'with the limited amount of money they can borrow, ... and with the usual property appreciation and even allowing for the compounding interest, there is probably going to be a reasonable amount of equity left for them to distribute [in a bequest]'. For some of the interviewed home owners, however, these risk-reducing constraints were perceived as negative product features that reduce the attractiveness of reverse mortgages to consumers.

Ensuring access to appropriate information and advice

It is critical for older home owners to be able to access affordable and relevant advice. A service provider participant acknowledged the sometimes 'prohibitive costs' associated with obtaining advice that is 'usable', and others highlighted the need for advice regarding the full range of older peoples' financial needs, including the financial and care decisions they face during times of stress, such as illness or bereavement.

As regards the appropriate source of advice, some scepticism was expressed in relation to advice from financial advisors as being potentially 'opinion-based advice rather than information based advice' due to limited knowledge around equity release strategies, and/or the oligopolistic nature of the financial advice groups that are now owned by 'a handful of major institutions'. However, many service providers were of the view that government or not-for-profit agencies provide readily accessible and unbiased information. Avenues suggested by service provider participants included Centrelink and the National Information Centre on Retirement Investments (NICRI). The Productivity Commission (2011) has also recommended a role for government-backed education programs. However, older home owners have concerns about approaching government-related agencies for financial advice. As acknowledged by a service provider, 'there maybe is a little bit of a distrust around government services, or government-funded financial services where people are a bit concerned that government is keeping tabs on their money a lot of the time ... and the potential impact that it may have on pension entitlements'.

Improvements in general financial literacy would help older home owners to better grasp information on financial products. However, service providers did acknowledge that the potential complexities inherent in MEW products could make it hard for the older home owner to become familiar with the features of financial products, and the pitfalls associated with them.

6.2 Overcoming the barriers of HEW

6.2.1 MEW

Reducing the stigma attached to reverse mortgage products

During interviews, home owner participants stated that they had heard or read of bad experiences associated with the use of reverse mortgages. However, one service provider suggested this could be largely dealt with by better access to accurate

information on the track record of the reverse mortgage industry. As an example, he cited 'public statements made by the Chief Ombudsman of the Financial Ombudsman, Mr Colin Neave, to the effect that no other industry can demonstrate the track record of the equity release market. He had dealt with some 20 cases over four years from a population of 38 000 reverse mortgage holders, and in the majority of those cases, he found that once consumers were made aware of their obligations under the agreements that they had entered into, the matters were easily resolved'.

No negative equity guarantees may also help overcome the stigma attached to reverse mortgages. For example, in the United States, a government guarantee of no negative equity is given to consumers of the Home Equity Conversion Mortgage (HECM) scheme (Ong et al. 2013b). Another example from France shows that reverse mortgages have not (yet) been successful, because suppliers have to offer a lump sum payment and a no negative equity guarantee (Taskforce Verzilveren 2013). In the Australian context, reverse mortgage lenders accredited by the Senior Australians Equity Release Association of Lenders (SEQUAL) offer a no-negative equity guarantee in their standard package. However, these guarantees will increase the price of the product. Reverse mortgages are therefore an expensive source of finance, and perhaps reflect the uncertainties involved in offering a loan over a long period of time.

6.2.2 Downsizing and selling up

Reducing transaction costs

Transaction costs can deter home owners considering downsizing because they are a significant upfront cost on their next purchase. The issue of transaction cost has been contentious and long debated in policy circles, especially with reference to its impact on home purchase affordability. The Henry Review (2009) proposed the abolition of stamp duty and its replacement by a broad-based land tax. Wood, Ong and Winter (2012) argue that such a move would promote downsizing by older home owners who are otherwise put off by the upfront lump sum costs associated with their next purchase.

Of course, stamp duties contribute a significant proportion of state government revenue in Australia. To limit the negative budgetary implications of abolishing stamp duty, another option would be to offer stamp duty exemptions to downsizing moves.

Sales commissions and similar costs were mentioned in the interviews with the service providers. They will be difficult to remove, if they are set based on commercial rates. There are other costs as well, like moving costs that will have to be paid for by the moving home owner, regardless of the tenure that the home owner is moving to.

Protecting income support program entitlements

The negative impact of HEW on ISP entitlements was highlighted several times in the interviews with home owners and service providers, and confirmed in the modelling work in Chapter 4 as an important impediment to downsizing and selling up.

It is clear that the government is aware that reduced allowances and pensions are a potentially strong deterrent to downsizing, as reflected in the recent 2013 budget announcement of government investment in a pilot program to offer means test exemptions to pensioners who wish to downsize. The reform provides income and assets test exemptions for home owners beyond retirement age, who downsize between 1 July 2014 and 30 June 2017. As long as at least 80 per cent of the net proceeds from downsizing (subject to a cap of \$200 000) are invested in a special account, these funds do not affect pension entitlements for up to 10 years. While this is a positive step towards improving housing choice for older home owners and

reducing disincentives, this pilot program has restrictive eligibility rules which will limit its take-up. Firstly, to be eligible, a home owner must have been residing in their home for at least 25 years before selling it. Secondly, while the means test exemptions are available to those moving into retirement villages or granny flats, they exclude people moving into residential aged care (Department of Human Services 2013).

The Productivity Commission's recent 2011 aged care inquiry report suggests a less restrictive approach for those intending to sell their primary home to move into residential aged care. The Commission recommends that age pensioners who intend to move into aged care be allowed to deposit all or some of the proceeds of the sale of their primary home into an Australian Age Pensioners Savings Account. The funds in this account would be exempt from income and assets tests.

Addressing social isolation

Our home owner interviewees (see also Olsberg & Winters 2005), confirm the importance of location to the housing choices of older home owners. Olsberg and Winters (2005) proposed that efforts should be made to assist ageing in place for as long as possible, by addressing barriers to ageing in place such as health problems, home maintenance issues and difficulty with accessing housing equity without selling the primary home. The study suggested that programs offering home-based care or maintenance services could be looked at as ways of assisting older home owners to 'age in place'. One of our service provider participants pointed out that the development of a HEW market that allows people to release equity from their homes without moving could go some way towards helping people to age in their homes for as long as possible.

On the other hand, others such as Gardner et al. (2005) have found that some older people who choose to age in place rather than moving to age-specific housing may be at even greater risk of social isolation as they accumulate frailty. Hence, it may be necessary to plan for moves in retirement to occur while people are still active enough to get involved in new relationships and activities in a new location (Olsberg & Winters 2005).

Addressing the disadvantages of renting

In Chapter 5, some home owner interviewees who commented on selling up and moving into the rental sector expressed negative perceptions about renting. Common fears include rents increasing at a faster rate than the age pension, landlords failing to respond to home maintenance issues promptly, and a general sense of tenure insecurity.

Selling up is not a preferred form of HEW; indeed our findings from Chapter 3 indicate that selling up is often a forced decision made by those facing crisis events in their lives. A recent study by Wood et al. (2010) found that owner-occupiers exiting home ownership after 50 years of age are significantly more likely than longer-term renters to become persistently dependent on housing assistance while also losing the ontological security often linked to home ownership.

In light of these findings, it is imperative that researchers and policy-makers consider whether there are policy instruments that could offer ageing lifetime tenants some of the benefits of home ownership. Hulse et al. (2011) reviewed provisions for secure occupancy in several countries. The study found that landlord-tenant relations and service quality may be improved by increasing large-scale institutional and corporate investment in rental housing, and/or promoting professional tenancy management among smaller private landlords through landlord registration and accreditation systems. The study advocated hybrid tenures, where the investment, ownership and

management of rental housing is structured in innovative ways that may increase tenant empowerment and responsibility. Some examples include housing cooperatives that allow for collective ownership in Germany, and tenant equity contribution programs such as shared equity schemes in Scotland. In some countries, tenure security is promoted through longer-term contracts. In the Netherlands, Germany and Sweden, for example, there exists permanent contracts in the private rental market, with eviction being permissible under a limited set of circumstances. In Spain, existing contracts may last as long as five years (Haffner et al. 2008).

6.3 Summary and concluding comments

This chapter has offered recommendations aimed at mitigating some of the key risks and overcoming impediments associated with HEW. However, it is important to recognise that as with all reforms, none of the recommendations offer a 'one size fits all' approach to the risks and barriers that older equity extractors face.

6.3.1 Mitigating the risks of HEW

Supply-side restrictions may be taken to mitigate the risks of equity borrowing via caps on maximum loan advances and geographic locations. However, these constraints may in effect result in supply being unable to keep up with demand in a climate where home owners' appetite for releasing housing equity without having to move is increasing steadily. No negative equity guarantees may help soothe some of the fears that consumers harbour towards reverse mortgage products, but no negative equity guarantees can increase the cost of mortgage loans as lenders factor in a premium that accounts for the additional risks they have to shoulder.

Product innovation in the form of equity finance may be a promising option. However, it is still in its early stages of development and uncertainties remain over the risks that home owners shoulder, and their attractiveness to investors give potential moral hazard issues (e.g. under-maintenance). Appropriate management of innovation risk is required here, including ensuring that appropriate regulation are in place that offer protection to consumers and that product designs are transparent to the general population.

Consumer understanding of existing MEW products is critical for those considering adding to their mortgages to withdraw equity, and there is a need to ensure that older home owners are making decisions about their housing wealth from a position of generally sound financial literacy and in full awareness of the types of protection they are eligible for under current consumer protection laws. However, the challenge remains that the potential complexities inherent in MEW products could make it hard for even a reasonably financially literate home owner to grasp the features of financial products and the pitfalls associated with them.

6.3.2 Overcoming the barriers of HEW

MEW products, and in particular reverse mortgages, are viewed as inherently risky by older home owners. *Initiatives that offer protection against the real or perceived risks of MEW* would go some way towards removing the stigma attached to equity borrowing via reverse mortgages. Examples include better access to information about the track record of the reverse mortgage industry or no negative equity guarantees, though as noted above, such guarantees can be costly for the consumer.

Government policy reforms designed to reduce costs associated with the sale of the primary home. As older home owners who release housing equity via a sale of the primary home have typically experienced adverse life shocks or financial distress by the time they resort to selling up, such reforms could offer some relief to older home

owners needing to use their housing wealth to weather crisis events. However, such measures will no doubt create budgetary pressures. Governments implementing such reforms would have to cover the costs of reforms because revenues are foregone, or spending increased, eating into existing budget surpluses or worsening deficits. In an era of fiscal austerity, it is more likely that the government would reduce expenditure in other sectors in order to pay for such reforms as abolishing stamp duty or removing means tests on proceeds from downsizing or selling up. There will be 'winners and losers' in the population, where the gains experienced by one sector are offset by losses in other sectors. Careful consideration needs to be given by policy-makers to the management of budgets. New policy reforms would therefore need to be supported by robust modelling of their fiscal impacts before implementation.

Policies that promote 'ageing in place', such as home-based care or maintenance services can go some way towards helping people to age in their homes, and avoid the social isolation that often accompany moves in later life. For those who are forced by adverse circumstances to sell up and move into the rental sector, however, *policies that offer ageing lifetime tenants some of the benefits of home ownership* such as tenure security will be critical in meeting the need for ontological security in old age.

7 CONCLUSION AND FUTURE RESEARCH DIRECTIONS

This Final Report provides a comprehensive evidence base on the uses, risks of and barriers to alternative forms of HEW as practiced by older Australians. The findings of this report will inform policies and programs aimed at maximising the availability and quality of information to help Australian home owners better manage housing wealth in later life.

7.1 Key findings

7.1.1 *Prevalence and uses of HEW in later life*

The incidence of HEW has generally increased over the decade, and older home owners' appetite for HEW has not abated despite a GFC and its aftermath. The proportion of older home owners cashing out some or all of their housing equity was 18 per cent in 2010, an incidence that remained higher than at the start of the decade (13% in 2001–02). In 2009–10, 678 200 older home owners engaged in HEW, over 1.5 times the number releasing housing equity at the beginning of the decade. The HEW mechanisms used by older home owners vary greatly across stages in later life; *in situ* equity borrowing is the dominant form of HEW among those under pension age, while there is a shift towards the more traditional forms of HEW—downsizing or selling up—among those above pension age. Home owners making HEWs are more likely to suffer from material deprivation than those who refrain from HEW. The former also have more housing-oriented wealth profiles. Unsurprisingly, income poor-housing asset-rich groups feature prominently among groups cashing in housing equity.

The quantitative and qualitative analyses combined to offer important evidence of the health insurance role played by housing equity later in the life course. Decision-making surrounding the use of housing equity among those above pension age is increasingly dominated by concerns about health or physical frailty, confirming our proposition that housing wealth is increasingly viewed as a means of achieving private provision of certain functions that are traditionally publicly provided, such as health care.

Older home owners who use MEW appear to have sounder economic positions than those downsizing or selling up. Those under pension age use MEW to increase spending on a wider range of items; this includes holiday spending, home maintenance, car repairs or upgrades and the education costs of children. Older home owners who sell up, on the other hand, tend to have very little income or assets to fall back on when hit by adverse life events. Their wealth portfolios are housing-dominated and they have very little in the way of other assets. They are also the least able to raise emergency funds among all the groups investigated, and so most likely to sell up when financial emergencies arise. It is possible that HEW via the sale of one's home (particularly selling up) is precipitated by financial distress and, thus, used to reduce expenditures on upkeep and/or reduce the material deprivation associated with an inability to keep up with mortgage repayments or utility payments.

These findings are significant because they confirm ideas about the tactics that different home owners choose as they manage housing wealth in the years approaching and beyond pension age (Parkinson et al. 2009; Ong et al. 2013b; Wood et al. 2013). While *in situ* equity release by adding to mortgages is common, particularly in the group approaching retirement, and associated with pressing spending needs, the typical *in situ* equity borrower has a relatively strong financial and employment context. These owners are becoming more indebted, but their borrowing

is not reckless. If they *avoid serious misfortune* repayments will be met;³³ but if life takes an unexpected and harmful turn, financial stress could be 'round the corner'. Indeed those cashing in housing equity by downsizing and selling up are likely to have suffered unfavourable circumstances such as ill health, separation, divorce and bereavement prior to the sale of their primary home. One senses that amidst older downsizers and sellers, *in situ* MEW is no longer an option to cushion living standards in the face of adversity. Importantly, they appear to be options that older female, single person households are prone to fall back on.

7.1.2 Risks of HEW in later life

We find that equity borrowing itself does not lift repayment risk among older home owners. However, repayment risk is highly correlated with adverse life events such as marital breakdown, ill health and unemployment that tend to precipitate MEW. Furthermore, older *in situ* mortgage equity borrowers do so from a somewhat risky position of above-average levels of mortgage indebtedness. These findings confirm the conclusions reached earlier that while equity borrowers typically have reasonably sound economic positions, financial distress could ensue if adverse life events were to befall them. Negative equity risk, however, is negligible among MEW users. Limited equity risk is much more likely, but it is once again mitigated by the secure financial positions that form a typical platform for equity borrowing. However, our modelling indicates that policies designed to encourage older home owners to tap into their housing wealth beyond current average amounts of HEW to say, fund aged care needs, may expose many to undesirable levels of limited equity risk. The dangers of inadequate or inappropriate information and advice have also been identified as especially important sources of risk for *in situ* equity borrowers.

Furthermore, during adverse life events, financial decisions related to moves may have to be made quickly due to time pressures, preventing information gathering and considered planning, and hence elevating the risks of making unsound financial judgments during crisis events.

Various strategies can be employed to mitigate the risks attached to HEW in later life. Supply-side restrictions such as caps on maximum loan advances, 'red-lining' of particular geographic locations, and no negative equity guarantees can be (and are typically) applied to MEW products, though such mechanisms have their own shortcomings. They will prevent some home owners from gaining access who might have benefited without undue risk, while no negative equity guarantees raise the cost of MEW. Equity finance is a new, potentially promising, form of financial innovation that aims to mitigate some of the risks associated with more entrenched debt-based forms of finance. However, the management of innovation risk is crucial here. Consumer understanding of MEW products is critical, and it is important that older home owners manage their housing wealth from a position of generally sound financial literacy. However, the challenge remains that the potential complexities inherent in MEW products could make it hard for even a reasonably financially literate home owner to grasp the features of financial products, and the pitfalls associated with them.

7.1.3 Barriers to HEW in later life

MEW products, and in particular reverse mortgages, are viewed as inherently risky by older home owners. Initiatives that offer protection against the real or perceived risks of MEW would go some way towards removing the stigma attached to equity borrowing via reverse mortgages, for example, include better access to information

³³ This applies to both MEW and non-MEW financial loans.

about the track record of the reverse mortgage industry or no negative equity guarantees, though once again such guarantees can be costly for the consumer.

For those who engage in HEW via property transactions, the costs associated with tax-benefit settings can deter HEW by eating into housing equity realised on downsizing or selling up. Stamp duty can eat into 8–10 per cent of the housing equity that older home owners release via downsizing. When legal costs and moving costs are added into the equation, the average owner will meet costs that eat into over 10 per cent of the equity they succeed in rolling out. Sale proceeds are also likely to reduce an older home owner's ISP entitlement via the application of means tests. Our modelling indicates that 60 per cent of downsizing and 80 per cent of selling up episodes result in a reduction in ISP entitlements. Affected downsizers are likely to experience a one-fifth reduction in their ISP entitlements on average, while those who sell up can expect to lose over one-third of their ISP entitlements.

These consequences are undesirable when interpreted in light of the findings on the uses of HEW. Older home owners that downsize or quit ownership are typically already in financial stressed situations, tend to have very little income or assets to fall back on when hit by adverse life events, and often have to sell up during periods of crisis such as divorce, ill-health or bereavement. Hence, it is imperative that those who decide to sell their primary home to withdraw housing equity be aware of the consequences of such forms of HEW for social security income levels. The 'penalty' associated with gifting one's primary home in old age is also severe. Gifting rules may reduce ISP entitlements for over 40 per cent of elderly home owners; those who find their ISP payments lowered are likely to suffer an average loss of half their ISP entitlements.

Transaction cost and means test rules could potentially be reformed to allow home owners who downsize or sell up to retain more of the equity they have released. As these home owners have typically experienced adverse life shocks or financial distress by the time they resort to selling their primary home, such reforms could offer some relief to older home owners wishing to use their housing wealth as a last resort measure to weather crisis events. However, such reforms will eat into budget surpluses, exacerbate deficits and create 'winners and losers' in the population as governments cut back other spending programs, or raise taxes to fund reforms extending yet more preferential fiscal treatment to home owners.

Furthermore, the sale of the primary home is also associated with potential social isolation, because of moving to unfamiliar communities or losing accommodation space for visiting family members; policies that assist 'ageing in place' are important in this regard. For those who are forced by adverse circumstances to sell up and move into the rental sector, however, policies that offer ageing lifetime tenants some of the benefits of home ownership such as tenure security will be critical in meeting the need for ontological security in old age.

7.2 Future research directions

Data analysis in this project revealed a number of emergent issues that were outside of this project's core research questions, but which open up important areas for future research. Among these are the importance of the household and social context in which important financial decisions are made. Intra-familial expectations and pressures exerted by family members on the older home owner who is making decisions about his/her housing wealth are among the most important of these issues. In particular, elderly home owners are at a point in their life cycle where physical vulnerability and frailty are common ailments. The combination of financial and care needs can contribute to situations in which informal intra-familial arrangements may

develop in an effort to meet these needs. In many cases these needs may be successfully met through informal family arrangements. However, our project has revealed that, despite the best of intentions, the exchange of parent's housing wealth in return for care provision from adult children could result in considerable risks to elderly parents.

The use of housing equity by elderly parents will likely result in reduced bequests to children. This can cause tension and fractured relationships between parents and children. Multiple family inter-relationships and conflicting motivations among family members provide particular challenges for appropriate protection of elderly home owners' housing wealth. While bequest motives were not a strong consideration for all interviewed home owners, data from some policy practitioners suggest that children who expected to inherit housing assets could play a key role in decisions to engage in various forms of HEW, particularly MEW. If mechanisms to improve the range and operation of HEW products are to be developed, it is likely that a better understanding of intergenerational financial motivations and linkages will be required. This is an issue requiring further exploration through purposeful data collection and analysis.

A related but broader issue is financial abuse. This may occur within a family context but could also arise if older people with accumulated (housing) assets are perceived as targets for the sale of unsuitable or inappropriate products or, in a worst case scenario, fraudulent activity. Emergent issues in this project suggest a need for a focused, in-depth interrogation of the factors that contribute to elder abuse.

This project has also proposed various policy reforms to ISPs that are designed to reduce the barriers to downsizing or selling up as a form of HEW. The introduction of stamp duty and means-test exemptions will have some negative budgetary implications for the government. Any policy reforms that aim to reduce barriers to downsizing or selling up by tackling the impediments that current tax-benefit structures pose would therefore need to be supported by robust modelling of their fiscal impacts before implementation. Further modelling could be conducted, for example, to estimate the impacts of exempting downsizing moves from stamp duty and of implementing the Productivity Commission's (2011) recommendation that proceeds from the sale of the primary home be exempted from means-testing if they are deposited into an Australian Age Pensioners Savings Account.

Furthermore, a more fine-grained analysis of alternative aged care financing scenarios could yield deeper insights into the suitability of HEW schemes as a source of funding varying forms of aged care not modelled in the current project. The outcomes reported here only apply to a highly restricted upper bound scenario of high-level residential aged care where no government care subsidy is available at all to elderly home owners requiring care.

In relation to MEW, this project has focused on the risks borne by housing consumers. Options that promote greater financial literacy among consumers, both in the general sense and with respect to complex MEW products, should be investigated. Furthermore, there is in fact a need to find a delicate but important balance between the risks and costs borne by consumers and suppliers. A future project that focuses on the risks of and barriers to the provision of HEW financial products in the market by suppliers would be an important complement to the present project. Furthermore, the concept of equity finance is in principle an attractive solution to the problems associated with debt finance, especially given the increasing difficulty of securing debt finance in the wake of the GFC. It is important to further investigate the pros and cons of equity finance as not just a potentially innovative alternative to MEW products, but also as a way of improving home purchase affordability and reducing investment risks borne by any individual who owns a home. Several of our interviewed service

providers also signalled that a solution to the general lack of debt finance post-GFC would be to fund HEW financial products from the wealth held in superannuation funds. In other countries such as the Netherlands, the Dutch Taskforce Verzilveren (2013) has also put forward a similar proposal to exploit retirement funds to achieve an increase in the supply of HEW products in the market.

Other aspects of MEW from the demand side are worth exploring, given it is growing into a common form of HEW in Australia among older home owners. It would be useful to investigate younger cohorts and ask whether they are also increasingly prepared to use MEW to fund consumption, or whether they have taken a more cautious attitude than older home owners since the GFC. Finally, serial borrowing behaviour via MEW is quite common in relation to the frequency of downsizing or selling up. However, the sample designed for this project only allows for measurement of risks with respect to whether there was MEW in the previous period. Serial withdrawals via MEW could lift repayment risk and limited equity risk significantly more than a one-off MEW, and this is an area of concern worth pursuing in future research.

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