Ageing well
Housing solutions for older Australians

25 Nov 2014
Accessing housing equity in mid-to-late life

Associate Professor Rachel Ong
AHURI Research Centre—Curtin University
Background

- Common forms of HEW
  - In situ mortgage equity withdrawal (MEW)
  - Downsizing
  - Selling up
Background

- Evidence from a mix of:
  - Quantitative analysis of the HILDA Survey
  - In-depth interviews with 27 home owners aged 45+ and 9 service providers
Rates of HEW
45+ years, 2001–10

Source: 2001–10 HILDA Survey
Distribution of HEW styles

2001–10

45-54 yrs
- 91% In situ MEW
- 3% Downsize
- 4% Over-mortgage
- 4% Sell up

55-64 yrs
- 83% In situ MEW
- 6% Downsize
- 8% Over-mortgage
- 6% Sell up

65-74 yrs
- 60% In situ MEW
- 25% Downsize
- 14% Over-mortgage
- 14% Sell up

75+ yrs
- 42% In situ MEW
- 19% Downsize
- 39% Over-mortgage
- 39% Sell up

All
- 84% In situ MEW
- 7% Downsize
- 7% Over-mortgage
- 7% Sell up

Source: 2001–10 HILDA Survey
<table>
<thead>
<tr>
<th></th>
<th>Downsizing</th>
<th>Selling up</th>
</tr>
</thead>
<tbody>
<tr>
<td>% who would find their ISPs reduced</td>
<td>61%</td>
<td>80%</td>
</tr>
<tr>
<td>Average dollar reduction in ISPs (per fortnight)</td>
<td>$78</td>
<td>$186</td>
</tr>
<tr>
<td>Average percentage reduction in ISPs</td>
<td>17%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Source: 2001–10 HILDA Survey
Downsizing & selling up
Reduction in income support payments

<table>
<thead>
<tr>
<th></th>
<th>Downsizing</th>
<th>Selling up</th>
</tr>
</thead>
<tbody>
<tr>
<td>% who would find their ISPs reduced</td>
<td>61%</td>
<td>80%</td>
</tr>
<tr>
<td>Average dollar reduction in ISPs</td>
<td>$78</td>
<td>$186</td>
</tr>
<tr>
<td>(per fortnight)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average percentage reduction in</td>
<td>17%</td>
<td>34%</td>
</tr>
<tr>
<td>ISPs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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% and $30,000, 4.5%’, or whatever. So suddenly you think 'oh no'

(Perth, 75+)
Loss of familiar and friendly neighbours
Lack of accommodation for visiting children and grandchildren

… 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 …

(Private finance provider)
Downsizing
Transaction costs

- Stamp duty on new purchase – average 7% of equity
- Other moving costs

… 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.

(Community based not-for-profit organisation)
Selling up
Tenure insecurity

- Rents can increase at a faster rate than fixed incomes
- Lack of control over home maintenance issues
- Insecure leases
Mortgage equity withdrawal
Repayment risk

- Older MEW users tend to be in sound economic positions
- MEW raises mortgage indebtedness
  - Older MEW users have mortgage indebtedness levels that are 1.5 times the level owed by other older mortgagors
Mortgage equity withdrawal

Repayment risk

- Older MEW users tend to be in sound economic positions
- MEW raises mortgage indebtedness
  - Older MEW users have mortgage indebtedness levels that are 1.5 times the level owed by other older mortgagors
- Hence, adverse life shocks such as divorce, ill health or unemployment will more severely impact MEW users because they have added to their mortgages.
Mortgage equity withdrawal

Limited equity risk

- Limited equity risk = housing equity is <40% of value of the home
- Evident among:
  - 20% of older owners who use MEW
  - 10% of other older mortgagors who do not use MEW
**Mortgage equity withdrawal**

**Limited equity risk**

- Limited equity risk = housing equity is <40% of value of the home

- Evident among:
  - 20% of older owners who use MEW
  - 10% of other older mortgagors who do not use MEW

- 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
Mortgage equity withdrawal
Limited equity risk

- Limited equity risk = housing equity is <40% of value of the home
- Evident among:
  - 20% of older owners who use MEW
  - 10% of other older mortgagors who do not use MEW
- 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
Mortgage equity withdrawal
Lack of appropriate and useful information

- No difficulty obtaining information about equity release products, but information not always useful, can be overly complex

I think when you look at the asset guide on reverse mortgages, I think it runs for some 79 pages, ... there is very little that gives an unbiased view of the advantages and disadvantages …

(Private finance provider)
Inter-generational issues

- Older home owners might release equity to provide financial assistance for their children with the children making repayments
  - Parents bear the default risk
  - Tension between siblings
Inter-generational issues

- Informal housing and care arrangements
  - Burden of care under-estimated by the son / daughter and little equity remains to finance professional care arrangements
  - Changing dynamics in household
Inter-generational issues

- Housing assets are an incomplete source of welfare
  - Lifetime renters
  - Loss of home ownership not an uncommon occurrence (AHURI final reports no. 216 & 156)
    - Of the 9.2m home ownership spells ongoing between 2001 and 2010, 1.9m (21%) ended with exits into rental housing.
    - Of these exits, one-third were enduring and typically linked with adverse life events such as divorce.