Financial Services Forum

Scoring Goals in a Changing World

5-6 May 2014 • Hilton Sydney

SYNOPSIS

THE FOURTH PILLAR – THE ROLE OF HOME EQUITY RELEASE IN RETIREMENT FUNDING

Christine Brownfield

Key words: equity release, retirement, age pension, longevity, reverse mortgage, home reversion

Purpose of your paper: To further knowledge of the actuarial community in the area of home equity release for senior Australians, and its potential role as one component of the solution to the retirement funding challenge facing Australia in coming decades.

Synopsis: This session will consider the role that home equity release could play in the retirement funding of senior Australians. The retirement income system is often viewed as comprising three pillars. These are the government pension, a retiree's compulsory superannuation savings and a retiree's voluntary saving for retirement, including assets held outside of the superannuation system. With residential property being the largest asset class in Australia, and a high proportion of Australian seniors owning their own homes, home equity has the potential to be a meaningful fourth pillar. For a substantial subset of retirees, there are effectively only two pillars with home equity being one of them.

Issues around funding the retirement of an ageing population, particularly the impact of increasing longevity, have received a lot of publicity in recent times. Much of the commentary relates to savings/contribution rates, financial advice, asset allocations and retirement products. There is not a lot of focus on the potential of the family home to play a role in retirement funding.

The session will include an overview of the current home equity release market, and the challenges that exist on both the supply and demand sides. On the supply side, the number of providers of reverse mortgages has contracted in recent years, and there is only one provider of a home reversion product, with strict eligibility criteria.

The issues are complex, long term and there are many related issues. A retiree's house is both a store of value and a home. Discussion around using this asset to fund retirement becomes emotive. The topic of intergenerational equity flares up occasionally but discussions have a long way to go. With the family home's complete exclusion from assets tests being seemingly sacrosanct in Australia, it will be a brave government that addresses this in the short term. But allowing an increasing number of retirees to receive taxpayer funded pensions then bequeath substantial wealth in the form of the family home is not equitable. Over time it will probably not be sustainable. On the other hand, a hasty and poorly thought through inclusion of the family home in the assets test, by a government in crisis mode, may not be ideal either.

This is an area that can benefit from actuarial involvement in the inevitable debates to come. Both policy development and product design need to take into account time horizons that stretch for decades, complex issues and a range of factors around which there is plenty of uncertainty and often little experience. As actuaries we are accustomed to thinking long term and this session aims to raise awareness of these issues.