

**Retirement Policy & Research Centre
Symposium
Spending the Savings:
Decumulation & Middle-income Retirement
30 Nov 2012**

***The Future of Home Equity Release
Products***

***The Role of Property as a Decumulation
Solution***



To meet a gap in retirement funding

- There are limited solutions to meet a retirement funding gap
 - Spend less, or
 - Increase cash or income by:
 - Continuing to work in paid employment
 - Investing available cash in higher return assets, noting the likely increase in risk of permanent loss of capital or income
 - Using non-income producing assets, such as the home, holiday home or boat, to release capital or produce income (For example, via a Home Equity Release plan)



The role of property as a decumulation solution

Selected European Statistics

Contribution from Non-Pension Assets to Close the Pension Gap

	Annual Savings Gap (€bn)	Realising 100% life insurance assets and other liquid assets but 0% home equity	Realising 100% life insurance assets, other liquid assets and 100% home equity
France	243.5	40%	80%
Germany	468.8	30%	55%
UK	379	25%	50%
Total for Europe		27%	60%

That is, 100% of home equity potentially covers 33% of the total pension savings gap in Europe, as assessed by AVIVA



Source: AVIVA "Minding the Gap" report 2012

The role of property as a decumulation solution - Methods

- Home equity release loans (reverse mortgages)
 - Reversion plans
 - Shared appreciation
 - Downsizing
-
- Lump sums released may be applied to
 - One-off needs (such as home improvement)
 - Purchase of an annuity



Home Equity Release Loans - Market Size & Participation

□ Deloitte/SHERPA Reverse Mortgage survey

□ Year	Dec 05	Dec 07	Dec 09	Dec 11
□ Loans Value	\$89m	\$365m	\$447m	\$474m
□ No. of Loans	1,438	6,549	6,613	6,186

- Strong growth in a new industry until the GFC
- Perhaps now 2% penetration of target households with occupants aged over 65

Source: Deloitte/SHERPA Reverse Mortgage Annual Surveys



Home Equity Release Loan market size & participation

Use of Proceeds	2011
□ Home Improvement	23%
□ Car	8%
□ Travel	10%
□ Debt repayment	22%
□ Aged care purposes	7%
□ Other/Unassigned	27%

Note: Figures are indicative due to lack of completeness of data, and members choosing more than one use. Source: Deloitte/SHERPA Reverse Mortgage Survey 2011



Home Equity Release Loan market size & participation

□ Typical borrower/loan profile

- Aged 73 years old
- Will have a house worth \$330k
- Will likely borrow c.\$43k for their initial loan
- This will be 65% of what they are entitled to borrow
- Or 20% LVR

Source: Sentinel Ltd



Market constraints and solutions

- Limited consumer knowledge
 - Solution: Advertising, education & advice

- Mainstream lenders limited market participation
 - Solution: Provide appropriate access for consumers

- Funding constraints for non-bank participants
 - Solution: Improved credit market confidence, superannuation fund investment



What Does the Future Hold?

□ Baby Boomers

- Increasing funding gap arising from:
 - Loss of wealth during the GFC
 - Higher debt levels at retirement
 - Increasing health costs
 - Improving longevity
 - Pressure on state pension systems
- Changing attitudes – e.g. to leaving an inheritance
- Desire to age in place, maintaining independence, mobility & remaining near known amenities & friends



What Does the Future Hold?

- Credit markets will recover
- Advertising will increase awareness of equity release solutions
- Market penetration will increase



Industry Governance – Is it Safe?

Consumer risks

- Risks of borrowing against property are much the same for a borrower of any age

- The principal difference for aged borrowers with limited resources is the inability to recover from a poor outcome
 - Solution: Regulation & industry codes & practice



Industry Governance – Is it Safe?

- Current statutory regulatory protections
 - Credit Contracts & Consumer Finance Act
 - Proposed introduction of responsible lending
 - Financial Advisers Act
 - Financial Service Providers (Registration & Dispute Resolution Act
 - Fair Trading Act (& proposed amendments)

- Office of Senior Citizens voluntary Code of Practice



SHERPA Code of conduct – Key consumer protections

- **Anyone using their home to raise money should ask themselves three fundamental questions:**
 - Do I have the right to live in my property for life?
 - Do I have the freedom to move to suitable alternative property without financial penalties?
 - Do I have a guarantee that whatever happens I will not owe more than the net sale proceeds from my property?



SHERPA Code of conduct – Key consumer protections

- Other protections include:
 - Mandating that the borrower obtain independent legal advice performed by the solicitor of their choice
 - Encouraging borrower discussion with family and the seeking of independent financial advice
 - Borrower access to independent dispute resolution
 - Accurately identifying all costs to the borrower
 - Illustrating the potential effect of future house values, interest rates & capitalisation of interest on the loan
 - Following SHERPA procedural guidelines in the event of a loan default condition arising



Concluding comments

- Property must be part of a decumulation solution to help fund retirement for some – The maths say so
- Policy development should focus on removing barriers to the use of property for this purpose



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