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# Older people's assets: generational issues in using housing equity to pay for health and aged care

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Finsia Melbourne Centre for Financial Studies Consumer Finance Symposium

## Older people's assets: a contested site?

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'Whereas policy changes increasingly promote self-provision of retirement incomes and the use of capital assets to fund care choices, families and older people often retain the view that income and care in older age should be primarily funded by the state.'

Cheryl Tilse, Jill Wilson, Deborah Setterlund & Linda Rosenman

'Older People's assets: a contest site', *Australasian Journal on Ageing*, Vol 24 2005

## Global financial crisis: Finsia UMR research

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‘...very few Australians have considered the implications of our ageing population’

‘...worse still, they tend to reject all solutions that have been offered up’

‘...working longer, higher immigration’

‘...they want quality health and aged care’

*Changing tides – consumer finance and the generational wealth divide: Trends and Insights,*  
Finsia UMR Research Pty Ltd, August 2009

## Henry Review recognises the importance of housing

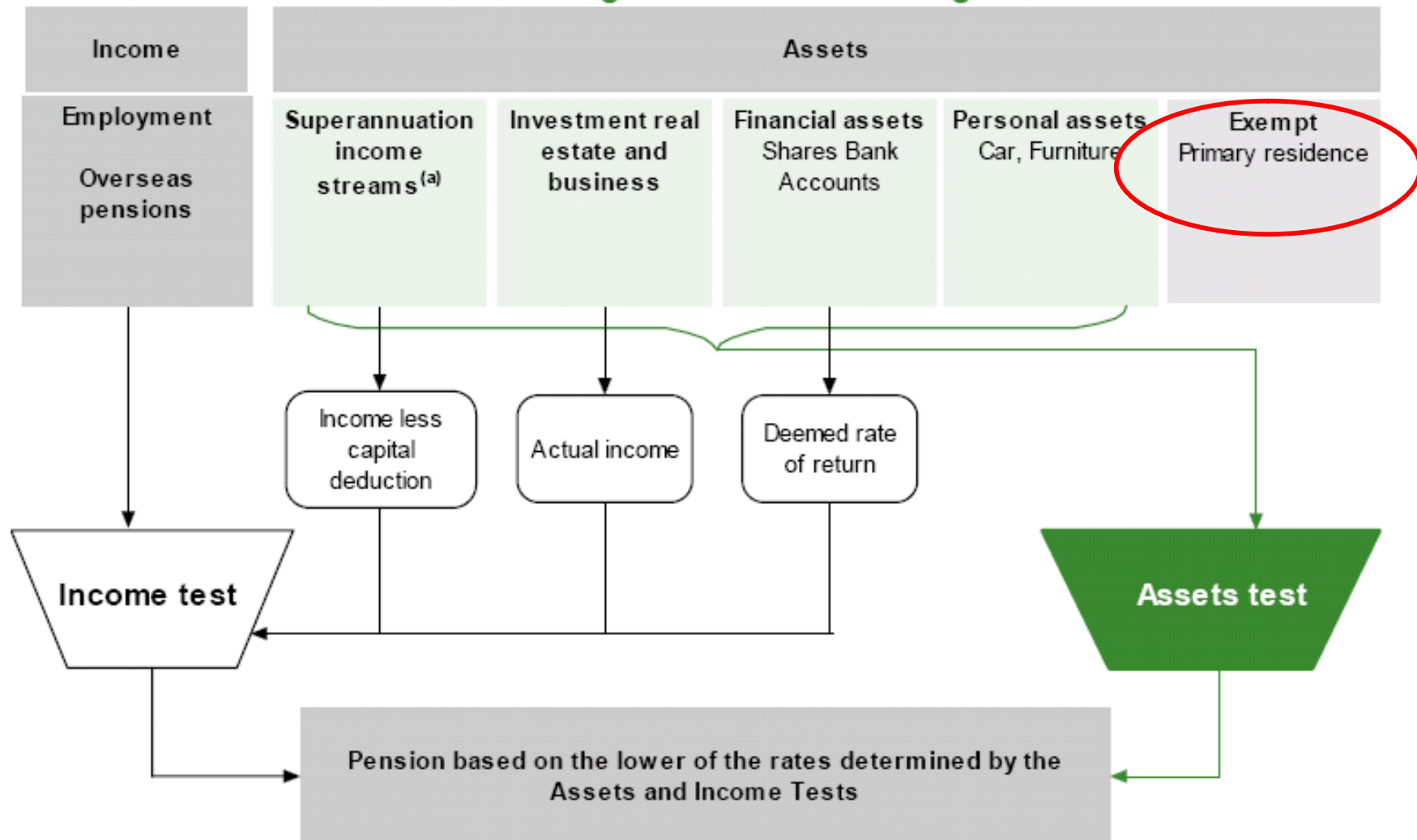
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‘Owner occupied housing ...is frequently used by retirees as a form of longevity insurance. The capital value of a home can be used as a “backstop”, including as a source of funding for residential aged care, if they outlive their savings.’

*Australia’s future tax system. The retirement income system: Report on strategic issues, May 2009*

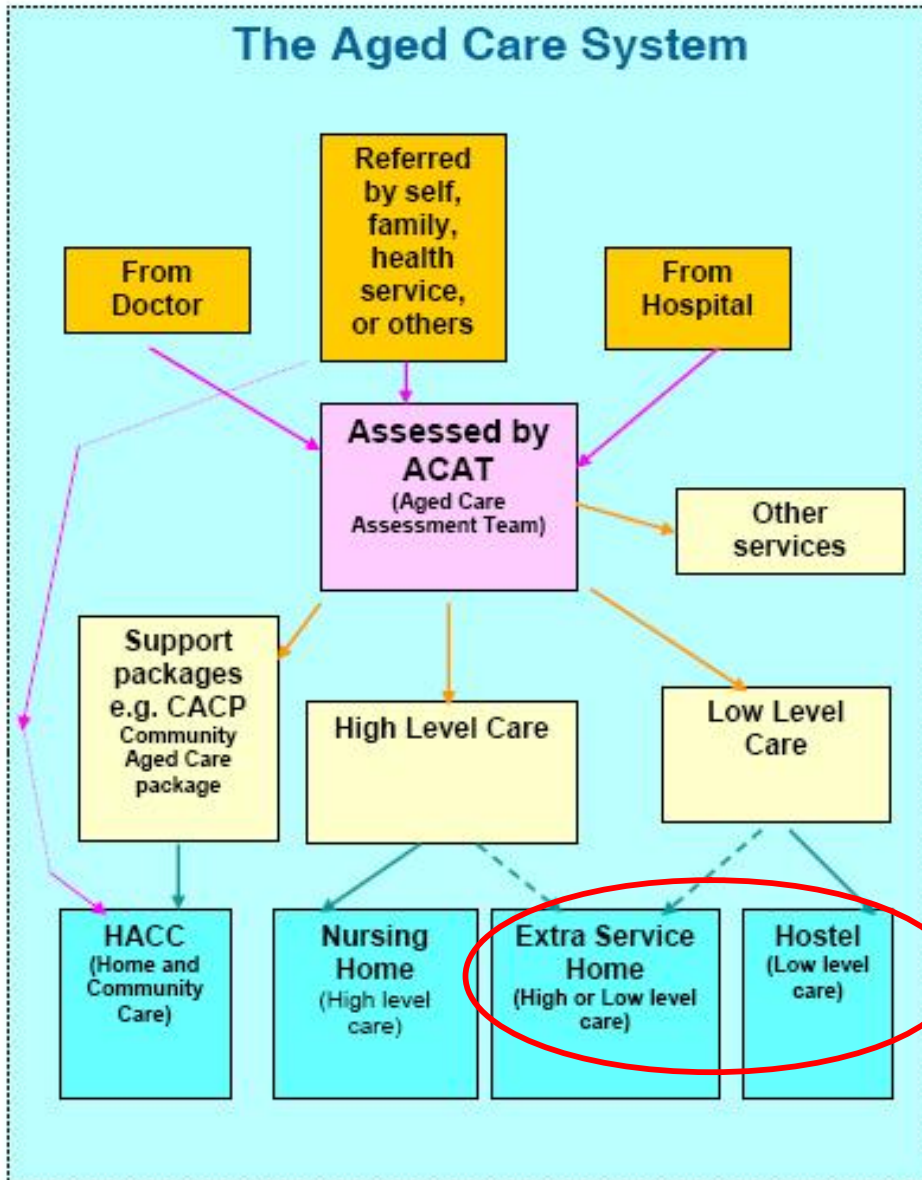
# Means testing of pensions flows on to aged care

Chart 6.1: The existing means test for the Age Pension



(a) Superannuation accumulations (not being drawn down through an income stream) are treated as financial assets.

# Aged care: the Australian model



## Number of people receiving aged care

### Domiciliary

HACC	792,200
CACP	48,050

### Residential

Permanent residents	199,013
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**Source:** Department of Health & Ageing,  
*Concise Fact book*, October 2007

**Accommodation bond payable**

## Accommodation bonds are the most significant user-payment

Refundable deposit paid on entering low care or extra-service place

Based on a resident's assets

∅ **Maximum bond = Assets - \$36,000**

Assets test will normally include family home if widowed or unmarried

**In 2007/8:**

Average new bond            \$189,000

Median new bond            \$155,000

Average house price        \$482,9700

## **And bonds have increased substantially**

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Average bond increased substantially since 1996

Factor of five in nominal terms

### **In 2007/8:**

∅ 1/5 bonds less than \$100,000

∅ 1/3 bonds more than \$150,000

∅ 1/5 bonds more than \$250,000

∅ Circa 55,000 bonds paid

∅ Totaling \$6,300 millions

**Source:** Department of Health & Ageing, *Report on the Operation of the Aged Care Act, 2008*

## There may be an even greater reliance on accommodation bonds

‘We recommend that consideration be given to permitting accommodation bonds or alternative approaches as options for payment for accommodation for people entering high care...’

*A Healthier Future For All Australians. Final Report of the National Health and Hospitals Reform Commission. June 2009*

## How could financial innovation address this challenge?

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- ∅ Insurance products
- ∅ Savings products
- ∅ Innovative delivery by government e.g. Centrelink's Pension Loan Scheme
- ∅ Resources of children of the elderly?
- ∅ Credit products, particularly equity release

# Equity release is in its infancy, but offers a potential solution

## **Three distinct products**

- ∅ Home reversion schemes
- ∅ Shared appreciation mortgages
- ∅ Reverse mortgages

## **Market**

- ∅ 37,500 reverse mortgages on issue
- ∅ loan book of \$2,500 million
- ∅ average loan size \$66,000

## **Use of funds**

- ∅ debt repayment
- ∅ home improvement
- ∅ regular income

**Source:** SEQUAL/Deloitte Reverse Mortgage Survey, December 2008

## Aged care considerations could be mandated

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### **Clause 37**

#### **Matters to be complied with in relation to credit proposals for reverse mortgages**

Brokers to provide the following information in reverse mortgage credit proposals:

...if, following inquiry of the consumer, it appears that the consumer may need to preserve equity in the mortgaged land of a particular value to finance future expenses (such as aged care accommodation), a range of estimates, calculated in accordance with the regulations, as to when the debt under the contract is likely to reach a level beyond which the consumer's equity in the land will be less than that value.

*National Finance Broking Scheme Consultation Package, November 2007*

## Be warned: equity release sits 'betwixt vice and virtue'

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'The most dangerous "innovation" around in finance.'

Steve Keen

Quoted in Andrew Linden, 'Reverse mortgages should be banned', *Sydney Morning Herald*, 28 November 2007

'In my opinion, this area of social (and financial) innovation potentially represents a *virtuous* combination of sound social policy goals and value-added financial products, which would benefit the public as well as stakeholders in the financial services industry.'

Satish Thosar

'Unlocking equity with reverse mortgages', *B + F S*, February 2002

## Topics for virtuous researchers

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- ∅ In retirement, are all assets essentially equivalent?
- ∅ Claim that assets test encourages over-consumption of housing
- ∅ Alternative claim that consuming housing wealth last can be rational (Henry)
- ∅ How does equity release affect a person's bequest motive?
- ∅ Will equity release exacerbate generational tensions?
- ∅ Are older people's assets really a contested site?

## Appendix: Global financial crisis - effect on elderly people's assets

'Today with falling home prices, many elderly people who need care and special services are postponing moving to a continuing care retirement community (CCRC) because they are unwilling to accept the loss of value of their homes if they sell now.

Many of them will hold out for years, hoping to sell their homes at a better price, and this trend is already being reflected in high vacancy rates in CCRCs today. Thus these elderly homeowners may go for years without proper care, often in isolation and loneliness.'

Robert Shiller

*The Subprime Solution*, Princeton 2008