
Reverse mortgages

Financing ageing in place



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What's next...



Reverse mortgages

Financing ageing in place

Report prepared for Heartland Seniors Finance

Abstract

More than 80% of senior Australians are homeowners, and for most the home represents their most significant store of wealth. Many seniors would like to stay in their home and maintain a comfortable lifestyle as long as they can but there is growing concern that a retirement savings gap coupled with rising costs of housing and living, and reduced access to the age pension means that many will not be able to realise that goal. Financial products designed to access equity in the home have the potential to allow senior homeowners to ‘age in place’ but these products are not well understood and the markets for them in Australia are not well developed. In this report we review the current aims and aspirations of senior Australians as they’re currently understood, how innovative financial products may assist them financially and we examine the experience of seniors currently using these products.

The Placemaking Economics Group (PEG) specialises in the analysis of economic, cultural and social aspects of people’s residential choices and the wellbeing implications of those choices; that is: ‘Why do we live where we live?’.

The RMIT Centre for Urban Research is a dynamic hub for interdisciplinary urban research. Through its research, the Centre is directly responding to the globally important need to shape cities and regions that are environmentally, socially and economically sustainable.

Introduction

In 2017, 3.8 million Australians were aged 65 and over. As of 2016, Australian men aged 65 could expect to live another 20 years and women another 22 years (AIHW 2019). Many older Australians have substantial wealth secured in the family home and rates of home ownership among seniors is high. Home ownership rates of Australians born during 1947–1951 were 82% when they were aged 65–69 (AIHW2019). The number of Australians in this age group with a mortgage has tripled from 7% in 1995–96 to 23% in 2017–18.

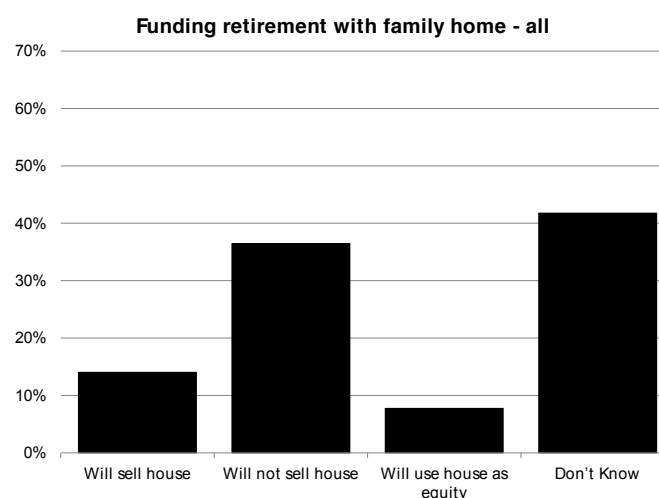
Mortgage repayments coupled with rising living costs and costs of owning and maintaining the home may place senior households under financial strain, especially in late retirement as superannuation savings dwindle and there is greater reliance on the age pension for income.

Australia’s current retirement income system is based on three pillars: the age pension, compulsory superannuation, and voluntary savings. With a growing aged population, it is widely recognised that there is significant risk that these three pillars may not be enough to sustain comfortable or reasonable living standards for seniors in the longer term, particularly for those in late retirement. Indeed, recent survey findings indicate that many seniors do not expect their savings to last through retirement (Productivity Commission, 2015b). Some of the more personal issues facing individuals retirees are nicely summed up in the following quote:

“...we know from the MLC Australian Wealth Behaviour Survey that one in two Australians retires earlier than they had planned to. Sometimes health issues get in the way, some people lose their job and find it difficult to get another one, and a range of other reasons also have an impact. Once they do retire, some people still have parents to care for, others still have financial responsibility for their children or are still paying off a mortgage” Dean Pearson May 6 2019

National Australia’s bank wealth sentiment survey consistently finds that more than half of Australians do not expect to have adequate savings for retirement, with women and divorcees being of particular concern. Yet in Q4 2016 the average Australian homeowner was found to have approximately \$475,000 of equity in the family home. MLC report that:

“13% of Australians already plan to sell the family home to fund their retirement, with a further 42% undecided on what they will do.” (MLC Quarterly Australian Wealth Sentiment Survey Q4 2016, p1)



Source MLC Quarterly Australian wealth behaviour survey Q4 2016

This general expectation that many senior households will face a savings shortfall in late retirement calls for creative solutions to retirement funding. Many seniors own their own home, indeed for most of those that do the home is their primary store of wealth, but for most this wealth is not easy to access. Innovative financial products such as reverse mortgages and home reversion arrangements provide a means for seniors to access their home equity, and facilitating access to wealth tied up in the family home has the potential to alleviate financial pressure felt by many seniors, reduce their reliance on the age pension, and support more comfortable retirement, including the ability to stay in the family home for longer.

A Reverse Mortgage allows the homeowner to borrow against the equity in the home - typically up to 50% of the total home value, and this equity can be drawn as a regular income, a line of credit, a lump sum or a combination. The homeowner remains in their home, makes no repayments while doing so and the interest compounds over time.

An alternative equity release product is **a home reversion scheme** which enables the homeowner to sell a share of the value of their home. The homeowner typically receives a discounted value of the share sold and this amount is calculated based on a range of financial, property and actuarial characteristics. While these products

have significant potential to enhance the current system of retirement financing and retirement funding policy, they are also not well understood in Australia and their markets are not well-developed.

A deeper understanding of home equity release options and how they can contribute to greater financial independence in retirement will benefit consumers, policy makers, and financial market actors. As the Government pension bill becomes more onerous and retirement funding policy heads more towards self-funding, releasing housing equity may prove a valuable addition to the suite of retirement funding options. There are many potential advantages of having a more vibrant home equity release market—not least increasing economic prosperity, higher living standards in retirement, and matching the preferences of Australian seniors to age in their own homes (hereafter referred to as ‘ageing in place’). For these households, unlocking this equity could be a viable, even desirable, means of meeting health and aged care expenses and generating income streams in retirement.

Australia’s reverse mortgage market is relatively small, with significant contraction seen post-GFC. It is currently estimated to be valued at approximately A\$3.4 billion¹. (Heartland Seniors calc 2019). Several reverse mortgage providers exited the market post- GFC and between 2013 and 2017. 80% of the dollar value of all loans issued was dominated by two providers.

A specialised provider in the market is Heartland Seniors Finance which, although the provider with the major market presence in Australia is still a relatively small, niche provider in the finance sector overall. Previous key market actors included Macquarie Bank, St George, Bank of Melbourne, and the Commonwealth Bank (indirectly through Bankwest). In the last 3 years, the Australian reverse mortgage market has lost 3 major players and gained one new entrant. Current market providers include: Heartland Seniors Finance, Household Capital, P&N Bank, IMB Bank and G&C Mutual Bank.

A review of the reverse mortgage market conducted by ASIC in 2018 found that reverse mortgages can help Australians achieve a better quality of life in retirement, but that consumers have limited understanding of the products and limited choice in providers.

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Why is the market for reverse mortgages small? Negative attitude to debt

According to research undertaken by RMIT University for ANZ on the Financial Wellbeing for Older Australians, living on superannuation, self-

funded retirement income or income from ‘other’ sources contributed more to higher financial wellbeing scores than income from wages, self-employment income or government income support.

While older people tend to show strong confidence in money management, they are more likely to have a negative attitude to borrowing and are less likely to be impulsive in their spending. Older Australians who were ‘struggling’ were more likely to seek support from the Australian Government or from family and friends than look to accessing their home equity. This is likely due to negative perceptions about the use of debt generally, and equity release products specifically. Debt is viewed as costly, and claims over the family home can reduce future bequests.

Many seniors consider the equity in their home a form a ‘precautionary savings’ – but they do not have a ready means of accessing those savings.

What about the kids?

Another consideration is the bequest motive that is deeply ingrained – the desire to pass on the wealth stored in the home to children and grandchildren. The negative perceptions of home equity release products seem latent in reputational transmission from the early iterations of reverse mortgages in the UK and the United States, especially in the 1980s when, in the absence of regulated no-negative-equity guarantees, many consumers lost their homes.¹ Reverse mortgages taken out from 18 September 2012 in Australia must have negative equity protection - this means those that take out a reverse mortgage cannot end up owing the lender more than the home is worth (in market value or equity terms).

A key part of understanding the need for financial products that facilitate access to home equity is understanding the client’s needs. Understanding seniors’ reasons for accessing equity is important as it helps identify what senior households prioritise over 100% ownership of their primary place of residence.

Report objectives

To clearly identify the prevailing clients’ needs and rationale for releasing home equity we look at a sample of over 16,000 current and recent reverse mortgage customers to examine the loan purpose identified by users as well as their motivations for taking the product.

This report presents:

1. A review of current academic literature and industry and regulator and government agency reports as they relate to

¹ APRA ADI and Heartland Seniors’ Finance data 2019)

ageing in place and what is needed to fund it, particularly in late retirement;

2. An analysis of the customer dimensions of the residential reverse mortgage market, using a unique dataset, including uses for reverse mortgages and seniors' motives for undertaking them; and
3. A review of the international context of the reverse mortgage market and a comparison with other key economies with ageing population profiles

Summary of findings

Our analysis of a unique dataset covering 15 years of reverse mortgage user observations from the Australian RM market finds that the major purposes identified for the proceeds of reverse mortgages are:

- retiring existing debt,
- and home improvement.

Interestingly we identify an increasing prevalence in the retiring of existing debt, surpassing home improvement in more recent years. We suggest that this reflects a growing prevalence of seniors entering retirement with outstanding home mortgages and other debt and struggling to manage financially with existing retirement funding sources.

Ageing in place

Residential housing plays a variety of roles in people's lives. As well as providing shelter it serves as a form of investment and contributes to economic, social, physical, and psychological security. Housing conditions influence both physical and mental health. The term **ageing in place** is relatively new and is variously definedⁱⁱ but is generally interpreted as meaning '...remaining living at home in the community, with some level of independence'.ⁱⁱⁱ The term *place* has several dimensions that are interrelated:

1. A physical dimension that can be seen and touched like home or neighbourhood;
2. A social dimension, involving relationships with people and the ways in which individuals remain connected to others;
3. An emotional and psychological dimension, which has to do with a sense of belonging, attachment; and
4. A cultural dimension associated with older people's values,

beliefs, ethnicity, and symbolic meanings.

The home as 'place' is not just the building we live in, it enables a person to preserve life history and meanings, community connections, and social identity. The home reflects an extension of the self, individualization, enabling preservation of integrity of the self and promoting a sense of personhood.^{iv}

Rowley et al (2019), when examining older peoples housing aspirations finds that older Australian home owners' ideal is to remain in home ownership (93%), live in three-bedroom (55%) separate dwellings (83%), in the middle-to-outer suburbs of a capital city (38%) or outside the metropolitan area in small regional towns (19%) or large regional cities (18%). Rowley also find that 87% of those aged 65-74 want to stay where they are or within 10km of their current home.

Many older people are fearful of leaving their homes and communities and moving to institutional settings, such as nursing homes and high-care facilities. Relocation often entails losing social relationships, changes in daily routines and lifestyles, leaving behind personal possessions and loss of independence.^v

Concerns around changing place and relocation are articulated in the quotes below taken from a comprehensive report of older peoples housing preferences conducted in UK as part of the ENABLE AGE Project (Sixsmith 2008).

"I do not want to go to a nursing home (...) I mean (.) nursing homes are very necessary, let me say that, I don't know what we would have done with (Name of Sister) without the nursing home, they're very necessary. But the idea that being, say with forty other patients all ill. No, it doesn't appeal."

Renting part of the home or sharing with children can be contentious and generally is also not favoured. There is a general reluctance towards living with children (Sixsmith, 2008).

"My children are very definite people, we don't necessarily always agree"; "I think the generations don't mix"; "I could live with my daughter, but I'd have to get rid of her husband as we don't get on."

Ageing and housing in Australia

The Preference for "Ageing in Place"

As noted earlier, older Australians in the main have a strong desire to continue to live independently in their community – for personal autonomy, flexibility and lifestyle choice (Olsberg and Winters 2005).

Almost 90% of older Australians say that they wish to 'age in place'; that is, to remain in their current home compared with moving into specialised care, or even moving at all. (Davey 2017)

'Home' can take on a variety of housing forms (whether public or privately rented) or in alternative accommodation such as a caravan park or boarding house. Findings from Olsberg and Winters (2005) suggest the desire to 'stay put' depends more upon attachment to location rather than emotional attachment to the family home. People consider ageing in place for a variety of reasons:

- Affordability and financial security
- Source of personal confidence
- Comfort Location and convenience
- Strong emotional attachment
- Financial and emotional barriers to moving such as stamp duty (Olsberg and Winters 2005)

Government support for ageing in place

When ageing in place works, it can reduce government expenditure on residential age care facilities. The average annual cost of care for older Australians who receive assistance was \$15,525 (in \$2018) for those who received In-home formal and informal care and \$66,512 (in \$2018) for those in residential aged care (AIHW 2019 & AHURI brief). Currently the Commonwealth Government supports ageing in place by providing Commonwealth Home Support packages (CHSP's) to 840,984 seniors in addition to Government subsidy packages through the Home Care Packages program (HCPP) with 150,756 people receiving home care packages as of July 2019 - an additional funding of \$500 million for 10,000 additional packages announced in December 2019 following the Royal commission into aged care.

Table 1: Number of allocated home care packages across the forward estimates

Package level	2019-20	2020-21	2021-22	2022-23	2023-24
1	11,240	13,950	15,155	15,488	15,488
2	64,974	69,571	69,571	69,571	69,999
3	33,689	37,724	37,724	37,724	37,724
4	40,853	41,353	41,352	41,352	41,983
Total	150,756	162,597	163,802	164,135	165,194

Note – The totals may not add up to the sum of the four package levels due to rounding.

Source: AIHW home care packages report, July 2020

A challenge to seniors, to policy makers and service providers is that while preferring to age at home, many older people are reluctant to plan for their late retirement or seek advice about how they will fund staying at home, as well as providing for future ill health and end-of-life needs.

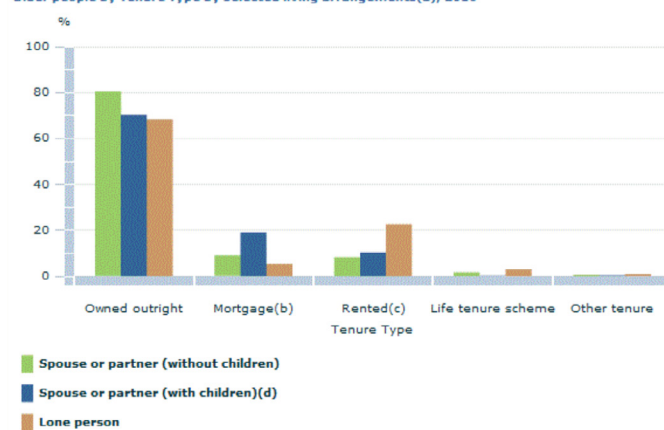
Anecdotally, in many cases care decisions are made 'at the 11th hour', in hospital waiting rooms because of some critical care event.

Home modifications are often required to support changing needs and to support daily living activities. These changes often involve significant capital investment to modify buildings to meet the needs of its residents.

A reluctance to plan for changing housing needs in retirement creates a risk of decisions being prompted by crises, and hastily made at a time when the older person may be vulnerable. Some do plan for the unknown – ANZ's 2018 survey on *The Financial Wellbeing of Older Australians* shows that **many older Australians continue to save**, due to uncertainty around longevity, health and residential aged care needs – however this can be a potentially expensive form of 'self-insurance' that can lower living standards. (NSPAC 2012)

When they eventually draw on their wealth, home equity is typically accessed as a last resort, more often by selling the home and often under time pressure.

Older people by Tenure Type by selected living arrangements(a), 2016



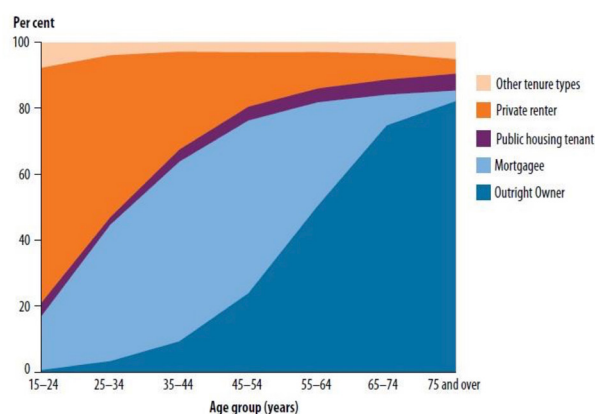
Source: Australian Bureau of Statistics 2017

Older Australians and home ownership

Home ownership rates for older Australians, both with and without a mortgage (where the household reference person was aged 55 and older), have decreased from 84% in 1995–96 to 81% in 2017–18 (ABS 2019). Yet, currently most of those over 65 still own their home outright¹. Data from Housing Income and Income Distribution 2009-10 shows **home ownership rates of 75% for those aged 65–74, and 82% for those aged 75 and over**. It is among these homeowners that the desire to age in place is found to be strongest.

However, there has also been **a steady decline in the proportion of 50-54-year-old Australians who owned their home outright with a 6.6% drop in outright ownership between 1996 and 2016 – 80-75%** (ABS 2017, AIHW 2019). The implication of this is that more Australians are likely to be carrying home mortgages into retirement.

Figure 1: Tenure type over lifespan



Source: AIHW Bulletin 2013

Housing transitions

The previous sections highlight that older people want to age in their own homes, many of which are owned outright, but they tend to plan poorly to fund their late retirement. There is added concern that the family home may not be designed or equipped to support longer-term independent living. Given the high degree of precautionary savings embedded in home ownership, what are the current patterns of housing transitions of older households? Are seniors planning to

release equity via downsizing or are housing transitions related to more immediate housing needs, such as moving into care?

Australians tend to hold high levels of housing wealth throughout their retirement suggesting that the trend is that individuals tend not to downsize, in terms of housing size or housing value.

According to AHURI report (no 321), downsizing is still not a 'usual' path for older Australians. When analysing HILDA (Household, Income and Labour Dynamics in Australia) survey data **fewer than 20 per cent of individuals who sold their existing home to buy another reduced their net level of housing equity in the process.** Additionally, older peoples' geographic mobility and downsizing were associated with an increase in financial and life satisfaction, but a decrease in satisfaction with their housing and neighbourhood.

Drawing on the literature on wellbeing, the home and neighbourhood are very important to supporting ageing well outcomes – both physical and social.

Downsizing is generally found to be associated with "push factors" - key life events such as kids leaving home, changing work patterns like retirement, or a deterioration in health. "Pull factors" such as lifestyle factors or being close to children also drive mobility. Another significant factor in downsizing is the transition from being partnered to being single.

Table 2: Trends in housing tenure type for all households

Year	Tenure type (per cent)			
	Owner with a mortgage	Owner without a mortgage	Renter private landlord	Renter state or territory housing authority
1994-95	29.6	41.8	18.4	5.5
1995-96	28.1	42.8	19.0	6.0
1996-97	28.3	41.3	20.4	5.6
1997-98	30.9	39.5	20.0	5.8
1999-00	32.1	38.6	19.9	5.8
2000-01	32.1	38.2	21.0	5.0
2002-03	33.1	36.4	22.0	4.9
2003-04	35.1	34.9	21.2	4.9
2005-06	35.0	34.3	22.0	4.7
2007-08	35.1	33.2	23.9	4.5
2009-10	36.2	32.6	23.7	3.9
2011-12	36.6	30.9	25.1	3.9
2013-14	35.8	31.4	25.7	3.6
2015-16	37.1	30.4	25.3	3.5
2017-18	36.7	29.5	27.1	3.1

Note: Values have been interpolated for non-survey years.

Source: ABS 2019.

<http://www.aihw.gov.au>

In general, for the over 55's more than 75% of those surveyed still lived in the same house 15 years later. Barriers to moving include stamp duty and removal costs, coupled with poor health. As a means to release equity **downsizing does not appear to be a preferred solution for older households due to the costs involved and the negative**

impact it can have on housing and neighbourhood satisfaction.

Supporting this, Boldy et al (2011) find the factors influencing decisions to stay in the current residence are very much anchored in neighbourhood and housing satisfaction (see Table 3 below).

Table 3: Factors influencing decision to stay in current residence

Factors ranked by % 'very important'	Age group (%)				Average (%)
	50-54	55-64	65-74	75+	
It is comfortable	66.9	74.9	77.2	75.6	75.0
Financially viable to stay	65.8	74.4	74.0	71.5	73.2
Good location	57.3	70.4	67.3	69.1	68.3
Feel safe and secure	53.9	65.8	68.6	72.6	66.6
Easy access to services	49.6	67.3	65.9	67.8	65.5
Like the neighbourhood	56.4	66.9	61.0	58.6	63.2
Good neighbours	52.6	55.9	59.4	55.9	56.7
House is the right size	50.0	55.4	56.2	55.8	55.3
House/garden easy to maintain	39.4	52.1	50.1	55.1	50.8
Live in current residence for life	35.5	44.4	55.5	71.8	50.8
House design/layout supports ageing	41.2	49.7	47.2	61.4	49.8

Source: Boldy et al, (2011)

Table 4: Population Change by Age: Australia's Estimated Resident Population Projections Series B

Age	2019	2031	% Change from 2019	2066	% Change from 2019
Total	25,478,136	31,245,852	22.6%	49,226,089	93.2%
75+	1,744,982	2,757,526	58.0%	5,628,277	222.5%
65+	4,027,483	5,580,884	38.6%	10,172,179	152.6%
65-74	2,282,501	2,823,358	23.7%	4,543,902	99.1%
15-64	16,639,319	19,658,222	18.1%	29,951,684	80.0%

Source: ABS Cat. No. 3222.0 - Population Projections, Australia, 2017 (base) - 2061

Access to affordable and appropriate housing

It is predicted that globally, the proportion of people aged over 60 will double by 2050 to 22%. In Australia, it is estimated there will be an increase of those aged over 65 from over 2.4 million in 2011 to 5.8 million in 2031, along with the number of sole-person households likely to increase by 73%.

The expected increasing proportion of sole-person households suggests that growth in the number of dwellings required by the population will significantly exceed the rate of senior population growth. Such a high proportion of small households is likely to place unprecedented demand on the housing sector for appropriate

housing for this cohort, there may not be sufficient incentive to develop 'age-appropriate' housing. Housing needs change as people age. With increasing age often comes reduced mobility, and more people need housing with accessibility and safety features. The supply of housing stock that caters specifically to older people will need to increase to meet the needs of an ageing population, whether achieved by adaptations to existing housing, development of new age-appropriate housing stock in the community and or additional housing stock in the specialised retirement living sector.

Although many Australians wish to age in place, barriers to doing so can be present at multiple levels and can be related to the suitability of the physical environment to the homeowners needs, access to funds, infrastructure, services, or social support systems (Judd et al 2010). Poorly designed infrastructure and a lack of community-based services can prevent older people from maintaining health and independence. Older people may find that they are unable to change housing type without leaving the community or are prevented from being mobile once they no longer drive.

Table 5: Building modification made in older households

	Age group (%)				Avge (%)
	50-54	55-64	65-74	75+	
Air-conditioning or temperature control	70.1	72.7	68.6	69.2	69.8
Kitchen modifications	42.1	41.3	37.2	28.1	38.6
Bathroom modifications	28.0	35.7	34.3	40.2	34.9
Additional lighting	35.5	30.8	26.6	24.6	28.3
Internal or external rails	12.1	12.0	20.8	41.5	19.1
Purpose-built bedroom and en suite	14.0	10.0	8.1	9.8	10.1
Non-slip steps or flooring	3.7	7.7	9.3	14.7	8.8
Other	27.1	24.3	25.1	22.3	24.6
Total	246.7	239.8	238.6	258.0	242.0

Source: National Seniors Australia and Group Homes Australia, 2012

Table 6: Concerns about old age

	Level of Concern				Total
	Not at all / Not very	Neutral	Somewhat / Very	Can't say	
Losing touch with family/friends	12.1	7.9	78.6	1.4	100.0
Losing independence	2.6	2.8	94.1	0.5	100.0
Losing mobility	1.7	2.5	95.3	0.6	100.0
Ending up in Residential care	6.6	11.3	80.2	1.9	100.0
Becoming isolated/lonely	8.3	9.0	81.3	1.3	100.0
Not getting enough care to stay in my home	6.3	9.5	82.0	2.3	100.0
Not having enough money:					
(a) pay for housing / everyday costs	11.1	11.6	75.7	1.7	100.0
(b) pay for health care costs	9.2	8.9	80.1	1.8	100.0
(c.) pay for aged care costs	7.7	8.2	81.9	2.2	100.0

Source: Boldy et al, (2011)

In addition, older people may experience barriers that isolate and limit their activities. These can include urban hazards such as traffic congestion, access to public toilets or resting places, pedestrian safety, or the physical layout of their home which may limit their mobility or increase their risk of falls.

Two out of three people aged over 50 intend to remain in their current home but 36% live in a home that may be unsuitable for ageing in place.

The most common changes needed in people's homes were handrails (65%), toilet/bath/laundry modifications (57%) and ramps (51%). Around 29% of seniors say they will not be able to afford the changes required to make their home age friendly. Some 28% of males and 46% of females will be admitted to residential care at some point after the age of 65. This suggests there is a disconnect between the stated desire of many Australians to age in place and their actual ability to do so. Enabling people to remain in their home will help offset the increasing aged care costs associated with population ageing indicated earlier. Although maintaining independence is a priority for older Australians, only 38% of over 50s have taken steps to prepare themselves for frailty and getting older.

When considering higher care needs, just one in four respondents believed they could afford the costs of aged care, and 40 per cent simply did not know whether they could afford aged care costs in the future.

Funding approaches to ageing in place

Older people and the community at large could be advantaged by having better financial mechanisms to enable older people to finance additional care as they require it.

Aged care analysts have in recent years developed various recommendations for new ways in which to fund all aspects of aged care both residential and in home. Part of the concern is that the future cost of supporting care to older Australians is an uncertain, expensive risk and there are insufficient funds to fully meet the current needs and requirements of future needs. In addition to older cohorts living longer, younger cohorts are having fewer children which results in fewer voluntary caregivers to rely on to support staying in their own homes. During 2018 – 2019 there were 840,984 people using Commonwealth Home Support Packages (CHSP), the most common service being domestic assistance in a privately own residence. In March 2019 – 75,739 people were approved but waiting for a home care package (HCP) (AHURI brief).

Insurance-based approaches may provide an alternative to the imposition of high public costs on a younger generation of taxpayers, although this would be politically challenging to implement. Since 1996, the National Commission of Audit has recommended the development of private long-term care insurance. As with social insurance, such an approach would ease the pressure on the public purse (and by extension, younger working Australians through the taxation system). A move to greater beneficiary co-payment is likely although the extent of this will depend on what forms of prepayment evolve or develop. Even without any major policy changes individuals can be expected to make contributions to health and aged care expenses as they age. (National Seniors 2013)

In summary, there are a number of options that could be used to

help older Australians with the cost and complexity of accessing and financing health and aged care. These may include:

- Increasing private savings to cover health related expenditure
- Greater integration of the superannuation scheme

Internationally, reverse mortgage markets are expanding. In Canada, the industry grew an astounding 31% year on year to 2018 with total outstanding reverse mortgage reaching a record C\$3.48 billion – an 8-year high according to Canada's Office of the Superintendent of Financial Institutions. The USA has the largest reverse mortgage market in the world, reaching an estimated US\$ 7.7 billion in 2016 (U.S. Department of Housing and Urban Development) before the government implemented withdrawal limits in 2017 in an effort to slow down growth.

In the UK, regulators eased restrictions on the supply side of the reverse mortgage market by allowing acceptance of 'late-life' borrowers. This led to that £936m of housing wealth being unlocked in first quarter of 2019 (UK Equity Release Council in its 29th April 2019 press release). This represents an 8% increase year-on-year from 2015 to 2019. Since 2015 the UK equity release market has grown significantly with the value of housing wealth accessed between the 3 months almost trebling (+187%) from £326m to £936m:

- £1.06bn of property wealth was accessed via equity release products in Q1 2020, up by 14% from £936m a year earlier;
- There were over 11,000 new equity release contracts for over-55s in Q1 2020 – a 2% increase (Equity release council 2020).

As such, the increase in volumes also attracted more providers into the space. Providers in the UK's reverse mortgage space have doubled from 2 dominant firms (Aviva Plc. and Just Retirement Ltd) to include a joint venture between mortgage provider Santander and equity release provider Legal & General; and Nationwide, a building society and mortgage provider. Elsewhere, the Chinese government is also rolling out offers for reverse mortgages in 2018 in a bid to ease the burden on its pension funds, while South Korea has operated a successful reverse mortgage plan named as the 'Housing Pension' since 2007.

Nearer to home, in New Zealand, there are only two commercial providers of equity release products, Heartland bank and SBS Bank. Most seniors are wholly dependent on government pensions for day-to-day living expenses, which for most leaves little left over to pay for repairs and modifications to housing.

Global trends indicate increases in both public and private initiatives in offering reverse mortgages as a funding alternative to traditional

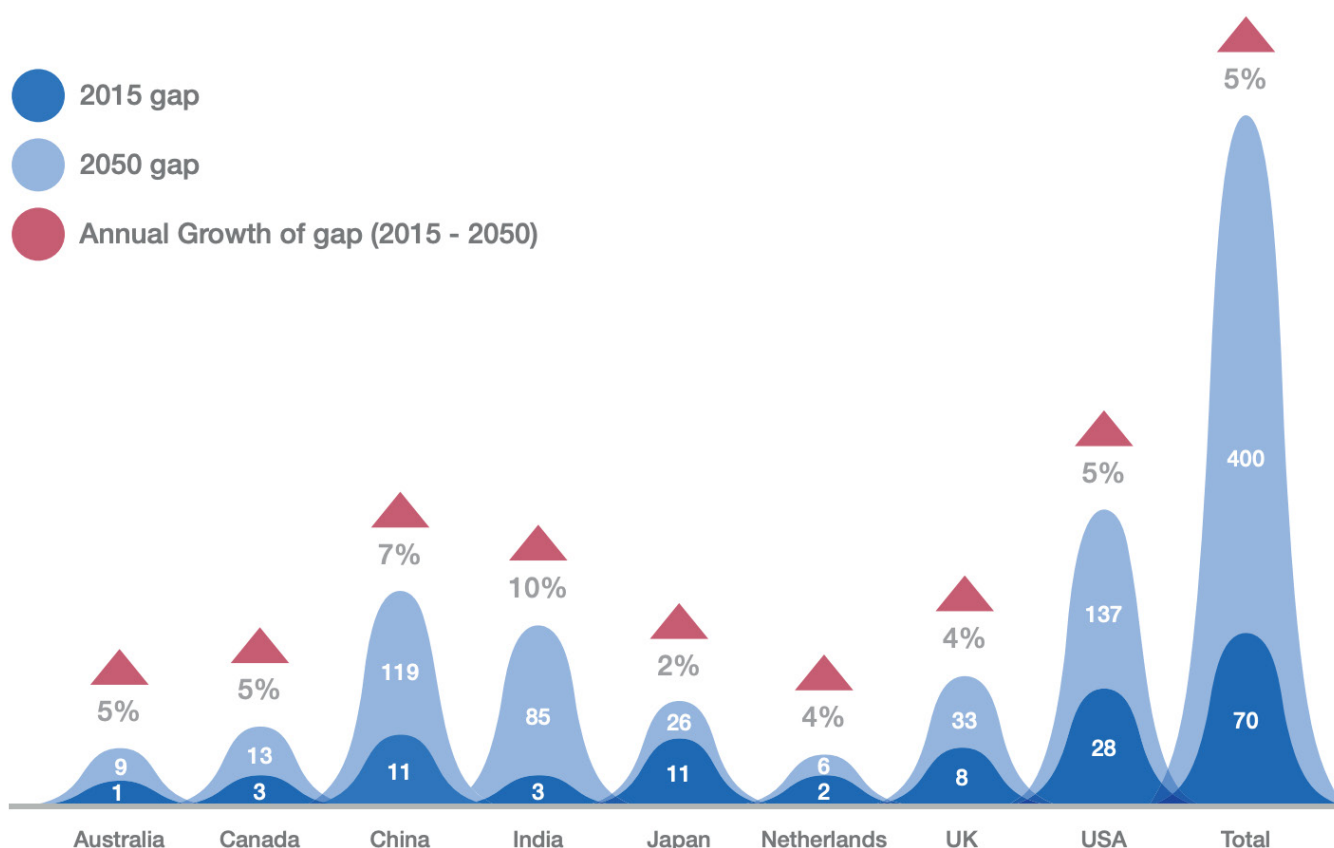
retirement income and this could be a leading indicator for Australia as Australia enters the demographic phases of these countries where they are on the early part of the ageing curve than Australia.

Funding approaches to ageing in place

Demand for reverse mortgages arises from shortfalls in retirement savings, or the “retirement savings gap”. The retirement savings gap

represents the projected required financial spending after accounting for the first three pillars of retirement income, namely, (a) government pension, (b) superannuation & (c) individual savings. Chart 1 below presents the current and future insufficiencies of retirement income sourced from the traditional three pillars, as identified by the World Economic Forum (WEF) across a range of developed and developing economies. A natural and logical extrapolation from the chart is an expanding and growing reverse mortgage industry like the ones in Canada, UK and to a certain extent US, South Korea and China.

Chart 1: Retirement savings gap globally (US\$ trillions, 2015)



Source: World Economic Forum 2017

Leaving aside market structure considerations such as supply-side liquidity and the small number of suppliers, a possible contributing factor to the small size of Australia’s reverse mortgage market may be Australia’s relatively small retirement savings gap. Among the countries considered in the 2017 WEF study, (see Chart 1 above), Australia has the smallest retirement savings gap of US\$1 trillion, followed by Netherlands at US\$2 trillion and Canada and India tying at third place with US\$3 trillion. Note however that the gap is forecast to grow at average rate of 5%, so while it is relatively small in gross terms, it is expected to grow US\$9 trillion by 2051, suggesting that Australia’s compulsory super system will fail to provide adequate

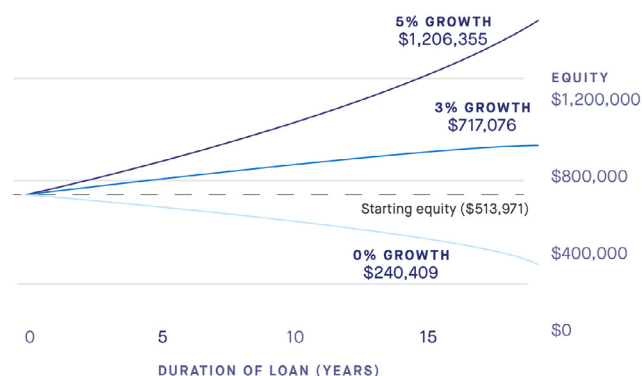
retirement incomes. It is therefore reasonable to expect market demand for financial products for retirees to increase in the future. According to the Melbourne Mercer Global Pension Index (MMGPI), which ranks the retirement income systems of 25 countries around the world, judging on indicators such as integrity, sustainability and adequacy, Australia is ranked second in the world behind Denmark but it is still likely to be insufficient for many Australians.

In 2018, ASIC published a review of the reverse mortgage market in Australia and found that reverse mortgages can be useful in helping older Australians meet immediate financial goals. These goals include staying in their homes, being independent from family and maintaining

their quality of life. It was also identified that borrowers had a poor understanding of the future cost of these products and their impact on their future needs, such as access to aged care.

An example presented by ASIC which may be relevant in the post COVID-19 context is that if property prices remain stagnant, 26% of borrowers might have less than \$200k remaining equity when they are 84, which is far less than the average aged care bond across Australia in excess of \$400k.

Consumer demand for reverse mortgages has been rising with the total exposure of to reverse mortgages increasing from \$1.3 billion in March 2008 to \$2.5 billion by December 2017. That growth notwithstanding, the market remains small and underserved. ASIC's report highlighted the lack of choice in the market with 2 licensees writing of 80% of the dollar value of loans from 2001 – 2013.



Source: ASIC

Table 7: Demographics of countries

Countries	Population aged 60 years or over (thousands)		Percentage aged 60 years or over	
	2017	2050 (Est.)	2017	2050 (Est.)
New Zealand	981	1,680	20.8	29.4
Netherlands	4,264	5,908	25.0	33.7
Australia	5,124	9,396	21.0	28.3
Canada	8,590	14,368	23.5	32.0
United Kingdom	15,849	23,738	23.9	31.5
Japan	42,548	46,109	33.4	42.4
United States of America	69,774	108,425	21.5	27.8
India	125,693	316,759	9.4	19.1
China	228,897	478,861	16.2	35.1

Source: Adapted from World Population Ageing 2017,

The Reverse Mortgage Experience

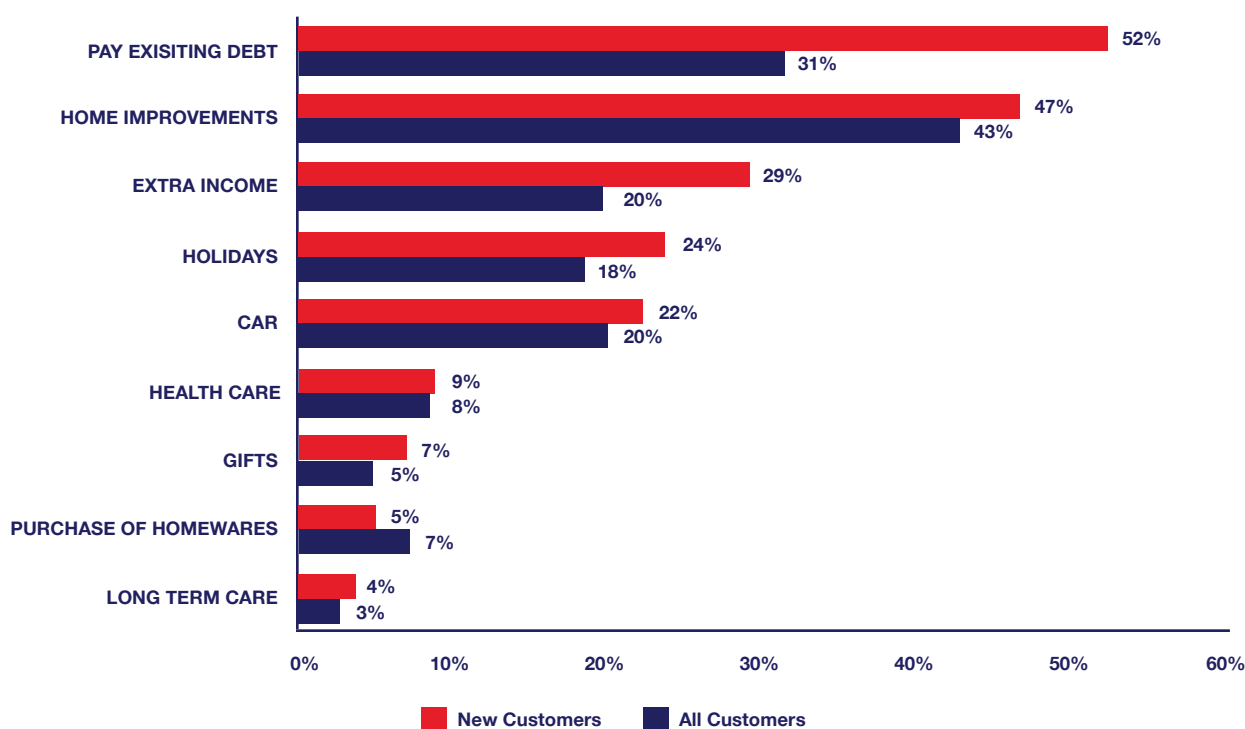
Data analysis

Uses of Loan Proceeds

We analysed residential mortgage loans in a de-identified data sample provided by Heartland Seniors Finance that includes 11,026 Australian Reverse Mortgage loans drawn down during the period 2004-2018, of which 49.5% were current at the time of sampling are 50.5% were discharged. Supplementary to this sample we add 1,055 'new' loans over the 2018-19 financial year ('new customers for this analysis) making a total sample size of 12,081 reverse mortgage loans.

Loan data includes the loan purpose identified on application (one to two nominated purposes is most common, although borrowers may identify more). We also examine the size of initial loan drawdowns vs property value (effectively the loan-to-value ratios), the type of property pledged as security, borrower age and loan tenor. We also examined data from a recent Heartland customer survey that covered aspects of user perception and their loan purpose.

Chart 2. Loan Purposes. Comparison of New Customers and All Customer Samples



Source: Authors' calculations

Highlights of the data

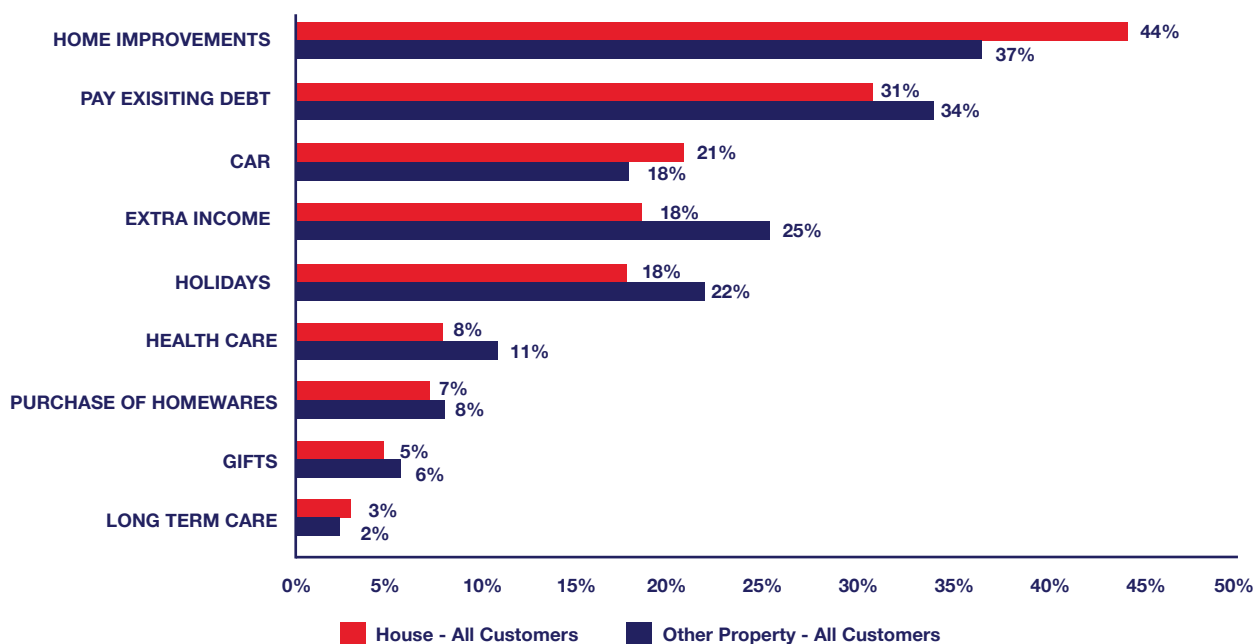
- Mean initial drawdown in the sample is \$61,065 in contemporaneous terms (ie not adjusted for inflation) with initial drawdowns ranging from \$1,000 to \$1.5 million.
- The average borrower age at the time of the initial drawdown is 70 years, ranging between 50 and 103 years;
- The largest portion of loans are secured against houses (80.7%) and the rest against other types of residential properties (e.g. apartment). The value of pledged properties at the time of initial drawdown ranges from \$120,000 to \$12 mil (Mosman, NSW) with a national mean of \$481,842.

- Loan tenor in the sample clusters around 5-7 years.
- The most commonly identified purpose for loans over the full 15 years of the sample is home improvements (43%) followed by payment of existing debt (31%). In more recent years debt retirement has superseded home improvement as the most common loan purpose.
- House owners use loans for home improvements more often

than those owning other property types (44% vs 37%).

Borrowers can identify up to five intended uses for loan funds. Loan purposes identified are 'extra income', 'gifts', 'paying existing debt', home improvements, holidays, homewares, car, long-term care and health care. Borrowers may identify more than one purpose for the loan, with most respondents identifying two purposes.

Chart 3: Use of Loan by Property Type - All Customers



*Based on 9,722 Customers with a House and 2,359 Customers with Other Types of Properties.

Loan purpose by age group

When we examine loan purpose by age group (Charts 5 and 6), we see that early-to-mid retirement customers, in the age groups 61 to 70 and 71 to 80, tend more to identify loan purposes such as 'Home Improvements' and 'Purchases of Cars' (and 'Holidays' to a lesser extent). Late seniors, those 90+ years old, tend to identify 'Long-Term Care' more as a use for the loans.

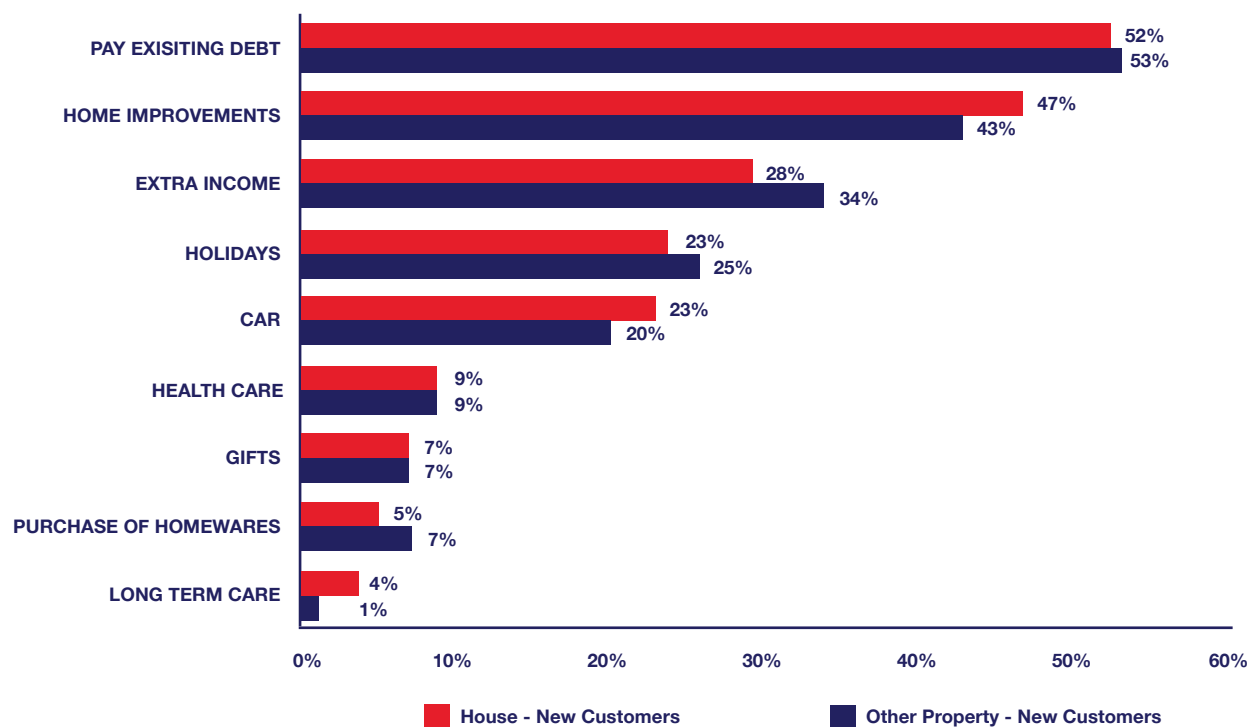
The key observation for 'new' customers, that is customers taking loans in 2018-19 for the purposes of the analysis, vs the whole sample is, again, that paying existing debt overtook the home improvements for all age groups, which suggest strongly that more recent retirees are entering retirement carrying debt obligations that are difficult to service with their other sources of retirement support. We see other trends across the age spectrum. In "Paying existing debt", we see 34% of the customers taking out loans in the 50-60 age group declining to

26% of customers in 90+ age group. Home Improvements is relatively consistent across the early to mid-retirement groups (42% for 50 to 60 years old, 43% for 61 to 70 years old and 71 to 80 years old) and is less frequent for the 90+ age group at 31%.

A further year-on-year analysis of loan purpose was conducted and significantly, use of reverse mortgage loans to pay existing debt is on the rise, particularly since 2014. This might be attributable rising property values over the period and relatively low interest rates leading to more seniors coming into their retirement with larger undischarged home mortgages. We note also that the proportion of borrowers identifying use for homewares, holidays and other 'lifestyle-oriented' purposes is declining relative to the proportion identifying in favour of retiring existing debt. Car purchases and extra income remain relatively stable.

³ New customers took out loans in the 2018/20-19 financial year.

Chart 4: Use of Loan by Property Type - New Customers



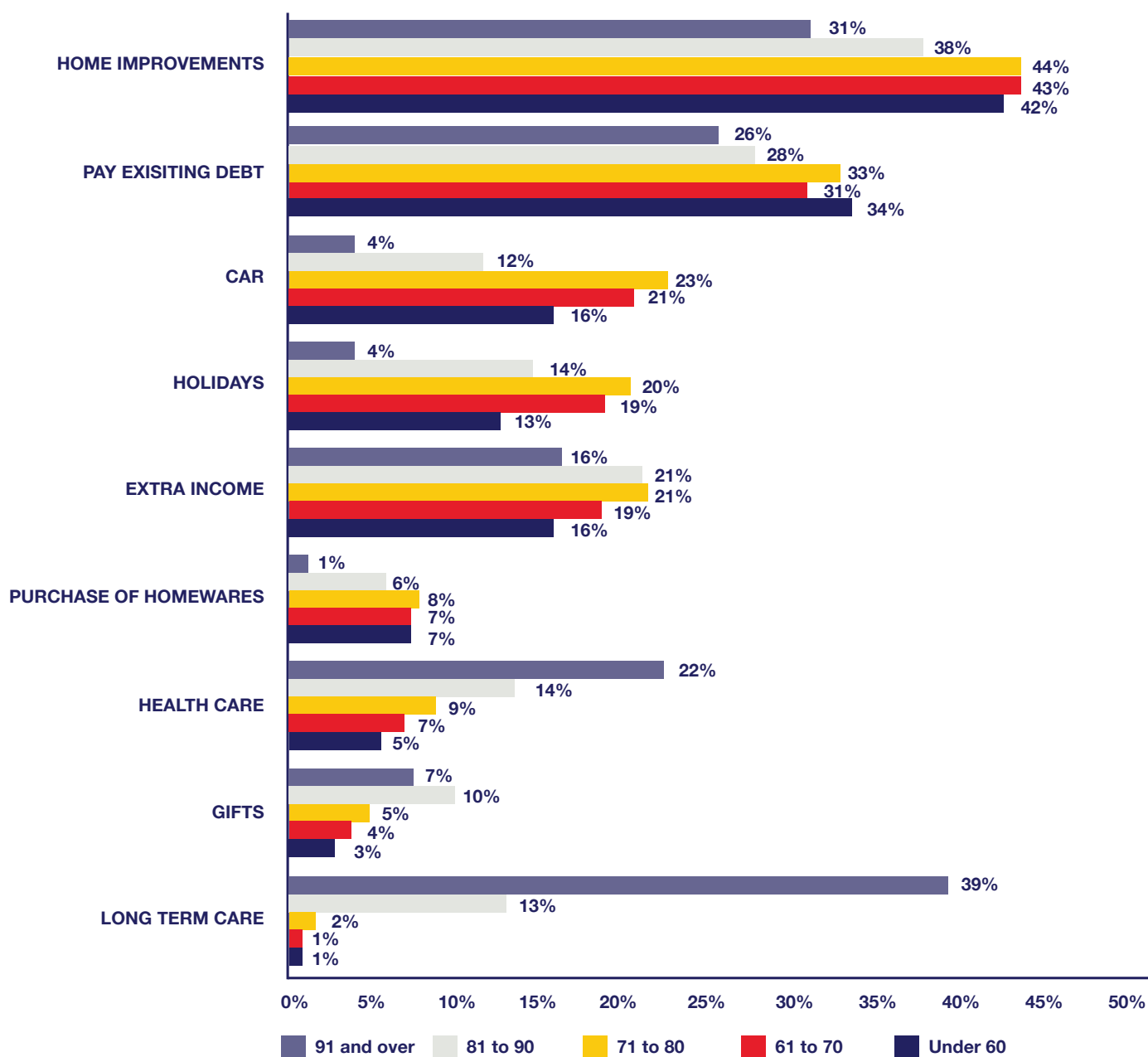
*Based on 827 Customers with a House and 228 Customers with Other Types of Properties

⁵ Only 75% of the customers named the use of the loan.

⁶ Age at the time of the initial draw down.

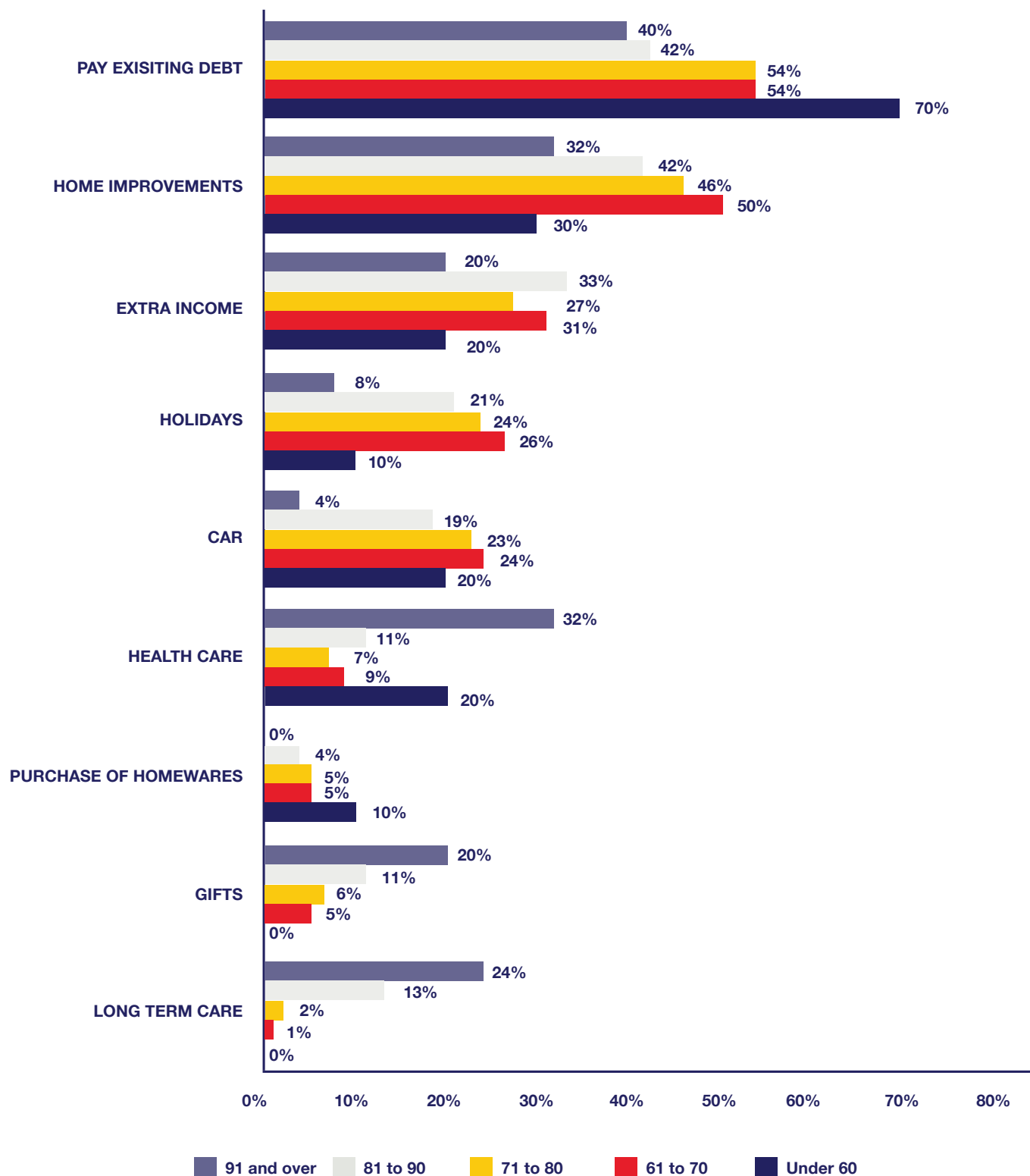
long term care as the most identified loan purpose with 39% of customers with initial drawdown at age 90+ nominating it as an intended use of the loan

Chart 5: Loan Purposes by Age Group - All Customers



⁴ We note that there are no new loans in the sample in 2013, in consequence of Heartland's GFC-related funding arrangements at the time.

Chart 6. Loan Purposes by Age Group. New Customers



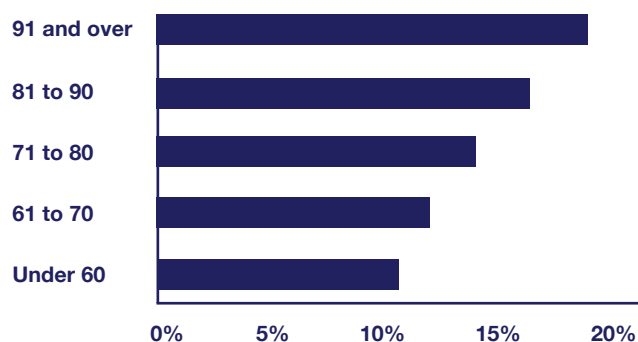
Loan Duration

The Overall the median loan term is 7.4 years. Loan duration for discharged loans in the sample ranges from 4 months to 13.6, with an average of 4.8 years. Average loan duration for the active loans in the sample is 5.5 years. Interestingly, the mean loan duration is approximately 5 years for early retirees (under 60) in the sample population suggesting that for this age group, suggesting that loans may have been used as a transitional arrangement for financial support until they can access their superannuation. At the time of writing Heartland no longer lends to customers under the age of 60. At the other end of the age spectrum, for the 90+ age group, the average loan duration is approximately 2 years. 'Moving to care' is (unsurprisingly) more commonly identified among customers in this senior group.

Drawdowns and LVR

The average Loan-to-Value ratio for the initial and total drawdowns are higher in the older age groups, primarily due to the lender offering higher LVRs to senior borrowers due to lower longevity risk, and consequent reduced exposure to the non-negative equity guarantee. They might need more money because health care and transition to long-term care (including bonds on entry) is typically costlier than cars and holidays and the demand for it is less elastic. We also note that late retirees are more likely to have exhausted their superannuation and need financial support. While mean LVR by use does not indicate anything remarkable, the larger of LVR for initial and total draw down belong to the categories of customers who indicated uses such as health care, long term care, home improvements or paying existing debt. Other categories of uses shows substantially lower LVR.

Chart 7: Average loan to value ratio by age at drawdown



Source: Authors calculations

Borrower Location

We note that since 2014 Heartland has focused its lending in capital cities and major regional centres and primarily in east coast markets, where property markets are 'deeper'. Most of the customers in the dataset are in NSW (40.3%), and locations are categorised within states as in 'capital cities', 'other cities' (centres with populations >55,000) and 'regional'. The distribution of the customers between regional and capital cities varies between states. For example, in NSW only 35% of the customers are in Sydney, while Victoria has 68% of their customers in Melbourne. Queensland has 41% of customers in Brisbane. We would expect smaller representation of Brisbane in the QLD sample set due to significant populations on the Gold Coast, Sunshine Coast, and other coastal regional centres also popular with seniors. Similarly, NSW has more and larger regional centres than Victoria. SA, WA and NT show similar patterns with about 70% of customers being in the respective capital city and the remainder identified as 'regional'. ACT has its majority (89%) of customers in Canberra. Tasmania is an exception with the majority of customers being regional.

Customer perceptions of reverse mortgage loans

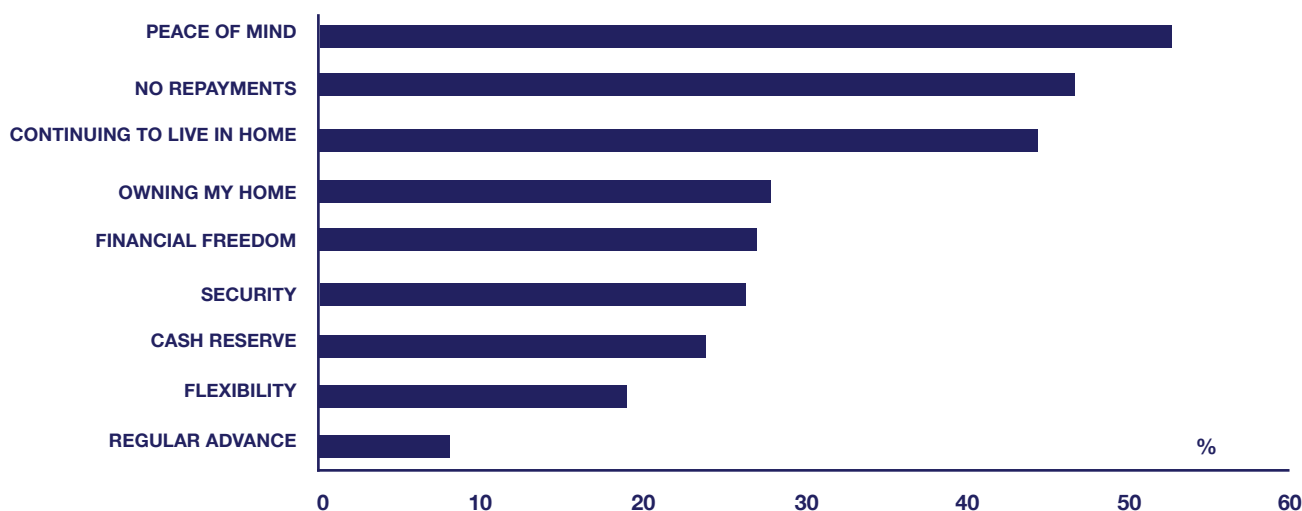
Turning now to customer sentiment and perceptions of their reverse mortgage experience, we examine data from a 2018 customer survey conducted by Heartland that asked the following questions (among others):

- What is the most important benefit of a reverse mortgage?
- What is important about your home? and
- Where did you go for information and advice?

The three top-ranking responses were selected by nearly half of the respondents (multiple responses permitted). As seen from Chart 8, having 'Peace of mind' (52.6% of respondents), 'No repayments' (46.7% of respondents) and 'Continuing to live in home' (44.5% of respondents) ranked significantly higher than other given reasons.

Against the economic backdrop of falling interest rates adversely affecting income for seniors with fixed- income investments, coupled with the current fall in superannuation returns due to adverse market implications of COVID-19, it is clear that reverse mortgages are highly attractive as an instrument to improve retirement cash flow (no repayments required), continuing to live in the same dwelling and having peace of mind in retirement with the increased ability to pay bills or lead a quality retirement life with reduced financial stress.

Chart 8 Benefits of a Reverse Mortgage



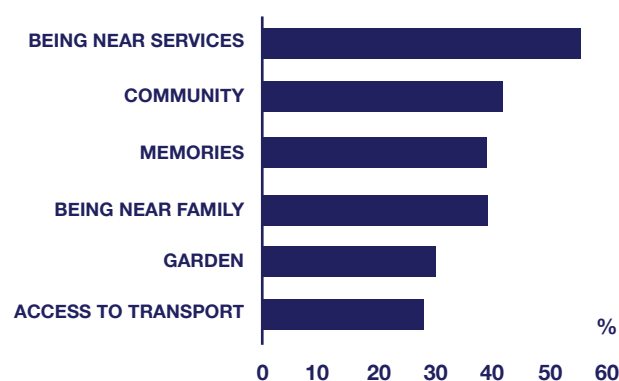
Source: Authors calculations

The Importance of The Home

When asked about the importance of home, the top reason given is 'Being near services' (54.7% of respondents) followed by 'Community' (41.6% of respondents) and 'Memories' and 'Being near family' tied at the third place at 38.7% of respondents. These top 4 reasons can be thought of as comprising 'community value'. 'Being near services' carries a psychological comfort of familiar service providers such as the local hairdresser, the trusted family GP, or the grocer whom the respondents had been buying from for the last 20 years. The results also accentuate the importance of the home being more than a building - its value is made up of its relative community and amenity.

This survey finding is consistent with the literature and public report findings discussed in section 2.

Chart 9: Importance of The Home

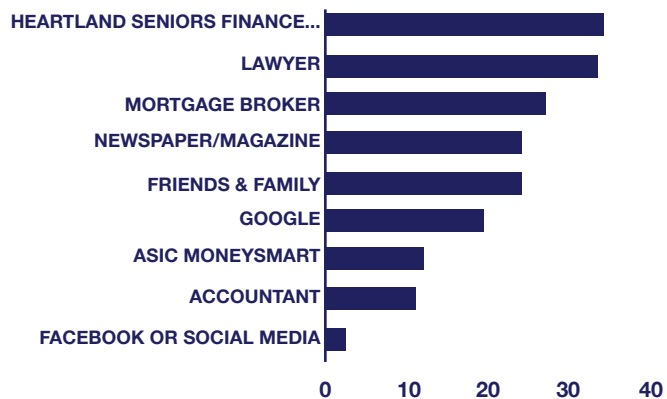


Source: Authors calculations

Of additional interest is where or to whom borrowers went for information to inform their loan decision (see chart 10).

Survey results indicate that the Heartland Seniors Webpage, Lawyers and Mortgage Brokers are the top three 'go-to' information sources for prospective reverse mortgage borrowers. These three channels will likely result in a higher success rate for reverse mortgages than advertisements or education campaigns. It is worth noting here that in addition to financial advice, by law prospective borrowers MUST seek independent legal advice before committing to new loans or new advances.

Chart 10: Information Source – where did you go for information



Source: Authors calculations

Conclusions

The home is vitally important to people as they age. It remains a source of independence & autonomy, lifestyle support, healthy ageing & wellbeing. It can also provide a stream of income or a lump sum payment via a reverse mortgage or other equity release arrangement if needed. The ability to continue to live at home, even with increased frailty is important for wellbeing, but to facilitate this for many requires home care support or home care packages that will increasingly require some sort of co-payment from beneficiaries. Providing support in the home typically comes at less cost than moving to an aged care facility.

The preference of most senior homeowners is to age in place, but the home may not be suitably equipped to support an aged person and home modification and maintenance may become difficult and/or expensive. This is particularly so for late retirees whose superannuation and other retirement savings may have dwindled and/or are fully reliant on the age pension. Similarly, they may encounter difficulties in coping with everyday life in the surrounding neighbourhood, such as lacking service facilities or amenities, public transportation, or social contacts. Although the general understanding of ageing in place tends to concentrate on the individual's home, research suggests that senior people are also highly connected to the community and place in which they live, and they want to stay connected to their local neighbourhoods. Transition to housing that better accommodates physical needs may be dependent on the availability of housing stock in the neighbourhood. When limited supply of appropriate housing is coupled with transaction costs such as stamp duty many will choose to remain in their homes and undertake modifications to adjust the home to their needs as those needs change.

Place means connection to a neighbourhood and community, to familiar services and amenities and for many, to family and friends. Yet, their superannuation and other savings and the age pension may not be adequate to maintain or modify a family home to support independence.

Over 80% of senior Australians are homeowners, and for most the home represents their most significant store of wealth. Financing ageing in place, can be via superannuation, and other private savings, however there is a growing concern among many Australians that longevity risk together with rising costs of housing and living and reduced access to the age pension means that these 'conventional' vehicles for retirement will be insufficient to provide adequate support in late retirement. Downsizing to remain in the same community is often not a productive or viable financial option. In addition, more Australians are entering retirement carrying significant debt that is difficult to service on their retirement income. Financial products that facilitate access to home equity, such as reverse mortgages and home reversion arrangements, represent a viable solution to the retirement savings gap.

The ASIC report 586 published in August 2018 highlighted that equity release products, although they have potential to increase wellbeing for some senior Australians are not well understood by the consumer in the market and the supplier base is limited. There are several contributing

factors to the limited market – on the supply side, limited liquidity for underpinning funds, particularly post-GFC, increased compliance requirements and regulatory barriers to entry have seen the supplier base contract significantly in recent years. Demand is constrained by a lack of awareness and low level of trust in the products, a lack of planning for late retirement, a lack of available alternative financing options and other factors including the bequest motive and a reluctance to cede financial interest in the home. For all that, when we take a forensic look at reverse mortgages, what customers are using them for and at the user experience, there is compelling evidence that reverse mortgages, and by extension other equity release products, when used with due care, can have powerfully positive effects on the financial lives and wellbeing of senior people. We examined a sample of 12,000 reverse mortgage loans and found that most customers apply the proceeds to renovations and improvements that allow them to stay in their home, and to retire from existing debt so that they can do so with a degree of financial comfort.

Accompanying customer experience survey data shows “peace of mind” and “continuing to live at home” are the major factors in their user experience.

There is a place for equity release products in Australia's retirement policy mix, particularly as the retirement savings gap is expected to rise markedly in the near future. As the age pension becomes an increasing burden on the public purse and retirement funding policymakers look more to models of self-funding. A deeper understanding of the range of financial products available, including reverse mortgages and other forms of equity release products will benefit policy makers, suppliers, and consumers. As the Government pension bill becomes more onerous, it seems necessary for Australian households to move towards considering releasing their housing equity to fund retirement. Internationally, and particularly in countries such as the UK, USA, Canada, Ireland, New Zealand, and the Netherlands that face similar future retirement funding pressures, the markets for equity release are growing. There would be many advantages of having a more vibrant home equity release market in Australia –not least increasing the economic prosperity, living standards, and matching the preferences of Australian seniors to age in place. For these households, unlocking this equity could be a viable, and desirable, means to meeting expenses and generating income streams in retirement.

Appendix

Global Overview of Principled Developed Reverse Mortgage Markets

East Asia & Pacific Region

China

China, with one of the world's fastest-ageing population, embarked on a pilot program to introduce reverse mortgages in 2014. Three years later in 2018, reverse mortgages were offered for seniors throughout the country in a bid to ease the burden on its pension funds. There is only one company (Happy Life Insurance) offering reverse mortgages and it appears to lack traction with only 139 contracts underwritten by mid-2018 due primarily to its complex nature. (The Demand for Reverse Mortgages in China by Katja Hanewald, Hazel Bateman, Hanming Fang, Shang Wu May 15, 2019)

Japan

In Japan, reverse mortgages are offered primarily by the private sector. Mizuho bank was the first major bank to make an offering in 2013 followed by The Bank of Tokyo-Mitsubishi UFJ (MUFG) in 2014. However, terms of the reverse mortgages appear to be limiting with only select condominiums being eligible and only land (with some exceptions) and not the house is typically considered for valuation. Furthermore, there is no option for life-time payments and has maximum borrowing of 15-20 million Yen. And it appears to be an insignificant market for the Japanese banks and insurers.

New Zealand

New Zealand government recently commissioned a major study of accommodation options in later life within a context of its policy of reducing residential care places. It is likely that most senior people in the future will be 'ageing in place' rather than in institutional care.

It may be more economic to renovate existing housing than to build specialized housing for senior people, to cope with the increased demand fuelled by population ageing. With regard to institutional care, senior people could have this arranged on the condition that this is medically justified or that without it they could not continue a dignified life, furthermore, care at home is often seen as a less expensive option than moving frail senior people to supportive environments, such as nursing homes.

New Zealand's reverse mortgage market is dominated by the Heartland Bank LTD with more than 80% market share followed by SBS Bank which currently holds \$72.4 million worth of reverse mortgages on its books (2019 March 31 Financial Report).

Singapore

In Singapore, approximately 80% of the housing inventory are 'public' housing, provided by the Housing and Development Board (HDB) which is a government body and homeownership is high at 91% in Singapore (Department of Statistics, Singapore). Reverse mortgage was introduced by NTUC Income, a government-linked insurance company, in 1997. However, demand was low and reverse mortgage was re-introduced again later in 2006 by the third largest Singapore bank, OCBC. Both organisations terminated the product in 2009 due to insufficient demand. In 2009, the HDB implemented the Lease Buyback Scheme (LBS) for seniors aged 65 years or older to sell part of the 99-year leases of the 'public' housing back to the government to unlock their home equity. The LBS applies only to 4-room and smaller HDB flats. In this instance, the government is the financier and the cash released will be held by the government body Central Provident Board (CPF), with a choice to include the released cash under the Retirement Account (RA) to be distributed in monthly instalments. There is no option for lump-sum withdrawal option under the scheme. In 2014, the option of reverse mortgages is again being seriously studied as part of the government's Budget's initiative and from 1 January 2019, the scheme has been extended to include all HDB flats to encourage greater usage of the scheme. As for private homeowners, they are free to take up equity loans as offered by banks but are ineligible for reverse mortgage applicants.

South Korea

In South Korea, the Korea Housing Finance Corporation ran the housing pension program named "Housing Pension" since 2007 and is probably the most successful reverse mortgage program in Asia. South Korea has a high homeownership of about 81% and a reverse mortgage product which offers flexible payment guaranteed by the government. ("2013 Residential Annuity Demand" by the Korean Housing Finance Corporation). Reverse mortgages are offered to

homeowners aged 60 years and older with fully paid homes valued at less than ₩900 million. (March 2016, Korean Housing Finance Corporation).

Europe & Central America

Germany

Germany provides incentives for Equity Release Schemes (ERS) by waiving income tax on payments from reverse mortgages. To access ERS the homeowner must be single-family homeowners, living in their own home with income below 2,000 Euro.

Ireland

Ireland's AFCC is affiliated with the WHO Global Network of Age-friendly Cities and Communities and its overarching goal is that "every county in Ireland will be a great place in which to grow old". The programme currently operates in 18 counties in Ireland, encompassing the country's four regions. It has been reported that, as a result of the Age-Friendly Cities initiative, several councils have seen a significant improvement in the coordination of services for senior people between voluntary and statutory providers, as well as within statutory services "as a result of the neutral, level playing field established by the age friendly county structures".

The Bank of Ireland sold Equity Release Mortgages (ERM) under its Life Loan brand, between 2001 and 2010. On 1 January 2012, the Central Bank of Ireland (CBI) tightened requirements for the offering ERMs and its revised Consumer Protection Code required warnings such as 'Purchasing this product may negatively impact on your ability to fund future needs' to be attached to ERM products. There appears to be no new ERM lending in Ireland thereafter. 'There is no recent lending as of March 2019 and the outstanding balances are around €300m. The market that existed before 2012 appeared to have dried up by 2019.' - Tony Jeffrey & Andrew D Smith, Equity Release Mortgages: Irish & UK Experience, 28 March 2019, Society of Actuaries in Ireland.

Italy

In Italy, the reverse mortgage product was formally introduced in 2005 under the name (prestito vitalizio ipotecario), available to homeowners aged 65 and over with housing equity of more than

€70,000. In December 2015, the Italian Ministry of Economic Development instituted a reverse mortgage program for seniors 60 and over. However thus far, only a few credit institutions offer home equity conversion products namely Deutsche Bank's PatrimonioCasa

and Euvis's Prestito Vitalizio are available only as a lump sum, while Banca Monte dei Paschi di Siena offers PrestiSenior to those over 70 as either a lump sum or an annuity for a maximum of 20 years. (Deutsche Bank (2010), informational pamphlet for the prestito vitalizio ipotecario PatrimonioCasa contract. Montepaschi, informational pamphlet for the prestito vitalizio ipotecario PrestiSenior, April 2011). There is currently no publicly available data on the market size of the Italian home equity release market.

Netherlands

The Netherlands has developed what it calls the Senior Citizen Label, which is a quality certificate only awarded to those new housing developments which meet 31 different requirements, several of which are intended to ensure that the senior person should not have to leave their dwelling when disability occurs.

The Statistics Netherlands (CBS) predicts that Dutch aged 65 years old and older increase to 26% of the population by 2040. The government does not appear to be significantly involved in the offering of equity release products. Florius, a specialized mortgage lender (subsidiary of ABN AMRO Bank) offers a reverse mortgage product known as Verzilver Hypotheek to those aged 60 years old and older for up to a maximum principal limit of 55% of home value. However, the term of the loan is not for life and must be stated in advance, and as the duration of the loan increases, the amount available decreases proportionately. ABN AMRO Bank also offers a Home Equity Mortgage product named Overwaarde Hypotheek which enables one to release home equity without increasing monthly loan payments. It operates like a reverse mortgage but without the need to satisfy a minimum age requirement before applying for the loan. Market size for both are currently hard to assess and appears to be insignificant.

UK

According to UK's Department for Work & Pensions Policy Paper 2010 to 2015, state pension age is expected to be raised to 66 years old by 2020 and 67 years old by 2028. The government actively looks into the needs of an ageing population, promoting and encouraging Ageing in Place. The UK's Royal Town Planning Institute (RTPI) Planning Horizons Papers and the Government Office for Science's 'Future of an ageing Population' promotes designing and adapting the built environment to facilitate communities for healthy 'ageing in place'. On this scale, the ageing in place transcends beyond the residential home to the wider community of infrastructure and social networks.

As for reverse mortgages, it is more commonly known as a lifetime mortgage in the UK and is available to homeowners who are 55 years

old and above. The other type of equity release product is a reversion plan. In a reversion plan, the homeowner sells all or part of the property to a provider in return for a right to remain there rent free. In the letter of 2nd July 2018, David Rule (Executive Director, Bank of England), reiterated his support for reverse mortgages by saying “We continue to believe that restructured Equity Release Mortgages (ERMs) are an appropriate asset to back annuities as part of a diversified portfolio.”

Unlike the US, the UK ERM market appears to be on a growing path. In its 29th April 2019 press release, the Equity Release Council (ERC) announced that £936m of housing wealth was unlocked by homeowners aged 55 years and older during first quarter of 2019, which is an 8% increase year-on-year. Compared to first quarter of 2015, the UK equity release market has grown significantly. The value of housing wealth accessed between January and March almost trebled (+187%) from £326m to £936m. The number of new plans agreed has also more than doubled from 4,880 to 10,854 (+122%) over the same period.

Market players in the space has also increased from 2 dominant firms (Aviva Plc. and Just Retirement Ltd) to include a joint venture in 2015 between mortgage provider Santander and equity release provider Legal & General. Nationwide, a building society and mortgage provider also entered the market in November 2017.

Canada

Of the ten provinces in Canada, eight have implemented age-friendly initiatives, with over 560 communities adopting age-friendly principles. Canada launched an Age-Friendly Rural/Remote Communities project which was jointly sponsored by the federal and provincial governments. The roll-out of the project followed the same protocols as the WHO guidelines, utilising a consultative approach, and resulted in the production of a guide for developing age-friendly initiatives in rural areas.

The Canadian government embraces ageing in place practically with an easily accessible ‘Ageing in Place’ checklist in both English and French on its official website. According to Canada’s government website, www.canada.ca, most Canadian seniors want to remain in their own homes for as long as possible. Canadians are also living longer and are increasingly reaching the age of 100. Between 2006 and 2011, the number of Canadian centenarians increased by almost 26%, the second highest increase of all age groups, after the 60 to 64 age group which increased by 29% (Statistics Canada (2011), Centenarians in Canada: Age and sex, 2011 Census.)

Currently, Canada also appears to be on an expansion phase with regards to reverse mortgage products. The Canada’s Office of Superintendent of Financial Institutions Mortgage reported that the industry grew an astounding 31% year on year in 2018 with total outstanding reverse mortgage reaching a record \$3.48 billion – an

8-year high. In Canada, reverse mortgage is available for homeowners aged 55 years or older and enables a 55% conversion of home value.

United States

In the United States, a review by the Center for the Advanced Study of Ageing Services at the University of California, Berkeley, identified 293 age-friendly initiatives being undertaken, the majority of which were following guidelines established by the US EPA Ageing Initiative. Manchester’s approach to its ageing population precedes the WHO Age-friendly City programme. Its Valuing Older People (VOP) initiative was established in Manchester in 2003 which aimed to improve the quality of life of senior people, particularly those living in disadvantaged areas.

The Home Equity Conversion Mortgage (HECM) program accounts for nearly all reverse mortgage loans and is insured by the US Federal Government. There are also single-purpose reverse mortgage and proprietary reverse mortgage products offered which are relatively small in terms of market size. The HECM is a versatile and flexible product provided by more than 10 market players and allow flexibility in the receipt of funds according to the borrower’s needs over the years. The HECM Reverse Mortgage loan is available for homeowners aged 62 years or older with a house that is under the FHA-approved list. Any existing mortgage on the home must be paid off before obtaining the HECM. All HECM borrowers are required to be counselled by an independent party before signing a contract.

In 2017, the U.S. government reduced the amount borrowers can withdraw from their home equity for HECM and raised the loan’s premiums to reign in the Federal Housing Administration’s (FHA) HECM portfolio’s negative capital ratio and negative economic net worth. The 2017 changes sent the reverse mortgage volume southwards. According to Reverse Market Insight (RMI), a data analysis firm, reverse mortgage volume continued on a downward trajectory in June 2018, falling 15% relative to May 2018 endorsements. June 2018 also saw a total of 2,838 Home Equity Conversion Mortgages endorsed, the lowest monthly volume level since May 2005. June 2019 saw a further 5.6% month-on-month drop in volume to near 2,500 level, further consolidating the downward trend of the market. In 2018 Federal Housing Administration’s (FHA) Report to Congress, it revealed an improvement on the health of its HECM portfolio with a lower negative capital ratio and negative economic net worth compared to its 2017 Report. Since the 2017 changes, the US reverse mortgage industry entered a consolidation period.

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