

Harmonisation of Pensions and Housing

4 June, 2018

Martin Stevenson

Co-Vice Chair, IAA Population Issues Working Group

About the Speaker



- **Martin Stevenson**
- Co-Vice Chair IAA Population Issues Working Group
- Consultant with 40 years pensions experience. Former Global Partner at Mercer. Currently a Part time consultant and major client First State Super



- IAA Population Issues Working Group
- To identify population issues of particular interest to actuaries and in respect of which the actuarial profession, at an international or national level, could make a useful contribution to the public interest

High Level view of Retirement Income Systems



Objective of Retirement Income Systems: To provide a comfortable [adequate] standard of living in retirement.

- There are three pillars in support of Retirement Income Systems:
 - *Pillar one:* Social Security
 - *Pillar two:* Funded or partially funded mandatory systems
 - *Pillar three:* Other financial assets, including voluntary occupational plans

All Pillars are Under Pressure

As is well known, there are global pressures on the three pillars:

- Low fertility of the young:

	Number of children per female – developed countries	Number of children per female – less developed countries
1950s	2.8	6.1
Noughties	1.6	2.7

- Increased longevity of the old. Globally, in the period from 1950 to 2010 the life expectancy of a 60-year old has increased from 14 to 20 years.
- The combined effect of these two factors is an increase in the old age dependency ratio. Between 1970 and 2015 the world's old age dependency ratio has increased from 9.2 to 12.6
- Low interest rates and uncertain economic future.

Importance of Housing



“Access to affordable and quality housing is central to community well-being. Apart from meeting the basic need for shelter, it provides a foundation for family and social stability, and contributes to improved health and educational outcomes and a productive work-force. Thus it enhances both economic performance and social capital.”

Australian Productivity Commission 2004, First Home Ownership report no. 28

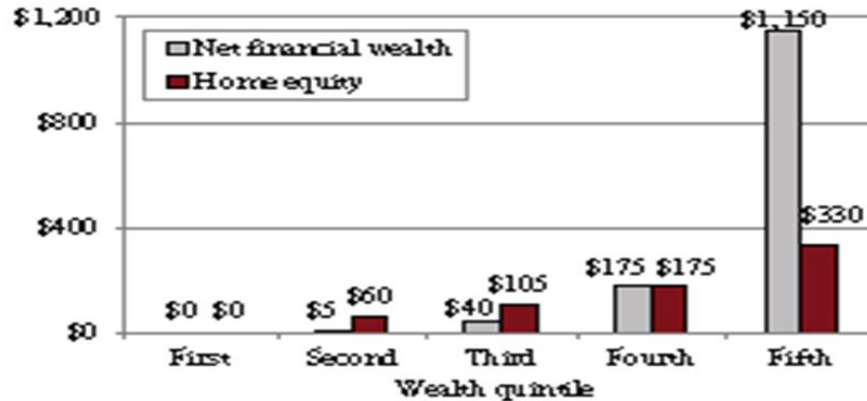
Financial Significance of Housing

Pension and housing wealth as a multiple of GDP - 2016

Country	Pension Assets	Gross Housing Assets	Net Housing Assets
Australia	1.2	3.7	2.8
Singapore	0.8	2.1	1.5
UK	1.0	2.4	2.0
USA	1.3	1.2	0.7

Distribution of Housing Wealth

FIGURE 1. MEDIAN HOME EQUITY AND FINANCIAL WEALTH OF HOUSEHOLDS AGES 65-69 IN 2012 BY WEALTH QUINTILE, THOUSANDS OF 2015 DOLLARS



Note: See footnote 1 for definitions of the wealth measures.
Source: Author's calculations from U.S. Board of Governors of Federal Reserve System, *Survey of Consumer Finances* (2013).

Home Ownership is High

According to TRADING ECONOMICS, home ownership is high in many countries.

Note: that home ownership is defined here as the percentage of homes that are occupied by the owner(and household).



Country	% of home ownership	Country	% of home ownership	Country	% of home ownership
Romania	96.0	Czech	78.2	Euro area	66.4
Singapore	90.9	Iceland	77.8	Sweden	65.2
Macedonia	90.6	Spain	77.8	New Zealand	64.8
Croatia	90.1	Mexico	76.4	France	64.1
China	90.0	Slovenia	75.1	USA	63.7
Slovakia	89.5	Portugal	74.8	UK	63.5
Lithuania	89.4	Greece	73.9	Denmark	62.0
Mauritius	88.9	Brazil	73.5	Japan	61.9
Russia	87.1	Luxemburg	73.2	Turkey	60.7
Hungary	86.3	Cyprus	73.0	South Korea	56.8
Nepal	85.3	Italy	72.9	Austria	55.0
Poland	83.7	Finland	71.6	Germany	51.9
Norway	82.7	Belgium	71.3	Hong Kong	50.4
Bulgaria	82.3	Ireland	70.0	Ghana	47.2
Estonia	81.5	EU	69.5	Switzerland	43.4
Serbia	81.1	Netherlands	69.0		
Latvia	80.9	Australia	67.0		
Malta	80.8	Canada	66.5		

Housing Trends Part 1



- In some countries, home ownership is declining.....
- Australia In 1981, 61 percent of people aged 25 to 34 owned their own home. By 2016 this had collapsed to just 45%
- Current home ownership is about 80% for people who have retired, but it is projected to fall to 55% by the middle of middle of the century (Senate Economics Reference Committee, 2015: 189)

Housing Trends Part 1

- *New Zealand*
- Home ownership amongst New Zealanders (%):

Age Group	2001	2006	2013
25-29	26.4	22.9	18.4
30-34	47.7	43.6	36.0
35-39	61.0	56.6	49.6
40-44	69.1	64.8	57.9
45-49	74.3	70.5	63.8
50-54	77.9	74.8	68.4

- *UK* – In the 25-34 age group, home ownership declined from 56% in 2005/06 to 36% in 2015/16

Housing Trends Part 1

Israel

Israel also shows a trend of declining home ownership amongst the young.

- Home ownership percentages

	All ages	60+	50-59	40-49	30-39	20-29
1997	70.2%	72.1%	81.2%	78.7%	68.7%	52.3%
2012	67.9%	78.9%	80.7%	74.3%	56.9%	44.9%

Housing Trends Part 1

.....in some countries the extent of outright home ownership is declining.....

United States of America

	1983	2013
Over 65		
% own homes	74.6	72.0
% own homes without mortgage	64.9	47.7
Under 65		
% own homes	58.1	53.6
% own homes without mortgage	17.7	12.0

Housing Trends Part 1



.....in other countries home ownership levels are reasonably stable.....

Singapore:

Year	Level of home ownership
1990	87.5%
2000	92.0%
2010	87.2%
2015	90.3%

and in Canada, home ownership rate increased from 60.3% in 1971 to 69% in 2011

Housing Trends Part 2

In recent years, housing price increases have tended to greatly outstrip wage increases

Comparison of home prices and wages 2012-2017

Country	Increase in Home Prices %	Increase in Wages %
Australia	45.9	13.2
Canada	48.3	8.9
Hong Kong	53.1	23.9
UK	33.3	10.2
USA	34.6	13.2

Even greater increases in some hot spots - Sydney 74.2% and Vancouver 76.1%

Reverse mortgages – introduction

Many retirees have inadequate retirement income but have very large financial equity in their home. An obvious course of action is to release part of this equity for increasing post retirement income. One possible release method is a reverse mortgage, termed equity release in some countries, or home equity conversion mortgage (HECM) in others.

Harmonisation Part 1



Features of reverse mortgages

1. A reverse mortgage allows an individual to borrow against the value of his or her home. The loan accumulates with interest and is repaid from the proceeds of the sale on termination.
2. The borrower has to be above a certain age.
3. The maximum amount that can be borrowed (loan-to-value-ratio) increases with age.
4. Payments are usually made as a lump sum - which can meet some needs. If the aim is to supplement pillars then income payments (for life or a fixed term retirement income system) are preferable. A reverse mortgage can also simply be a line of credit

Harmonisation Part 1



Features of reverse mortgages.... Contd.

5. A no-negative-equity guarantee is appropriate. The guarantee ensures that the final total repayment of the borrower is capped at the realized value of the mortgaged property.
6. Potential participants must be provided with education, legal advice and financial advice.
7. Tax and social security implications are important.

Harmonisation Part 1



Barriers to provision of reverse mortgages

There are many reasons why reverse mortgages have not been popular from the demand side in the past:

- Aversion to debt
- Past scandals leading to (possibly unfairly) stigmatization. Issues have included debt exceeding house equity and premature foreclosures.
- Desire to preserve home equity for long term care provision
- Desire to leave a bequest
- Uncertainty about cost
- Low availability/awareness of products.

From the supply side disadvantages have included longevity uncertainty and reputational risk.

Harmonisation Part 1



Reverse mortgages – scarcity and opportunity

Currently, reverse mortgages are not widespread.

- Australia: Reverse mortgage market is about 1 -2 % of older home owners. The value of outstanding reverse mortgages is 0.4% of the value of property owned by older Australians
- USA: Current penetration is less than 2% of all households. 12% - 14% of all retired households are suitable for, and might sensibly use, reverse mortgage option. (Mark J. Warshawsky, "Retire on the House" George Mason University)
- Canada: Reverse mortgages have been available for over 30 years in Canada, but limited usage. However, from a low base there has been significant increase in the past few years
- Hong Kong: Government has introduced a reverse mortgage scheme for elderly property owners.
- Singapore: Government assists elderly home owners to monetize their housing units – but not through reverse mortgages
- UK: Annual lending £2.15 billion compared with housing equity of over 55's of £1.8 trillion

HOWEVER with increasing stress on pension funds and on social security systems, and with rapid rise in home prices in many geographies, there may well be an upsurge in provision of reverse mortgages.

Harmonisation Part 1



Other means of accessing home equity

- Downsizing
- Sale of reversionary interest in home

Harmonisation Part 2



Use of pension balances for housing – introduction

Whilst the situation for older people is often high house equity and insufficient retirement income, for young people rapidly rising home prices and stagnant wage levels have made it very difficult to obtain a deposit for a home.

Especially in a defined contribution world, it can make sense for members of pension funds to utilize their pension balances to assist in purchasing a home by raising part of a home deposit.

If utilizing a pension fund balance can make the difference between a person being able to purchase a home, rather than missing out, then the application of the balance in this way may improve the person's retirement outcome, compared to retaining the balance in the fund, to accumulate to retirement.

Harmonisation Part 2



Use of pension balances for retirement – considerations

- Need to balance diminution of retirement benefit against advantages of home ownership.
- In certain circumstances, use of pension monies for home purchase will increase house prices.
- Any arrangement should be for first home occupiers only.
- Limits may be placed on amounts withdrawn to prevent too great an erosion on eventual retirement benefit.
- Potential participants need to be provided with education/financial advice.
- Tax and social security implications are important.

Harmonisation Part 2



Use of pension balances for housing – practice

- *Singapore* Central Provident Fund is major source of housing finance – see later section.
- *New Zealand* KiwiSaver balances can be used for provision of housing finance for first home.
- *Australia* Legislation recently passed to allow capped voluntary contributions to be withdrawn and used to assist finance first home.
- *USA* No provision.
- *UK* A Lifetime ISA (Individual Savings Account) can be used to buy a first home or save for later life. Contributions are capped and there is a 25% government bonus.
- *Canada* First home buyers may borrow up to \$25,000 from their registered retirement savings plan for a housing down payment

Mortgage disintermediation – overview

- Pension funds provide mortgage finance without usual role of banks.
- Housing finance can be provided at cheaper rates because bank margins are eliminated – and possibly because newer technology can be utilized.
- Opportunity for pension funds to engage more deeply with younger members.
- The investment would be in lieu of current fixed interest assets.
- Success is dependent on the pension fund having access to expertise and to efficient IT systems.

Harmonisation Part 3



Mortgage disintermediation – case study – the Netherlands

- MUNT Hypotheken originates mortgages through 1,700 mortgage brokers.
- The Dutch Mortgage Fund, an independent investment manager in Dutch residential mortgages, invests in the mortgages on behalf of 11 pension funds.
- The program was launched in 2012, has now lent Euro 7.5B.
- Non-bank lenders are now 20% of the market.

Harmonisation Part 4



Singapore – total integration

- Three pillars of housing policy: establishment of HDB (Housing Development Board) in 1960; enactment of the Land Acquisition Act in 1966; and expansion of the CPF (Central Provident Fund) to become a housing finance institution in 1968.
- The Land Acquisition Act gave the state broad powers to acquire land. State land, as a proportion of total land, grew from 44% in 1960 to 76% in 1985 and was about 90% in 2005.
- Net proceeds from land sales are channeled into government reserves – now estimated at 2.5 times GDP.

Harmonisation Part 4

Singapore – total integration

- The HDB was set up to provide “decent homes equipped with modern amenities for all those who needed them”. HDB offers homes on a 99 year lease basis.
- Purpose of withdrawals of CPF (2014)

HDB Housing	38.1%
Private Housing	15.0%
Attain Age 55	23.6%
Medisave and medical insurance	11.9%
Purchase of annuity	11.4%

- Contributions to CPF are 20% of wages of employees and 17% of wages for employers, capped at monthly ceiling of \$6,000.

Harmonisation Part 4



Housing purchases, taxes and subsidies are highly progressive

Residences/Incomes/Housing Types	Additional Buyer Stamp Duty (+) Price Subsidy (-)
Foreigners	15%
SPR investors	10%
Singaporean investors	7%
SPR home owners	5%
Singaporean high income home owners	0%
Executive condominium	-10%
HDB 5 - room	-12%
HDB 4 - room	-20%
HDB 3 - room	-35%
HDB 2 - room	-50%

Harmonisation Part 4



- Many supplementary measures have been introduced to prevent home prices rocketing.
- Also, the government assists elderly home owners to monetize their housing units – but not through reverse mortgages.

Harmonisation Part 4

Singapore – total integration

Singapore's pension/housing policies have:

- Mobilized pension savings for housing
- Monetized housing assets where required
- Increased housing ownership (29% in 1970 to 90% in 2015)
- Maintained housing prices at a reasonable level
- Ensured housing is available for lower socio economic groups and has promoted racial integration
- Contributed positively and significantly to the economic and financial development of the country.

However, it is doubtful if the level of compulsion behind these policies would be transformable to many (any?) other countries.

Conclusion



- Actuaries involved in retirement income systems could incorporate housing within their framework
- More involvement by actuaries in the many facets of housing such as financing (current and innovative), supply and demand, taxation and social issues

Thank you very much for your attention!



Contact details:

Martin Stevenson

address: Unit 16/1 Murray Street
Pyrmont NSW 2009
Australia

phone: +61(0)414 570 847

email: mstevenson.fiaa@gmail.com